



Dave Yost • Auditor of State



**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets – Cash Basis .....	13
Statement of Activities – Cash Basis .....	14
Fund Financial Statements:	
Statement of Assets and Fund Balances – Cash Basis – Governmental Funds .....	15
Statement of Cash Receipts, Disbursements and Changes in Fund Balances – Cash Basis – Governmental Funds .....	16
Statement of Receipts, Disbursements and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual – General Fund .....	17
Statement of Fiduciary Net Assets - Cash Basis – Fiduciary Fund .....	18
Notes to the Basic Financial Statements .....	19
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	39
Schedule of Findings .....	41
Schedule of Prior Audit Findings .....	42

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of the Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Kirtland Local School District, Lake County, Ohio (the District), as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### ***Opinion***

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 major fund, and the aggregate remaining fund information of Kirtland Local School District, Lake County, Ohio, as of June 30, 2012, and the respective changes in cash financial position and the budgetary comparison for the General thereof for the year then ended in accordance with the accounting basis described in Note 2.

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**Accounting Basis**

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental and Other Information*

We audited to opine on the Government's financial statements that collectively comprise its basic financial statements.

*Management's Discussion & Analysis* includes tables of net assets, changes in net assets, and governmental activities. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 10, 2014

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2012*  
*Unaudited*

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This discussion and analysis of the Kirtland Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012, within the limitations of the School District's cash basis accounting. Readers should also review the basic financial statements and the notes to enhance their understanding of the School District's financial performance.

**Highlights**

Key highlights for 2012 are as follows:

Net assets of the School District's governmental activities decreased from the prior fiscal year, mainly due to receipts decreasing at a higher rate than that of expenses for fiscal year 2012.

The School District's intergovernmental receipts continue to decline, due to cuts from the State.

**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 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.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2012*  
*Unaudited*

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**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 fiscal year 2012, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program. 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 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, the School District has one type of activity:

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.

**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 two categories: governmental 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 fund is the General Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

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.



**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2012*  
*Unaudited*

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2012 compared to fiscal year 2011 on a cash basis:

(Table 1)  
**Net Assets**

	<u>Governmental Activities</u>	
	2012	2011
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$6,930,725	\$8,494,251
<b>Net Assets</b>		
Restricted for:		
Capital Projects	\$319,905	\$489,465
Debt Service	331,884	313,416
Set Asides	0	506,303
Other Purposes	216,305	274,692
Unrestricted	6,062,631	6,910,375
Total Net Assets	\$6,930,725	\$8,494,251

Net assets of the governmental activities decreased during fiscal year 2012. Although expenses decreased from fiscal year 2011 levels, overall revenues continued to decrease at a larger pace during the fiscal year.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
For the Year Ended June 30, 2012  
Unaudited

Table 2 reflects the changes in net assets in fiscal year 2012 compared to fiscal year 2011 on a cash basis:

(Table 2)  
**Changes in Net Assets**

	Governmental Activities	
	2012	2011
<b>Receipts</b>		
<i>Program Receipts</i>		
Charges for Services and Sales	\$719,590	\$788,743
Operating Grants, Contributions and Interest	641,044	729,041
Capital Grants and Contributions	32,639	36,056
<i>Total Program Receipts</i>	1,393,273	1,553,840
 <i>General Receipts</i>		
Property Taxes	11,043,678	10,993,698
Grants and Entitlements Not Restricted to Specific Programs	2,551,264	2,762,159
Sale of Capital Assets	0	0
Interest	6,811	52,782
Miscellaneous	41,359	26,550
<i>Total General Receipts</i>	13,643,112	13,835,189
<i>Total Receipts</i>	\$15,036,385	\$15,389,029

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
For the Year Ended June 30, 2012  
Unaudited

(Table 2 (continued))  
**Changes in Net Assets**

	Governmental Activities	
	2012	2011
<b>Disbursements</b>		
Instruction:		
Regular	\$6,378,194	\$6,226,539
Special	1,509,559	1,449,413
Vocational	82,384	85,779
Intervention	174,368	87,183
Support Services:		
Pupil	1,116,273	1,060,130
Instructional Staff	350,247	581,887
Board of Education	262,121	320,698
Administration	1,026,924	1,132,415
Fiscal	469,106	487,698
Business	13,836	25,248
Operation and Maintenance		
of Plant	1,301,922	1,353,593
Pupil Transportation		
Central	141,715	141,846
Operation of Non-Instructional		
Services		
Operation of Food Services	228,209	245,783
Extracurricular Activities	802,833	863,293
Capital Outlay	421,276	366,045
Debt Service:		
Principal	470,000	450,000
Interest and Fiscal Charges	626,531	644,931
<i>Total Disbursements</i>	<i>16,599,911</i>	<i>16,774,965</i>
Change in Net Assets	(1,563,526)	(1,385,936)
Net Assets Beginning of Year	8,494,251	9,880,187
Net Assets End of Year	\$6,930,725	\$8,494,251

Total program receipts represent only a small portion of total receipts and are primarily comprised of charges for services and sales, operating and capital grants and contributions.

General receipts represent the majority of the School District's total receipts, and of this amount, the majority are local taxes. Grants and entitlements also make up a significant portion 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 1,224 students. During fiscal year 2012, disbursements decreased slightly from fiscal year 2011. The increases in the areas of instruction, support services-pupils were due to salaries and benefits based on negotiated contracts, and offset by staff reductions. Capital outlay disbursements increased due to additional building projects. All other areas decreased from 2011 levels due to the School District's cost cutting measures.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2012*  
*Unaudited*

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Total disbursements are made up of two main areas: instructional and support services. Instructional costs made up 49.23 percent of all governmental disbursements. Support services are made up of many subsections. Support services provide services such as busing, libraries, guidance, nursing services, building and ground maintenance, administration, board of education and fiscal. Other areas of disbursements are non-instructional services, food services, extracurricular activities, capital outlay and debt service. Food services and extracurricular activities generate revenue through sales and fees.

**Governmental Activities**

If you look at the Statement of Activities on page 14, 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, maintenance of property and capital outlay. 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.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
For the Year Ended June 30, 2012  
Unaudited

(Table 3)  
**Governmental Activities**

	2012		2011	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>Disbursements</b>				
Instruction:				
Regular	\$6,378,194	\$6,074,969	\$6,226,539	\$5,899,438
Special	1,509,559	1,199,740	1,449,413	1,227,331
Vocational	82,384	82,384	85,779	85,779
Intervention	174,368	174,368	87,183	87,183
Support Services:				
Pupil	1,116,273	1,080,010	1,060,130	874,434
Instructional Staff	350,247	350,247	581,887	556,866
Board of Education	262,121	262,121	320,698	320,698
Administration	1,026,924	1,026,924	1,132,415	1,132,415
Fiscal	469,106	469,106	487,698	483,003
Business	13,836	13,836	25,248	25,248
Operation and Maintenance of Plant	1,301,922	1,282,797	1,353,593	1,353,593
Pupil Transportation	1,104,936	1,067,918	1,132,197	1,088,777
Central	141,715	136,315	141,846	130,021
Operation of Non-Instructional Services	119,477	52,490	120,287	18,574
Operation of Food Services	228,209	(20,751)	245,783	21,179
Extracurricular Activities	802,833	468,996	863,293	791,666
Capital Outlay	421,276	388,637	366,045	329,989
Debt Service:				
Principal	470,000	470,000	470,000	470,000
Interest and Fiscal Charges	506,531	506,531	504,931	504,931
Capital Appreciation Bond Interest	120,000	120,000	120,000	120,000
<i>Total Disbursements</i>	<u>\$16,599,911</u>	<u>\$15,206,638</u>	<u>\$16,774,965</u>	<u>\$15,521,125</u>

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

**The School District's Funds**

Total governmental funds had receipts of \$15,036,385 and disbursements of \$16,599,911.

General fund disbursements exceeded receipts by \$1,490,982 indicating that the general fund is using carryover fund balance to support current year operations.

**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 fiscal year 2012, final budgeted receipts remained the same as the original budgeted receipts. Final disbursements were budgeted at \$14,344,214 while actual disbursements were \$14,182,973.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2012*  
*Unaudited*

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**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, 2012, the School District's outstanding debt included \$15,016,817 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.

**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 taxable value comprises 90.85 percent of total taxable value. The most recent five year forecast adopted by the Board of Education required the need for a new operating levy to be put to the voters in the current year for collection in the 2013 school year. The last new operating levy was approved in 2003. The 6.72 mill, 5-year emergency levy placed on the November 6, 2012 ballot passed.

**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 Stephen A. Vasek, Treasurer at Kirtland Local School District, 9252 Chillicothe Rd. Kirtland, Ohio, 44094, [www.kirtlandschools.org](http://www.kirtlandschools.org).

## **Basic Financial Statements**

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**Kirtland Local School District**  
*Statement of Net Assets - Cash Basis*  
*June 30, 2012*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$6,930,725</u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	\$319,905
Debt Service	331,884
Other Purposes	216,305
Unrestricted	<u>6,062,631</u>
<i>Total Net Assets</i>	<u>\$6,930,725</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, 2012

	Program Cash Receipts			Net Receipts (Disbursements) and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Current:					
Instruction:					
Regular	\$6,378,194	\$285,757	\$17,468	\$0	(\$6,074,969)
Special	1,509,559	0	309,819	0	(1,199,740)
Vocational	82,384	0	0	0	(82,384)
Intervention	174,368	0	0	0	(174,368)
Support Services:					
Pupil	1,116,273	0	36,263	0	(1,080,010)
Instructional Staff	350,247	0	0	0	(350,247)
Board of Education	262,121	0	0	0	(262,121)
Administration	1,026,924	0	0	0	(1,026,924)
Fiscal	469,106	0	0	0	(469,106)
Business	13,836	0	0	0	(13,836)
Operation and Maintenance of Plant	1,301,922	0	19,125	0	(1,282,797)
Pupil Transportation	1,104,936	0	37,018	0	(1,067,918)
Central	141,715	0	5,400	0	(136,315)
Operation of Non-Instructional Services	119,477	0	66,987	0	(52,490)
Operation of Food Services	228,209	142,808	106,152	0	20,751
Extracurricular Activities	802,833	291,025	42,812	0	(468,996)
Capital Outlay	421,276	0	0	32,639	(388,637)
Debt Service:					
Principal	470,000	0	0	0	(470,000)
Interest and Fiscal Charges	626,531	0	0	0	(626,531)
<b>Totals</b>	<b>\$16,599,911</b>	<b>\$719,590</b>	<b>\$641,044</b>	<b>\$32,639</b>	<b>(15,206,638)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
General Purposes					9,841,560
Debt Service					984,466
Capital Outlay					217,652
Grants and Entitlements not Restricted to Specific Programs					2,551,264
Interest					6,811
Miscellaneous					41,359
<b>Total General Receipts</b>					<b>13,643,112</b>
Change in Net Assets					(1,563,526)
<b>Net Assets Beginning of Year</b>					<b>8,494,251</b>
<b>Net Assets End of Year</b>					<b>\$6,930,725</b>

See accompanying notes to the basic financial statements

**Kirtland Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2012*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	<u>\$5,977,200</u>	<u>\$953,525</u>	<u>\$6,930,725</u>
<b>Fund Balances</b>			
Retricted	0	868,094	868,094
Committed	0	85,431	85,431
Assigned	128,416	0	128,416
Unassigned	<u>5,848,784</u>	<u>0</u>	<u>5,848,784</u>
<i>Total Fund Balances</i>	<u>\$5,977,200</u>	<u>\$953,525</u>	<u>\$6,930,725</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, 2012*

	General	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Property Taxes	\$9,841,560	\$1,202,118	\$11,043,678
Intergovernmental	2,410,195	727,070	3,137,265
Interest	5,187	1,624	6,811
Tuition and Fees	289,359	0	289,359
Extracurricular Activities	0	266,191	266,191
Contributions and Donations	4,195	83,487	87,682
Charges for Services	0	142,808	142,808
Rentals	21,232	0	21,232
Miscellaneous	37,853	3,506	41,359
<i>Total Receipts</i>	<u>12,609,581</u>	<u>2,426,804</u>	<u>15,036,385</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	6,365,841	12,353	6,378,194
Special	1,258,504	251,055	1,509,559
Vocational	82,384	0	82,384
Intervention	174,368	0	174,368
Support Services:			
Pupil	1,069,054	47,219	1,116,273
Instructional Staff	350,247	0	350,247
Board of Education	262,121	0	262,121
Administration	1,026,924	0	1,026,924
Fiscal	458,402	10,704	469,106
Business	13,836	0	13,836
Operation and Maintenance of Plant	1,279,722	22,200	1,301,922
Pupil Transportation	1,076,044	28,892	1,104,936
Central	141,715	0	141,715
Operation of Non-Instructional Services	28,982	90,495	119,477
Operation of Food Services	0	228,209	228,209
Extracurricular Activities	466,413	336,420	802,833
Capital Outlay	0	421,276	421,276
Debt Service:			
Principal Retirement	0	470,000	470,000
Interest and Fiscal Charges	0	626,531	626,531
<i>Total Disbursements</i>	<u>14,054,557</u>	<u>2,545,354</u>	<u>16,599,911</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(1,444,976)</u>	<u>(118,550)</u>	<u>(1,563,526)</u>
<b>Other Financing Sources (Uses)</b>			
Advances In	0	6,006	6,006
Advances Out	(6,006)	0	(6,006)
Transfers In	0	40,000	40,000
Transfers Out	(40,000)	0	(40,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(46,006)</u>	<u>46,006</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(1,490,982)</u>	<u>(72,544)</u>	<u>(1,563,526)</u>
<i>Fund Balances Beginning of Year</i>	<u>7,468,182</u>	<u>1,026,069</u>	<u>8,494,251</u>
<i>Fund Balances End of Year</i>	<u>\$5,977,200</u>	<u>\$953,525</u>	<u>\$6,930,725</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, 2012*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Property Taxes	\$10,455,991	\$10,455,991	\$9,841,560	(\$614,431)
Intergovernmental	2,560,669	2,560,669	2,410,195	(150,474)
Interest	5,511	5,511	5,187	(324)
Tuition and Fees	307,505	307,505	289,359	(18,146)
Extracurricular Activities	0	0	0	0
Contributions and Donations	4,376	4,376	4,195	(181)
Rentals	22,558	22,558	21,232	(1,326)
Miscellaneous	40,216	40,216	37,853	(2,363)
<i>Total Receipts</i>	<u>13,396,826</u>	<u>13,396,826</u>	<u>12,609,581</u>	<u>(787,245)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	6,497,035	6,497,035	6,371,239	125,796
Special	1,284,442	1,284,442	1,308,266	(23,824)
Vocational	84,082	84,082	84,467	(385)
Intervention	177,963	177,963	174,368	3,595
Support Services:				
Pupil	1,091,087	1,091,087	1,092,628	(1,541)
Instructional Staff	357,465	357,465	351,697	5,768
Board of Education	267,523	267,523	264,375	3,148
Administration	1,048,088	1,048,088	1,034,439	13,649
Fiscal	467,849	467,849	460,124	7,725
Business	14,121	14,121	15,209	(1,088)
Operation and Maintenance of Plant	1,306,097	1,306,097	1,305,915	182
Pupil Transportation	1,098,221	1,098,221	1,081,968	16,253
Central	144,636	144,636	141,715	2,921
Operation of Non-Instructional Services	29,579	29,579	29,150	429
Extracurricular Activities	476,026	476,026	467,413	8,613
<i>Total Disbursements</i>	<u>14,344,214</u>	<u>14,344,214</u>	<u>14,182,973</u>	<u>161,241</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(947,388)</u>	<u>(947,388)</u>	<u>(1,573,392)</u>	<u>(626,004)</u>
<b>Other Financing Uses</b>				
Advances Out	(6,130)	0	(6,006)	(6,006)
Transfers Out	(227,216)	(227,216)	(40,000)	187,216
<i>Total Other Financing Uses</i>	<u>(233,346)</u>	<u>(227,216)</u>	<u>(46,006)</u>	<u>181,210</u>
<i>Net Change in Fund Balance</i>	(1,180,734)	(1,174,604)	(1,619,398)	(444,794)
<i>Fund Balance Beginning of Year</i>	7,304,560	7,304,560	7,304,560	0
Prior Year Encumbrances Appropriated	163,622	163,622	163,622	0
<i>Fund Balance End of Year</i>	<u>\$6,287,448</u>	<u>\$6,293,578</u>	<u>\$5,848,784</u>	<u>(\$444,794)</u>

See accompanying notes to the basic financial statements

**Kirtland Local School District**  
*Statement of Fiduciary Assets and Liabilities - Cash Basis*  
*Agency Fund*  
*June 30, 2012*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$48,096</u>
<b>Liabilities</b>	
Due to Students	<u>\$48,096</u>

See accompanying notes to the basic financial statements  
See accountant's compilation report

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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**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 58 non-certified employees, 85 certified full-time teaching personnel, and 9 administrative employees who provide services to 1,224 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.

***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.

***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.

***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

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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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, 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, 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. Following are the more significant of the School District's accounting policies.

***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.) Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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



**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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***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 fund financial statements is on major funds. The major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

***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 two categories, governmental and fiduciary.

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

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

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

***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.

***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.

***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

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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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.

***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.

During fiscal year 2012, investments were limited to a money market mutual fund, and STAR Ohio, the State Treasurer's Investment Pool.

Kirtland Local School District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's net asset value per share which is the price for which the investment could be sold at June 30, 2012.

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 2012 were \$5,187.

***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.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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***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.

***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.

***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.

***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.

***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.

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.

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental fund. The classifications are as follows:

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

***Restricted*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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**Committed** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned amounts represent intended uses established by policies and authorized purchase commitments by the School District Board of Education.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

***Interfund Transactions***

Transfers between governmental activities are eliminated on the government-wide financial statements. 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. 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 – Fund Balance**

Fund balance is classified as nonspendable, restricted, committed, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2012

Fund Balances	General	Nonmajor Governmental Funds	Total
<b><i>Restricted for</i></b>			
Food Service Operations	\$0	\$18,814	\$18,814
College Scholarships	0	1,969	1,969
Education Foundation	0	1,962	1,962
Athletics and Music	0	91,589	91,589
Non-Public Schools	0	37,599	37,599
Management Information Systems	0	5,000	5,000
Data Communication	0	9,225	9,225
Safe Schools	0	13,782	13,782
Title VI-B	0	17,316	17,316
Title II-D Technology	0	720	720
Title I	0	6,561	6,561
Improving Teacher Quality	0	11,768	11,768
Debt Service Payments	0	331,884	331,884
Capital Improvements	0	319,905	319,905
<b><i>Total Restricted</i></b>	<b>0</b>	<b>868,094</b>	<b>868,094</b>
<b><i>Committed to</i></b>			
College Scholarships	0	85,431	85,431
<b><i>Assigned to</i></b>			
Purchases on Order	128,416	0	128,416
<b><i>Unassigned</i></b>			
	5,848,784	0	5,848,784
<b><i>Total Fund Balances</i></b>	<b>\$5,977,200</b>	<b>\$953,525</b>	<b>\$6,930,725</b>

**Note 4 - Accountability and Compliance**

***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.

***Compliance***

Contrary to Section 5705.39, Ohio Revised Code, the following fund had original appropriations in excess of estimated revenues and carryover balances:

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

	Original Estimated Revenues Plus Beginning Balances	Original Appropriations	Excess
<i>Special Revenue Funds:</i>			
Food Service	\$246,403	\$254,150	\$7,747
Kirtland Education Foundation	1,607	2,000	393
Title VI-B	246,636	247,435	799
Title I	57,813	73,825	16,012

These budgetary violations were corrected by fiscal year-end.

**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 \$128,416.

**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.

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

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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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 (STAR Ohio); 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, \$486,304 of the School District's bank balance of \$4,417,046 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, 2012*

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**Investments**

Investments are reported at fair value. As of June 30, 2012, the School District had the following investments:

	<u>Maturity</u>
	<u>Less Than</u> <u>One Year</u>
Money Market Mutual Fund	\$809,000
Star Ohio	<u>2,031,909</u>
Total Portfolio	<u><u>\$2,840,909</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.

**Credit Risk** All investments other than STAR Ohio, carry a rating of AAA by Standard & Poor's. STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio 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.

**Note 7 - Property Taxes**

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

Property taxes include amounts levied against all real property and public utility property located in the School District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected in calendar year 2012 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.



**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

The School District receives property taxes from Lake County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2012, are available to finance fiscal year 2012 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, 2012 was \$778,363 in the general fund, \$79,011 in the bond retirement debt service fund and \$17,520 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2011 was \$949,291 in the general fund, \$100,893 in the bond retirement debt service fund and \$21,158 in the permanent improvement capital projects fund.

The assessed values upon which fiscal year 2012 taxes were collected are:

	2011 Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$326,623,810	97.25 %	\$327,023,730	96.98 %
Public Utility Personal	9,246,270	2.75	10,173,560	3.02
Total	\$335,870,080	100.00 %	\$337,197,290	100.00 %
Tax rate per \$1,000 of assessed valuation	\$72.38		\$72.38	

**Note 8 - Pension Plans**

***School Employees Retirement System***

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board acting with the advices of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contributions rate is allocated to the Health Care and Medicare B funds. The School District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$266,444, \$241,780 and \$164,812, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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***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 system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://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'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 Ohio Revised Code Chapter 3307.

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 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. 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. For the fiscal year ended June 30, 2012, 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.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$647,560 and \$14,531 for the fiscal year ended June 30, 2012, \$834,188 and \$13,706 for the fiscal year ended June 30, 2011, and \$819,765 and \$32,250 for the fiscal year ended June 30, 2010. For fiscal year 2012, 83.67 percent has been contributed for the DB plan and 83.67 percent has been contributed for the Combined Plan. The full amount has been contributed for fiscal years 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2012 were \$23,108 made by the School District and \$16,505 made by the plan members. In addition, member contributions of \$10,379 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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***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, 2012, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**Note 9 - Postemployment Benefits**

***School Employees 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 can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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 105(e). For 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than actuarially determined amount: for 2012, this amount was \$18,774. 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, 2012, 2011, and 2010 were \$11,539, \$59,754, and \$37,003, respectively. 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$15,735, \$15,559, and \$14,618 respectively; 100 percent has been contributed for fiscal year 2012, 2011 and 2010.

***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. Ohio law authorizes STRS to offer this plan. 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](http://www.strsoh.org) or by calling (888) 227-7877.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

Funding Policy – Ohio Revised Code Chapter 3307 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, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District’s contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$49,812, \$41,387, and \$42,111 respectively; 84.76 percent has been contributed for 2012 and 100 percent for fiscal year 2011 and 2010.

**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 2012, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Company	Coverage	Amount
Ohio Casualty	Blanket Building and Contents (\$2,500 Deductible)	\$37,099,942
	Extra Expense Coverage	1,000,000
	EDP and Media/Software	246,643
	Audio Visual Equipment	22,075
	Musical Instruments	414,192
	Athletic Equipment	2,000
	Contractor's Equipment	85,351
	Transportation	300,000
	Flood Limit	1,000,000
	Earthquake Limit	1,000,000
	Crime	150,000
	General Liability	1,000,000
	Employee Benefits Liability	1,000,000
	Employer's Liability	1,000,000
	School Leader's Errors and Omissions Liability	1,000,000
	Sexual Misconduct and Molestation	1,000,000
	Law Enforcement Professional	1,000,000
	Fleet	1,000,000
	Uninsured Motorists	250,000
	Umbrella Liability	5,000,000
Travelers Insurance	Boiler and Machinery	30,000,000
Cincinnati Insurance	Employee Dishonesty	250,000

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

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

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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***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).

***Workers' Compensation***

For fiscal year 2012, 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.

**Note 11 - Contingencies**

***Grants***

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure 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. This also encompasses the Auditor of State's ongoing review of student attendance data. 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, 2012.

***Litigation***

As of June 30, 2012, the School District was not party to any legal proceedings.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2012

**Note 12 – Debt**

Changes in long-term obligations of the School District during fiscal year 2012 were as follows:

	Principal Outstanding 6/30/11	Additions	Deductions	Principal Outstanding 6/30/12	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds:</b>					
2006 School Improvement Bonds 4%-17.324%					
Current Interest Serial Bonds	\$6,800,000	\$0	\$405,000	\$6,395,000	\$420,000
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	246,704	148,894	0	395,598	0
2007 School Improvement Bonds 4%-12.994%					
Current Interest Serial Bonds	345,000	0	65,000	280,000	65,000
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	28,858	17,369	0	46,227	0
<i>Total General Long-Term Obligations</i>	<u>\$15,320,554</u>	<u>\$166,263</u>	<u>\$470,000</u>	<u>\$15,016,817</u>	<u>\$485,000</u>

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, 2012. 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 2012 was \$148,894, for a total outstanding bond liability of \$635,592.

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, 2012. 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 December 31, 2015.

The final maturity amount of outstanding capital appreciation bonds is \$140,000. The accretion recorded for 2012 was \$17,369, for a total outstanding bond liability of \$96,225.

The School District's overall legal debt margin at June 30, 2012 was \$15,662,823 with an unvoted debt margin of \$337,197. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012, are as follows:

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2012

	General Obligation Bonds					
	Term		Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$0	\$334,925	\$485,000	\$272,507	\$0	\$0
2014	0	334,925	70,000	261,406	0	0
2015	0	334,925	0	260,006	129,943	305,057
2016	0	334,925	435,000	248,587	136,622	368,378
2017	0	334,925	530,000	226,569	23,427	46,573
2018-2022	325,000	1,649,324	2,665,000	812,222	0	0
2023-2027	1,180,000	1,546,252	2,490,000	219,851	0	0
2028-2032	4,275,000	889,209	0	0	0	0
2033-2034	1,830,000	83,250	0	0	0	0
<b>Total</b>	<b>\$7,610,000</b>	<b>\$5,842,660</b>	<b>\$6,675,000</b>	<b>\$2,301,148</b>	<b>\$289,992</b>	<b>\$720,008</b>

**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 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.

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

	Capital Improvements
Set-aside Reserve Balance as of June 30, 2011	\$0
Current Year Set-aside Requirement	204,098
Current Year Offsets	(250,292)
Qualifying Disbursements	(178,429)
<b>Totals</b>	<b>(\$224,623)</b>
Set-aside Balance Carried Forward to Future Fiscal Years	\$0
Set-aside Reserve Balance as of June 30, 2012	\$0

**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

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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existence is not dependent upon the School District's continued participation. In fiscal year 2012, the School District paid \$86,712 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 (Council) is a jointly governed organization among 161 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2012, the School District paid \$63,200 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program including the Kirtland Local School District. 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 beginning 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.

**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 Madison Local School District at 6741 North Ridge Road, Madison, Ohio 44057.



**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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**Note 16 - Related Organization**

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

**Note 17 - Insurance Purchasing Pool**

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

**Note 18 - Significant Commitments**

***Encumbrances***

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General fund	\$128,416
Other Governmental Funds	<u>63,182</u>
Total	<u><u>\$191,598</u></u>

**Note 19 – Subsequent Events**

The 6.72 mill, 5-year emergency levy placed on the November 6, 2012 ballot passed. The levy will bring in \$1,600,000 in revenues annually.

On May 16, 2013, the School District issued \$8,599,992 in general obligation bonds which included serial and capital appreciation (deep discount) bonds, to partially refund bonds previously issued in 2006 for school improvements in the amount of \$8,600,000. The bonds were issued with interest rates varying from 1.25 percent to 3 percent. The bonds were issued for a 20 year period with final maturity during fiscal year 2034.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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 Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, (the District) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 10, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***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, opining 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 or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801  
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361

[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

***Entity's Response to Findings***

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.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 10, 2014

**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-001**

**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, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-001	Failure to report on GAAP	No	Not Corrected. Reissued as 2012-001.



# Dave Yost • 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  
APRIL 22, 2014**