



**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Kalida Local School District
Putnam County
301 North Third Street, P.O. Box 269
Kalida, Ohio 45853-0269

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kalida Local School District, Putnam County, (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kalida Local School District, Putnam County, as of June 30, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

January 11, 2006

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

UNAUDITED

This discussion and analysis of the Kalida Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2005, within the limitations of the District's Other Comprehensive Basis of Accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities decreased \$3,829,229, or 50.26 percent, a significant change from the prior year. This was caused primarily by the progress of the new ELPP high school building, which was in the height of construction. At a projected cost of 6.9 million dollars, this building project is scheduled for completion in November 2005, with a large portion of the work completed and expensed out in 2005.

The District's general receipts totaled \$5,087,632, those being primarily property taxes and unrestricted state entitlements, were 88 percent of the total cash received during the fiscal year. Dependence on these two revenue sources is significant.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's Other Comprehensive Basis of Accounting

Report Components

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column. For Kalida Local School District, the General Fund and the Building Fund are the most significant funds.

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

Basis of Accounting

Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. The District has elected to present its financial statements on another comprehensive basis of accounting. Under the District's other comprehensive basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions. This basis of accounting is a basis of accounting other than generally accepted accounting principles.

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As a result of using the other comprehensive 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 other comprehensive basis of accounting.

Reporting the District as a Whole

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2005, within the limitations of the other comprehensive basis of accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible. 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 District's general receipts.

These statements report the District's cash position and the changes in cash position. Factors which contribute to these changes may include, but not limited to, the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, and required educational programs.

In the statement of net assets and the statement of activities, all of the District's activities are presented as governmental activities. All of the District's programs and services are reported here including instruction, support services, non-instructional services, food services, extracurricular activities, and capital outlay disbursements.

Reporting the District's Most Significant Funds

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The 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 District are split into two categories: governmental and fiduciary. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Building Fund.

Governmental Funds - Most of the District activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the 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 District's programs. The District's significant governmental funds are presented on the financial statements in

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
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separate columns. The information for non-major 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 District's major governmental funds are the General Fund and the Building 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 District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the District's programs.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2005 compared to fiscal year 2004 on another comprehensive basis of accounting.

**Table 1
Net Assets**

	Governmental Activities	
	2005	2004
Assets:		
Cash and Cash Equivalents	\$3,790,109	\$7,619,338
Net Assets:		
Restricted	3,141,669	6,714,395
Unrestricted	648,440	904,943
Total Net Assets	\$3,790,109	\$7,619,338

As mentioned previously, net assets of governmental activities decreased \$3,829,229, or 50.26 percent during fiscal year 2005. The primary reasons contributing to the decreases in cash balances are as follows:

- The Building Project was in the height of construction, with contracts being issued and fulfilled, the balance in the building fund was shrinking.
- Increase in base salaries of 3% based on current negotiated agreements.
- Health benefits costs increased by 16%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
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Table 2 reflects the changes in net assets from the prior year:

**Table 2
Changes In Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$551,743	\$591,390
Operating Grants and Contributions	148,405	179,312
Capital Grants and Contributions	6,784	19,245
Total Program Receipts	706,932	789,947
General Receipts:		
Property Taxes Levied for General Purposes	1,364,893	1,362,284
Property Taxes Levied for Debt Service	411,183	419,582
Property Taxes Levied for Capital Outlay	58,075	58,006
Sale of Capital Assets		36
Grants and Entitlements Not Restricted to Specific Programs	2,823,827	2,723,698
Interest	123,566	87,044
Miscellaneous	306,088	835
Total General Receipts	5,087,632	4,651,485
Total Receipts	5,794,564	5,441,432
Disbursements:		
Instruction:		
Regular	2,734,854	2,589,678
Special	217,393	193,749
Vocational	155,313	134,085
Other	6,255	5,568
Support Services:		
Pupil	128,821	172,029
Instructional Staff	228,824	210,123
Board of Education	26,785	20,811
Administration	485,441	429,193
Fiscal	180,447	189,098
Operation and Maintenance of Plant	378,256	345,296
Pupil Transportation	205,940	172,026
Operation of Non-Instructional Services	1,260	2,809
Food Services	203,189	195,419
Extracurricular Activities	233,576	232,295
Capital Outlay	3,997,014	800,488
Debt Service	440,225	418,375

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)

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Total Disbursements	9,623,593	6,111,042
Deficiency Before Transfers	(3,829,029)	(669,610)
Transfers	(200)	
Decrease in Net Assets	(3,829,229)	(669,610)
Net Assets, July 1	\$7,619,338	\$8,288,948
Net Assets, June 30	\$3,790,109	\$7,619,338

Program receipts represent 12 percent of total receipts and are primarily comprised of restricted intergovernmental receipts, charges for tuition and fees and extracurricular activities, food service sales and Ohio School Facilities Building Project Receipts.

As stated previously, general receipts represent 88 percent of the District's total receipts, and of this amount, over 55 percent is the result of unrestricted grants and entitlements which primarily represents State foundation resources. Property taxes basically make up the balance of the District's general receipts (36 percent). Other receipts, such as interest and donations, are very insignificant and somewhat unpredictable revenue sources.

The major program disbursements for governmental activities are for instruction, which accounts for 32 percent of all governmental disbursement. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for approximately 6 percent of governmental disbursements. Capital Outlay represents over 42 percent of all governmental disbursements due to the Building Project being in the height of construction, with the projected completion in the fall of 2005.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the descriptions of the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and capital outlay, which account for 32 and 42 percent of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the 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 state unrestricted entitlements and local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)

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A comparison between the total cost of services and the net cost is presented in Table 3.

**Table 3
Governmental Activities**

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
Current:				
Instruction:				
Regular	\$2,734,854	\$2,589,678	\$2,468,887	\$2,263,473
Special	217,393	193,749	141,327	111,583
Vocational	155,313	134,085	128,945	106,623
Other	6,255	5,568	6,255	5,568
Support Services:				
Pupil	128,821	172,029	128,821	172,029
Instructional Staff	228,824	210,123	228,824	210,123
Board of Education	26,785	20,811	26,785	20,811
Administration	485,441	429,193	485,441	429,193
Fiscal	180,447	189,098	180,447	189,098
Operation and Maintenance of Plant	378,256	345,296	378,256	345,296
Pupil Transportation	205,940	172,026	205,940	172,026
Operation of Non-Instructional Services	1,260	2,809	1,260	2,809
Operation of Food Services	203,189	195,419	7,119	11,920
Extracurricular Activities	233,576	232,295	143,870	126,658
Capital Outlay	3,997,014	800,488	3,990,230	781,243
Debt Service	440,225	418,375	394,254	372,642
Total Disbursements	<u>\$9,623,593</u>	<u>\$6,111,042</u>	<u>\$8,916,661</u>	<u>\$5,321,095</u>

The dependence upon property tax receipts and unrestricted state entitlements is apparent as over 88 percent of instructional activities are supported through these general receipts. However, it should be noted that special instruction activities are largely provided for through program receipts, by 35 percent. This is the result of operating grants and contributions restricted for special instruction purposes.

Over 96 percent of food services were covered by program receipts for fiscal year 2005. This is primarily due to cafeteria sales, and state and federal subsidies and donated commodities for food service. Over 38 percent of extracurricular activities disbursements are covered by program receipts. This is the result of music and athletic fees, ticket sales and gate receipts.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)

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The Government's Funds

The District's governmental funds are accounted for using the other comprehensive basis of accounting. Total governmental funds had receipts of \$5,794,564 and disbursements of \$9,623,593. General Fund receipts were less than disbursements by \$191,267 indicating that the General Fund is in a deficit spending situation. Because this has been the trend of the past, the Board placed a 1% continuing income tax issue on the May 2005 ballot, and it successfully passed. Collection is scheduled to start in January 2006.

General Fund Budgeting Highlights

The 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 2005, the District amended its General Fund budget as needed to reflect changing circumstances. Final budgeted receipts, in the amount of \$4,825,000, exceeded actual receipts, in the amount of \$268,581. The difference between final budgeted receipts and actual receipts was 6 percent. This was the result of lower than anticipated property tax revenues.

Final disbursements were budgeted at \$5,020,666 while actual disbursements were \$4,789,905. The difference between final budgeted disbursements and actual disbursements was 5 percent. This was the result of lower than anticipated regular instruction disbursements.

Capital Assets and Debt Administration

Capital Assets

The District's capital assets are not reflected in the other comprehensive basis of accounting statements, however the District does track capital assets through the State provided software program.

Debt

At June 30, 2005, the District's outstanding debt included general obligation bonds, in the amount of \$6,589,995, issued for the building of a new High School Building. For further information regarding the District's debt, refer to Note 10 to the basic financial statements.

Current Issues

The challenge for all school districts is to provide quality educational services to the public while staying within the restrictions imposed by limited funding, and in some cases shrinking funding. The District relies heavily on unrestricted state entitlements and local taxes and has very little industry to support the tax base. The District's five year forecast predicts a deficit for 2009; therefore, the board and the administration are watching expenditures very closely.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)

UNAUDITED

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Government's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Cynthia Webken, Treasurer, Kalida Local School District, P. O. Box 269, Kalida, Ohio 45853.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

*Statement of Net Assets - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2005*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$3,790,109</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$2,803,436
Debt Service	120,830
Set Asides	3,448
Other Purposes	213,955
Unrestricted	<u>648,440</u>
<i>Total Net Assets</i>	<u><u>\$3,790,109</u></u>

See accompanying notes to the basic financial statements

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

*Statement of Activities - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2005*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$2,734,854	\$265,967		(\$2,468,887)
Special	217,393		\$76,066	(141,327)
Vocational	155,313		26,368	(128,945)
Other	6,255			(6,255)
Support Services:				
Pupil	128,821			(128,821)
Instructional Staff	228,824			(228,824)
Board of Education	26,785			(26,785)
Administration	485,441			(485,441)
Fiscal	180,447			(180,447)
Operation and Maintenance of Plant	378,256			(378,256)
Pupil Transportation	205,940			(205,940)
Central	1,260			(1,260)
Operation of Food Services	203,189	196,070		(7,119)
Extracurricular Activities	233,576	89,706		(143,870)
Capital Outlay	3,997,014		\$6,784	(3,990,230)
Debt Service	440,225		45,971	(394,254)
<i>Total Governmental Activities</i>	<u>\$9,623,593</u>	<u>\$551,743</u>	<u>\$148,405</u>	<u>\$6,784</u>
General Receipts				
Property Taxes Levied for:				
				1,364,893
				411,183
				58,075
				2,823,827
				123,566
				306,088
				5,087,632
				(200)
				5,087,432
				(3,829,229)
				7,619,338
				\$3,790,109

See accompanying notes to the basic financial statements

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

*Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2005*

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$675,429	\$2,309,745	\$804,935	\$3,790,109
Fund Balances				
Reserved for Encumbrances	\$42,219	\$2,169,106	\$21,710	\$2,233,035
Reserved for Bus Purchases	23,541			23,541
Reserved for Textbooks	1,939			1,939
Reserved for Capital Outlay	1,509			1,509
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	606,221			606,221
Special Revenue Funds			178,338	178,338
Debt Service Fund			120,505	120,505
Capital Projects Funds		140,639	484,382	625,021
<i>Total Fund Balances</i>	\$675,429	\$2,309,745	\$804,935	\$3,790,109

See accompanying notes to the basic financial statements

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2005*

	General	Building	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$1,364,893		\$469,258	\$1,834,151
Intergovernmental	2,850,193		158,527	3,008,720
Interest	24,398	91,390	7,778	123,566
Tuition and Fees	265,967			265,967
Extracurricular Activities			89,706	89,706
Contributions and Donations			194,486	194,486
Charges for Services			166,367	166,367
Miscellaneous	50,968	60,633		111,601
<i>Total Receipts</i>	<u>4,556,419</u>	<u>152,023</u>	<u>1,086,122</u>	<u>5,794,564</u>
Disbursements				
Current:				
Instruction:				
Regular	2,699,893		34,961	2,734,854
Special	190,249		27,144	217,393
Vocational	146,189		9,124	155,313
Other Instruction	6,255			6,255
Support Services:				
Pupil	114,765		14,056	128,821
Instructional Staff	216,187		12,637	228,824
Board of Education	26,584	201		26,785
Administration	454,402		31,039	485,441
Fiscal	168,868		11,579	180,447
Operation and Maintenance of Plant	377,525		731	378,256
Pupil Transportation	205,940			205,940
Central			1,260	1,260
Operation of Food Services			203,189	203,189
Extracurricular Activities	140,829		92,747	233,576
Capital Outlay		3,992,413	4,601	3,997,014
Debt Service:				
Principal Retirement			175,000	175,000
Interest and Fiscal Charges			265,225	265,225
<i>Total Disbursements</i>	<u>4,747,686</u>	<u>3,992,614</u>	<u>883,293</u>	<u>9,623,593</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(191,267)</u>	<u>(3,840,591)</u>	<u>202,829</u>	<u>(3,829,029)</u>
Other Financing Sources (Uses)				
Transfers In			54,849	54,849
Transfers Out	(55,049)			(55,049)
Advances In			1,805	1,805
Advances Out	(1,805)			(1,805)
<i>Total Other Financing Sources (Uses)</i>	<u>(56,854)</u>		<u>56,654</u>	<u>(200)</u>
<i>Net Change in Fund Balances</i>	<u>(248,121)</u>	<u>(3,840,591)</u>	<u>259,483</u>	<u>(3,829,229)</u>
<i>Fund Balances Beginning of Year</i>	<u>923,550</u>	<u>6,150,336</u>	<u>545,452</u>	<u>7,619,338</u>
<i>Fund Balances End of Year</i>	<u>\$675,429</u>	<u>\$2,309,745</u>	<u>\$804,935</u>	<u>\$3,790,109</u>

See accompanying notes to the basic financial statements

**KALIDA LOCAL SCHOOL DISTRICT
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*Statement of Receipts, Disbursements and Changes In Fund Balance, Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$1,600,000	\$1,600,000	\$1,364,893	(\$235,107)
Intergovernmental	2,829,000	2,829,000	2,850,193	21,193
Interest	50,070	50,070	24,398	(25,672)
Tuition and Fees	313,000	313,000	265,967	(47,033)
Miscellaneous	32,930	32,930	50,968	18,038
<i>Total receipts</i>	<u>4,825,000</u>	<u>4,825,000</u>	<u>4,556,419</u>	<u>(268,581)</u>
Disbursements				
Current:				
Instruction:				
Regular	2,710,174	2,910,174	2,721,584	188,590
Special	190,872	190,872	194,271	(3,399)
Vocational	140,317	140,317	146,559	(6,242)
Other	772	772	6,255	(5,483)
Support Services:				
Pupil	170,349	170,349	115,235	55,114
Instructional Staff	219,616	219,616	219,292	324
Board of Education	30,801	30,801	26,584	4,217
Administration	448,898	448,898	459,939	(11,041)
Fiscal	192,810	192,810	174,528	18,282
Operation and Maintenance of Plant	373,043	373,043	378,011	(4,968)
Pupil Transportation	189,761	189,761	206,640	(16,879)
Extracurricular Activities	153,252	153,252	141,007	12,245
Capital Outlay	1	1	1	1
<i>Total Disbursements</i>	<u>4,820,666</u>	<u>5,020,666</u>	<u>4,789,905</u>	<u>230,761</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>4,334</u>	<u>(195,666)</u>	<u>(233,486)</u>	<u>(37,820)</u>
Other Financing Uses				
Transfers Out			(55,049)	(55,049)
Advances Out			(1,805)	(1,805)
<i>Total Other Financing Uses</i>			<u>(56,854)</u>	<u>(56,854)</u>
<i>Net Change in Fund Balance</i>	4,334	(195,666)	(290,340)	(94,674)
<i>Fund Balance Beginning of Year</i>	837,787	837,787	837,787	
Prior Year Encumbrances Appropriated	85,763	85,763	85,763	
<i>Fund Balance End of Year</i>	<u>\$927,884</u>	<u>\$727,884</u>	<u>\$633,210</u>	<u>(\$94,674)</u>

See accompanying notes to the basic financial statements

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

*Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005*

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$41,921	\$58,862
Net Assets		
Held in Trust for Scholarship	\$41,921	
Held for Student Activities		\$58,862

See accompanying notes to the basic financial statements

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

*Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Year Ended June 30, 2005*

	<u>Private Purpose Trust</u>
Additions	
Interest	\$832
Contributions	1,075
<i>Total Additions</i>	<u>1,907</u>
Deductions	
Scholarships	<u>2,000</u>
Change in Net Assets	(93)
Net Assets - Beginning of Year	<u>42,014</u>
Net Assets - End of Year	<u><u>\$41,921</u></u>

See accompanying notes to the basic financial statements

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**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Kalida Local School District (The District) is a body politic and corporate established to exercise the rights and privileges the constitution and laws of the State of Ohio convey to it.

A locally-elected five-member Board governs the District, which provides educational services mandated by the State and federal agencies. This Board of Education controls the District's two instructional/support facilities staffed by 24 FTE (full-time equivalent) classified employees, 51 certificated FTE personnel, and 5 administrators who provide services to 739 students and other community members.

A. Reporting Entity

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

Component units are legally separate organizations for which the District can “impose its will,” such as by appointing a voting majority of the component unit’s governing body. Component units may also include organizations fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. The District has no component units.

Under the modified-cash basis of accounting, the Government does not report assets for equity interests in joint ventures. The District has no joint ventures.

The District participates in 2 jointly governed organizations and 3 public entity risk pools. The financial statements exclude these entities which perform activities within the District’s boundaries for the benefit of its residents because the District is not financially accountable for these entities nor are these entities fiscally dependent on the District. Notes 7 and 16 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

Vantage Career Center
Northwest Ohio Area Computer Services Cooperative

Public Entity Risk Pool:

Schools of Ohio Risk Sharing Authority
Putnam County School Insurance Group
OSBA Workers’ Compensation Group Rating Program

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although Ohio Administrative Code Section 117-2-03 (B) requires the District’s financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the modified cash-basis of accounting.

This basis of accounting is similar to the cash receipts and disbursements basis. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

A. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The District classifies each fund as either governmental or fiduciary.

Governmental: The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the District's major governmental funds:

General Fund The general fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

Building Fund The building fund accounts for resources received from a local bond issue restricted to constructing and equipping a new high school building.

The other governmental funds of the 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 District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The District's agency fund accounts for various student-managed activities.

B. Basis of Presentation

The District's basic financial statements consist of a government-wide statement of activities and fund financial statements providing more detailed financial information.

Government-wide Financial Statement of Activities: This statement displays information about the District as a whole, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the 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 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, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the modified-cash basis or draws from the District's general receipts.

Fund Financial Statements: Fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. Fiduciary funds are reported by type.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

C. Cash, Cash Equivalents and Investments

The District deposits and invests cash from all funds in a common pool. The financial statements present each fund's share of interest in the pool as *equity in pooled cash and cash equivalents* on the financial statements.

The District's investments were limited to STAR Ohio. The District values investments at market value. For presentation on the financial statements, the District classifies investments of the cash management pool as cash equivalents.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2005 was \$24,398, including \$4,510 assigned from other District funds.

D. Restricted Assets

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. The District reported no restricted assets.

E. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

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

H. Long-term Obligations

These modified-cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

I. Fund Balance and Reserves

The District reserves those portions of fund equity legally segregated for a specific future use or which are not available for appropriation or disbursement. The District has fund balance reserves for encumbrances, school bus purchases, instructional materials and textbooks, and capital purchases.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

J. Net Assets

The statements report restricted net assets when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on their use.

The District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

K. Interfund Activity

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

The statements report interfund loans as advances when made or repaid. Note 6 lists unpaid advances receivable and payable.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the Board of Education's control that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

M. Budgetary Data

Ohio law requires the Board of Education to budget and appropriate all funds, other than agency funds. The major documents prepared are the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The budgetary basis reports expenditures when a commitment is made (i.e., when an encumbrance is approved). The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control the Board selects. The Board of Education uses the fund total level as its legal level of control.

The certificate of estimated resources may be amended during the year if the District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING AND COMPLIANCE

A. Budgetary

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 modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to \$42,219 in the general fund.

B. Compliance

The District did not certify some disbursements as required by Ohio Revised Code Section 5705.41(B).

There were five funds during the year with expenditures exceeding appropriations at the legal level of control in amounts ranging from \$29 to \$5,615,950.

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

NOTE 4 – DEPOSITS AND INVESTMENTS

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

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active monies must be maintained either as cash in the 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 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 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;

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)

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

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

Undeposited Cash: At year-end, the District had \$2,065 in undeposited cash on hand, included as part of *Equity in pooled cash and cash equivalents*.

Deposits: The 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 District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments: At June 30, 2005, the District had investments with STAR Ohio with a carrying value of \$1,652,730.

STAR Ohio carries a rating of AAAM by Standard and Poor's. The District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

NOTE 5 – PROPERTY TAXES

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

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 5 – PROPERTY TAXES – (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004, and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Putnam County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 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, 2005 was \$111,657 in the general fund, \$31,518 in the debt service fund, and \$4,881 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$48,473,350	82.26%	\$49,748,350	83.20%
Public Utility Personal	2,876,420	4.88%	3,004,950	5.03%
Tangible Personal Property	7,576,146	12.86%	7,043,250	11.77%
Total	<u>\$58,925,916</u>	<u>100.00%</u>	<u>\$59,796,550</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$42.04		\$41.50	

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 6 – INTERFUND BALANCES

Interfund cash advances unpaid for the year ended June 30, 2005 were as follows:

	Interfund Receivable:	
		General
		<u>Fund</u>
Interfund Payable:		
TitleV (573-9005)		\$1,805

The advance was made to finance the Title V fund until State revenues are received.

NOTE 7 – RISK MANAGEMENT

A. Risk Pool Membership

The District is a member of the Schools of Ohio Risk Sharing Authority (SORSA). SORSA is a member owned organization having approximately 65 members. SORSA is a joint self-insurance pool. SORSA assumes the risk of loss up to the limits of the Kalida Local School District's policy. SORSA covers the following risks:

- General liability
- Commercial liability
- Employee Benefits Liability
- School Leaders Errors and Omissions
- Sexual Misconduct
- Commercial umbrella; and
- Vehicle.

The District contributes to the funding, operating and maintaining of the SORSA joint self insurance pool. The District's contributions cover deductible losses, loss fund contribution, insurance costs, and administration cost.

The District paid \$26,345 in premiums to the pool for fiscal year 2005 coverage.

SORSA financial statements are available by contacting SORSA at:

Schools of Ohio Risk Sharing Authority, Inc.
OSBA Building
8050 North High Street
Columbus, Ohio 43235-6483

B. Employee Medical Benefits

The District participates as a member of the Putnam County School Insurance Group, a public entity risk pool, administered by Sky Trust. The District converted its fully-insured medical insurance program to partial self insurance through participation in this public entity risk pool. Medical Mutual of Ohio provides claim review and processing. The District maintains stop-loss coverage for its medical insurance program. Aggregate stop loss is maintained for expected claims.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 7 – RISK MANAGEMENT – (Continued)

C. Workers' Compensation

For fiscal year 2005 the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve a reduced premium for the 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. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's equity pooling fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

NOTE 8 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$54,365, \$44,177 and \$39,617; 46.04 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 8 – DEFINED BENEFIT PENSION PLANS – (Continued)

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$338,129, 311,534 and \$295,926; 83.25 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$16 made by the District and \$215 made by the plan members.

C. Social Security

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 9 – POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$26,010 fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 9 – POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. The surcharge added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the 2005 fiscal year, District paid \$45,041 to fund health care benefits, including the surcharge.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005, were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide health care reserve equal to at least 150% of the estimated annual net claims costs. The number of participants eligible to receive benefits is 58,123.

NOTE 10 – DEBT

The changes in the District's debt obligations during the year consist of the following:

	Debt		Debt		Amounts
	Outstanding		Outstanding		Due in
	6/30/04	Reductions	6/30/05		One Year
Governmental Activities					
Asbestos Abatement Note	\$6,290	\$5,000	\$1,290		\$1,290
General Obligation Bonds	6,759,995	170,000	6,589,995		175,000
Capital Lease	29,758	29,758			
Total	<u>\$6,796,043</u>	<u>\$204,758</u>	<u>\$6,591,285</u>		<u>\$176,290</u>

An interest-free Asbestos School Hazard Abatement Note was issued during fiscal year 1986 through the U.S. Environmental Protection Agency in the amount of \$88,790. Proceeds from the note were used to remove friable asbestos from the school buildings in order to meet federal mandates. The semi-annual payments of \$2,500 commenced June 30, 1987 and will conclude no later than June 30, 2006.

The School Facilities Construction and Improvement Bonds were issued after approval by the electors of the District during fiscal year 2003 with final maturity in fiscal year 2031. The original amount of the bonds issued was \$6,904,995 at a rate of 2-16.952% for the purpose of constructing, including construction additions, renovating, and improving school buildings and facilities, including space for school and community use, health and safety upgrades and improves access for the disabled; furnishing and equipping the same, including science equipment and technology for classroom instruction; landscaping and improving the sites thereof, the acquiring land and interest in land, and retiring notes previously issued for such purpose.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 10 – DEBT – (Continued)

The District is participating in the Expedited Local Partnership Program of the Ohio School Facilities Commission, under which the State will fund a percentage of the District's future facilities needs after the issuance of bonds.

Principal and interest requirements to retire debt obligations at June 30, 2005, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds	Notes	Total
2006	\$436,775	\$1,290	\$438,065
2007	438,225		438,225
2008	439,575		439,575
2009	437,725		437,725
2010	434,811		434,811
2011 – 2014	1,742,183		1,742,183
2016 – 2020	2,176,228		2,176,228
2021 – 2024	2,166,208		2,166,208
2026 – 2030	2,150,994		2,150,994
2031	429,870		429,870
Total	<u>\$10,852,594</u>	<u>\$1,290</u>	<u>\$10,853,884</u>

NOTE 11 – LEASE

Operating Lease

The District rents the elementary school building from the St. Michael's parish. The current lease runs from August 1, 2001, to July 31, 2006, at an annual rate of \$90,000. The District fully intends to renew the lease until OFSC funding builds a new elementary building.

NOTE 12 – SET-ASIDE CALCULATIONS

State statute annually requires the District to set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward for the same uses in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 12 – SET-ASIDE CALCULATIONS – (Continued)

	Capital Improvements	Textbooks
Set-aside Reserve Balance as of June 30, 2004		\$1,135
Current year set-aside requirements	\$101,934	101,934
Current year off-sets	(64,035)	
Qualifying Disbursements	(36,390)	(83,077)
Total	1,509	19,992
Less: Encumbrances at June 30, 2005		18,053
Set-aside Reserve Balance as of June 30, 2005	\$1,509	\$1,939

NOTE 13 – INTERFUND TRANSFERS

Interfund cash transfers for the year ended June 30, 2005 were as follows:

	Transfer From: General
Transfer to:	
<i>AgencyFund</i>	
Cats Who Care (200-9250)	\$200
<i>Governmental Activities</i>	
EMIS Fund (432 0000)	6,300
Severance Fund (035 0000)	48,549
<i>Total</i>	\$ 55,049

The District transferred cash to EMIS fund due to a deficit in the States funding in this mandate and cash to the Severance fund to cover employees eligible to retire. During this fiscal year, the District made a one-time transfer to the Cats Who Care Club from the peer-mediation grant to finance peer-pressure activities.

NOTE 14 – CONTRACTUAL COMMITMENTS

At June 30, 2005, the District had \$2,167,788 in contractual commitments for various improvements within the District.

Purpose	Contractor	Amount
Construction of new high school	Mel Lanzer, Company	\$1,290,837
	Vulcan Enterprise, Inc.	27,410
	Fitzenrider, Inc.	400,786
	Area Energy and Electric	184,419
	Farnham Equipment Company	169,000
	Daktronics, Inc.	33,850
	Beilharz Architects, Inc.	61,486
	Total	\$2,167,788

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 15 – CONTINGENCIES

A. Grants

The District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2005, will not have a material adverse effect on the District.

B. Litigation

The District is not a party to legal proceedings.

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

Vantage Career Center

The Vantage Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each participating Districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information contact the Vantage Career Center, Lori Davis, Treasurer, 818 N. Franklin St., Van Wert, OH 45891-1304.

Northwest Ohio Area Computer Service Cooperative

The District is a participant in the Northwest Ohio Area Computer Service Cooperative (NOACSC), a not-for-profit computer service organization. NOACSC is an association of public Districts within the boundaries of Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, Van Wert and Wood Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and electronic equipment to administrative and instructional functions among member districts.

The governing board of NOACSC consists of two representatives each county elected by majority vote of all charter member Districts within each county and one representative from the fiscal agent District. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 S. Main St., Lima, OH 45804.

NOTE 17 – STATE SCHOOL FUNDING DECISION

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “. . . The Ohio General Assembly to enact a school-funding scheme that is thorough and efficient . . .” The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.



**Auditor of State
Betty Montgomery**

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

Kalida Local School District
Putnam County
301 North Third Street, P.O. Box 269
Kalida, Ohio 45853-0269

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kalida Local School District, Putnam County, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 11, 2006, wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 11, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001, 2005-002, and 2005-003.

We intend this report solely for the information and use of the audit/finance committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 11, 2006

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Noncompliance Citation

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 District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

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

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

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

**FINDING NUMBER 2005-002
(Continued)**

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

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

Twenty-five percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred, and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Certification is not only required by Ohio law but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of District funds being over expended or exceeding budgetary spending limitations as set by the Board. To improve controls over disbursements, we recommend all District disbursements received prior certification of the Treasurer. We also recommend the Board periodically review the expenditures made to ensure they are within the appropriations adopted by the Board, certified by the Treasurer and recorded against appropriations.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states in part that no subdivision is to expend money unless it has been appropriated as provided in this chapter. Although there were no instances of expenditures exceeding appropriations at year end, there were five funds during the year with expenditures exceeding appropriations at the legal level of control in amounts ranging from \$29 to \$5,615,950.

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**KALIDA LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	OAC §117-2-3(B) reporting on basis other than generally accepted accounting principles.	No	Finding has not been corrected and is repeated in this report as item 2005-001.
2004-002	ORC § 5705.41(D) Certification of funds.	No	Finding has not been corrected and is repeated in this report as item 2005-002.
2004-003	ORC § 5705.41(B) Expenditures in excess of appropriations.	No	Finding has not been corrected and is repeated in this report as item 2005-003



**Auditor of State
Betty Montgomery**

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KALIDA LOCAL SCHOOL DISTRICT

PUTNAM 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
FEBRUARY 9, 2006**