

Kings Local School District

Warren County

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, Inc.

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**Auditor of State
Betty Montgomery**

Board of Education
Kings Local School District
Kings Mill, Ohio

We have reviewed the *Independent Auditor's Report* of the Kings Local School District, Warren County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Kings Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 10, 2006

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Kings Local School District
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Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

Independent Auditor's Report

Kings Local School District
Warren County, Ohio
1797 King Avenue
Kings Mills, Ohio 45034

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kings Local School District (the District), Warren County, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison for the General fund on pages 3 through 10 and 41 through 42, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kings Local School District
Independent Auditor's Report
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 21 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
February 3, 2006

Kings Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The discussion and analysis of Kings Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$5,056,856. Net assets of governmental activities increased \$5,073,742 which represents a 40% increase from 2004. Net assets of business-type activities decreased \$16,886 or 7% from 2004.
- Total assets of governmental activities increased by \$12,049,858 as taxes receivable increased by \$4,613,364 and cash and other receivables increased by \$5,198,760.
- General revenues accounted for \$38,928,155 in revenue or 91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,871,065 or 9% of total revenues of \$42,799,220.
- The District had \$35,802,437 in expenses related to governmental activities; only \$1,957,913 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$38,918,266 were also used to provide for these programs.
- As a major fund, the General Fund had \$32,883,362 in revenues and \$28,369,801 in expenditures. The General Fund's balance increased from (\$645,074) to \$3,868,487. The other major funds, Debt Service and Permanent Improvement Capital Project Funds, had \$3,651,871 and \$1,452,628 in revenues and \$3,556,286 and \$4,060,628 in expenditures, respectively. The Debt Service fund balance increased from \$2,774,164 to \$3,109,031. The Permanent Improvement Capital Project fund balance increased from \$744,639 to \$2,495,244.
- Net assets for business-type activities decreased \$16,886. This decrease resulted from operating revenue of \$1,676,298 and nonoperating revenue of \$246,743 being exceeded by operating expenses of \$1,939,927.

Using this Basic Financial Statement Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next 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 nonmajor funds presented in total in one column. The General Fund, Debt Service Fund, and Permanent Improvement Capital Project Fund are the major funds of the District.

Kings Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the District is divided into two distinct kinds of activities:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Kings Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The District as a Whole

Recall that the *Statement of Net Assets* provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net assets for 2004 compared to 2005:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$38,446,624	\$28,403,397	\$401,593	\$437,888	\$38,848,217	\$28,841,285
Capital Assets	50,770,604	48,763,973	86,247	98,502	50,856,851	48,862,475
Total Assets	<u>\$89,217,228</u>	<u>\$77,167,370</u>	<u>\$487,840</u>	<u>\$536,390</u>	<u>\$89,705,068</u>	<u>\$77,703,760</u>
Liabilities						
Long-Term Liabilities	\$44,306,122	\$39,550,978	\$78,964	\$81,516	\$44,385,086	\$39,632,494
Other Liabilities	27,085,903	24,864,931	185,010	214,122	27,270,913	25,079,053
Total Liabilities	<u>71,392,025</u>	<u>64,415,909</u>	<u>263,974</u>	<u>295,638</u>	<u>71,655,999</u>	<u>64,711,547</u>
Net Assets						
Invested in Capital	8,606,998	10,988,970	86,247	98,502	8,693,245	11,087,472
Assets, Net of Debt						
Restricted	6,172,080	3,660,919	0	0	6,172,080	3,660,919
Unrestricted	3,046,125	(1,898,428)	137,619	142,250	3,183,744	(1,756,178)
Total Net Assets	<u>\$17,825,203</u>	<u>\$12,751,461</u>	<u>\$223,866</u>	<u>\$240,752</u>	<u>\$18,049,069</u>	<u>\$12,992,213</u>

For Governmental Activities total assets increased \$12,049,858. Equity in pooled cash and cash equivalents increased \$4,745,821 due to the passage of an operating levy in November, 2004. Taxes receivable increased \$4,613,364. Total liabilities increased \$6,976,116, resulting in a net asset increase of \$5,073,742. The increase in liabilities is due to an increase in wages which increased accrued wages payable, as well as to the issuance of two new capital leases to finance the reconstruction of the District's stadium and refunding bonds to advance refund a portion of the series 1999 and 2000 school improvement bonds.

The net assets of the District's business-type activities decreased by \$16,886. Because of the decrease, management has reviewed and, where feasible, increased fees. This action should ensure that business-type activities remain self-supporting.

Kings Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 2 shows the change in net assets for fiscal year 2005.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for Services	\$419,864	\$472,230	\$1,669,461	\$1,668,841	\$2,089,325	\$2,141,071
Operating Grants	1,481,380	1,274,930	243,691	237,876	1,725,071	1,512,806
Capital Grants	56,669	19,207	0	0	56,669	19,207
General Revenues:						
Property Taxes	26,720,634	18,574,782	0	0	26,720,634	18,574,782
Grants and Entitlements	9,886,716	9,126,344	0	0	9,886,716	9,126,344
Other	2,310,916	1,205,865	9,889	14,848	2,320,805	1,220,713
Total Revenues	40,876,179	30,673,358	1,923,041	1,921,565	42,799,220	32,594,923
Program Expenses:						
Instruction	18,966,980	17,522,629	0	0	18,966,980	17,522,629
Support Services:						
Pupil and Instructional Staff	2,667,249	3,299,722	0	0	2,667,249	3,299,722
School Administration, General Administration, Fiscal, and Business	4,042,836	3,901,912	0	0	4,042,836	3,901,912
Operation and Maintenance	2,759,885	3,731,558	0	0	2,759,885	3,731,558
Pupil Transportation	1,650,096	1,630,437	0	0	1,650,096	1,630,437
Central	107,382	237,225	0	0	107,382	237,225
Operation of Non-Instructional Services	653,970	631,312	0	0	653,970	631,312
Extracurricular Activities	1,080,667	1,061,344	0	0	1,080,667	1,061,344
Interest and Fiscal Charges	3,873,372	1,974,547	0	0	3,873,372	1,974,547
Food Service	0	0	997,245	1,014,700	997,245	1,014,700
Uniform School Supply	0	0	0	31,660	0	31,660
Preschool/Latchkey	0	0	927,256	964,894	927,256	964,894
Preschool Grant	0	0	15,426	13,248	15,426	13,248
Total Expenses	35,802,437	33,990,686	1,939,927	2,024,502	37,742,364	36,015,188
Change in Net Assets	5,073,742	(3,317,328)	(16,886)	(102,937)	5,056,856	(3,420,265)
Beginning Net Assets	12,751,461	16,068,789	240,752	343,689	12,992,213	16,412,478
Ending Net Assets	\$17,825,203	\$12,751,461	\$223,866	\$240,752	\$18,049,069	\$12,992,213

Kings Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Governmental Activities

The District's revenues are mainly from two sources. Property taxes levied for general, debt service and capital projects purposes, as well as grants and entitlements comprised 90% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 65% of revenue for governmental activities for the District in fiscal year 2005.

Instruction comprises 53% of governmental program expenses. Instruction expense increased due to higher salaries and health insurance costs. Support services expenses were 31% of governmental program expenses. All other expenses including interest expense were 16% of governmental program expenses. Interest expense was attributable to the outstanding bond and borrowing for capital projects. The increase in tax revenues is the result of more taxes available for advance at the end of the year than at the beginning of the year. Support services expense decreased from the prior year due to a reduction of staff.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction	\$18,966,980	\$17,522,629	\$18,246,840	\$16,900,304
Support Services:				
Pupil and Instructional Staff	2,667,249	3,299,722	2,242,235	2,886,328
School Administration, General Administration, Fiscal, and Business	4,042,836	3,901,912	4,019,631	3,882,651
Operation and Maintenance	2,759,885	3,731,558	2,631,155	3,594,640
Pupil Transportation	1,650,096	1,630,437	1,622,481	1,609,734
Central	107,382	237,225	107,382	237,225
Operation of Non-Instructional Services	653,970	631,312	122,783	182,458
Extracurricular Activities	1,080,667	1,061,344	978,645	956,432
Interest and Fiscal Charges	3,873,372	1,974,547	3,873,372	1,974,547
Total Expenses	<u>\$35,802,437</u>	<u>\$33,990,686</u>	<u>\$33,844,524</u>	<u>\$32,224,319</u>

Kings Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Business-Type Activities

Business-type activities include the food service operation, preschool and latchkey operations, and preschool grants. These programs had revenues of \$1,923,041 and expenses of \$1,939,927 for fiscal year 2005. Net assets decreased \$16,886 due to a decrease in miscellaneous revenue.

The District's Funds

Information about the District's major funds is presented in the Fund Financial Statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$63,103,086 and expenditures and other financing uses of \$56,410,829. The net change in fund balance for the year was \$6,692,257 or 211%.

The General Fund balance increased \$4,513,561 due to an increase in tax revenue and investment earnings. The Debt Service Fund balance increased \$334,867 due to an increase in tax revenue. The Permanent Improvement Capital Project Fund balance increased \$1,750,605 due to an increase in tax revenue.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its general fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis actual revenue was \$30,379,735, above original budget estimates of \$28,730,573. Of this \$1,649,162 difference, most was due to an underestimate for taxes and intergovernmental revenue. Budget basis actual expenditures were \$28,688,727, below original budget estimates of \$29,246,255, due to a very conservative estimation of District salaries.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$50,856,851 invested in land, land improvements, buildings, equipment and construction in progress. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$3,074,466	\$3,074,466	\$0	\$0	\$3,074,466	\$3,074,466
Land Improvements	2,273,353	2,015,004	6,777	6,854	2,280,130	2,021,858
Buildings and Improvements	41,429,928	42,313,732	60,298	61,848	41,490,226	42,375,580
Furniture and Equipment	1,080,371	1,360,771	19,172	29,800	1,099,543	1,390,571
Construction in Progress	2,912,486	0	0	0	2,912,486	0
Total Capital Assets	\$50,770,604	\$48,763,973	\$86,247	\$98,502	\$50,856,851	\$48,862,475

Kings Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The increase in capital assets is due mainly to the total of \$2,912,486 in construction in progress for the new stadium. The District continues its ongoing commitment to maintaining and improving its capital assets. For more information on the District's capital assets, see note 6 to the basic financial statements.

Debt

At June 30, 2005, the District had \$42,163,606 in bonds, notes, and capital leases payable, \$2,299,920 due within one year. Table 5 summarizes bonds, notes and capital leases outstanding at year end.

Table 5
 Outstanding Debt at June 30

	Governmental Activities	
	2005	2004
General Obligations Bonds:		
EPA Asbestos	\$103,170	\$117,909
Loan Payable	600,000	1,185,000
School Improvement Bonds	100,000	200,000
School Improvement Bonds	3,295,000	3,410,000
School Improvement Bonds	1,913,182	2,408,182
Energy Conservation Bonds	0	50,000
School Improvement Bonds	500,000	2,100,000
School Improvement Bonds	18,736,992	0
School Improvement Bonds	5,205,000	20,560,000
School Improvement Bonds	<u>7,390,000</u>	<u>7,660,000</u>
Subtotal - Bonds	37,843,344	37,691,091
Capital Leases Payable:		
IP Telephony	0	83,912
Athletic Stadium	<u>4,320,262</u>	<u>0</u>
Subtotal - Capital Leases	<u>4,320,262</u>	<u>83,912</u>
Total Outstanding Debt	<u><u>\$42,163,606</u></u>	<u><u>\$37,775,003</u></u>

For more information on the District's debt obligations, see note 11 to the basic financial statements.

For the Future

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court's concerns.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

Kings Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

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 District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael Mowery, Treasurer at Kings Local School District, 1797 King Avenue, Kings Mills, Ohio 45034. Or email at mmowery@kingslocal.k12.oh.us.

Kings Local School District
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$10,168,146	\$343,626	\$10,511,772
Inventory Held for Resale	0	42,572	42,572
Accounts Receivable	26,244	0	26,244
Intergovernmental Receivable	592,233	15,395	607,628
Property Taxes Receivable	27,427,494	0	27,427,494
Deferred Issuance Costs	232,507	0	232,507
Nondepreciable Capital Assets	5,986,952	0	5,986,952
Depreciable Capital Assets, Net	44,783,652	86,247	44,869,899
<i>Total Assets</i>	<u>89,217,228</u>	<u>487,840</u>	<u>89,705,068</u>
Liabilities			
Accounts Payable	301,695	1,565	303,260
Accrued Wages and Benefits	2,832,007	173,973	3,005,980
Contracts Payable	879,993	1,796	881,789
Intergovernmental Payable	2,325	0	2,325
Accrued Interest Payable	134,980	0	134,980
Deferred Revenue	22,934,903	7,676	22,942,579
Long-Term Liabilities:			
Due Within One Year	2,351,370	15,888	2,367,258
Due In More Than One Year	41,954,752	63,076	42,017,828
<i>Total Liabilities</i>	<u>71,392,025</u>	<u>263,974</u>	<u>71,655,999</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	8,606,998	86,247	8,693,245
Restricted for:			
Capital Projects	2,526,286	0	2,526,286
Debt Service	3,302,617	0	3,302,617
Special Revenue	343,177	0	343,177
Unrestricted	3,046,125	137,619	3,183,744
<i>Total Net Assets</i>	<u>\$17,825,203</u>	<u>\$223,866</u>	<u>\$18,049,069</u>

See accompanying notes to the basic financial statements

Kings Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
Instruction:							
Regular	\$15,840,629	\$220,720	\$175,705	\$0	(\$15,444,204)	\$0	(\$15,444,204)
Special	2,752,796	0	270,317	0	(2,482,479)	0	(2,482,479)
Other	373,555	0	53,398	0	(320,157)	0	(320,157)
Support Services:							
Pupil	1,540,033	0	201,171	0	(1,338,862)	0	(1,338,862)
Instructional Staff	1,127,216	0	223,843	0	(903,373)	0	(903,373)
General Administration	85,858	0	0	0	(85,858)	0	(85,858)
School Administration	2,903,060	17,144	6,061	0	(2,879,855)	0	(2,879,855)
Fiscal	853,131	0	0	0	(853,131)	0	(853,131)
Business	200,787	0	0	0	(200,787)	0	(200,787)
Operation and Maintenance of Plant	2,759,885	79,978	15,152	33,600	(2,631,155)	0	(2,631,155)
Pupil Transportation	1,650,096	0	4,546	23,069	(1,622,481)	0	(1,622,481)
Central	107,382	0	0	0	(107,382)	0	(107,382)
Operation of Non-Instructional Services	653,970	0	531,187	0	(122,783)	0	(122,783)
Extracurricular Activities	1,080,667	102,022	0	0	(978,645)	0	(978,645)
Interest and Fiscal Charges	3,873,372	0	0	0	(3,873,372)	0	(3,873,372)
Total Governmental Activities	35,802,437	419,864	1,481,380	56,669	(33,844,524)	0	(33,844,524)
Business-Type Activities							
Food Service	997,245	733,610	227,735	0	0	(35,900)	(35,900)
Latchkey/ Preschool	927,256	935,851	0	0	0	8,595	8,595
Preschool Grant	15,426	0	15,956	0	0	530	530
Total Business-Type Activities	1,939,927	1,669,461	243,691	0	0	(26,775)	(26,775)
Totals	\$37,742,364	\$2,089,325	\$1,725,071	\$56,669	(33,844,524)	(26,775)	(33,871,299)
General Revenues							
Property Taxes Levied for:							
General Purposes					22,175,204	0	22,175,204
Debt Service					3,166,871	0	3,166,871
Capital Outlay					1,378,559	0	1,378,559
Grants and Entitlements not Restricted to Specific Programs					9,886,716	0	9,886,716
Payment in Lieu of Taxes					1,245,863	0	1,245,863
Unrestricted Contributions					2,680	0	2,680
Investment Earnings					176,727	3,052	179,779
Miscellaneous					885,646	6,837	892,483
Total General Revenues					38,918,266	9,889	38,928,155
Change in Net Assets					5,073,742	(16,886)	5,056,856
<i>Net Assets Beginning of Year</i>					<u>12,751,461</u>	<u>240,752</u>	<u>12,992,213</u>
<i>Net Assets End of Year</i>					<u>\$17,825,203</u>	<u>\$223,866</u>	<u>\$18,049,069</u>

See accompanying notes to the basic financial statements

Kings Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$3,671,254	\$2,676,598	\$3,272,184	\$548,110	\$10,168,146
Accounts Receivable	25,061	0	16,710	1,183	42,954
Interfund Receivable	80,241	0	0	0	80,241
Intergovernmental Receivable	330,103	49,433	0	195,987	575,523
Property Taxes Receivable	23,119,840	3,155,453	1,152,201	0	27,427,494
<i>Total Assets</i>	<u>\$27,226,499</u>	<u>\$5,881,484</u>	<u>\$4,441,095</u>	<u>\$745,280</u>	<u>\$38,294,358</u>
Liabilities					
Accounts Payable	\$132,537	\$0	\$110,500	\$58,658	\$301,695
Accrued Wages and Benefits	2,760,476	0	0	71,531	2,832,007
Contracts Payable	50,580	0	807,150	22,263	879,993
Intergovernmental Payable	2,000	0	0	325	2,325
Compensated Absences Payable	63,649	0	0	477	64,126
Interfund Payable	0	0	0	80,241	80,241
Deferred Revenue	20,348,770	2,772,453	1,028,201	114,828	24,264,252
<i>Total Liabilities</i>	<u>23,358,012</u>	<u>2,772,453</u>	<u>1,945,851</u>	<u>348,323</u>	<u>28,424,639</u>
Fund Balances					
Reserved for Encumbrances	290,603	0	1,476,972	0	1,767,575
Reserved for Property Tax Advance	2,456,000	383,000	124,000	0	2,963,000
Undesignated (Deficit), Reported in:					
General Fund	1,121,884	0	0	0	1,121,884
Special Revenue Funds	0	0	0	397,070	397,070
Debt Service Funds	0	2,726,031	0	0	2,726,031
Capital Projects Funds	0	0	894,272	(113)	894,159
<i>Total Fund Balances (Deficits)</i>	<u>3,868,487</u>	<u>3,109,031</u>	<u>2,495,244</u>	<u>396,957</u>	<u>9,869,719</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$27,226,499</u>	<u>\$5,881,484</u>	<u>\$4,441,095</u>	<u>\$745,280</u>	<u>\$38,294,358</u>

See accompanying notes to the basic financial statements

Kings Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005*

Total Governmental Funds Balances		\$9,869,719
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		50,770,604
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Property Taxes	742,385	
Other	586,964	
Total	1,329,349	1,329,349
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds/Loans Payable	(37,843,344)	
Capital Leases	(4,320,262)	
Compensated Absences	(2,078,390)	
Accrued Interest Payable	(134,980)	
Total	(44,376,976)	(44,376,976)
Deferred bond issuance costs associated with long-term liabilities are not reported in the funds.		232,507
<i>Net Assets of Governmental Activities</i>		\$17,825,203

See accompanying notes to the basic financial statements

Kings Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$21,731,739	\$3,262,321	\$1,197,713	\$0	\$26,191,773
Intergovernmental	9,372,009	389,550	137,185	1,511,515	11,410,259
Investment Earnings	156,837	0	17,228	2,662	176,727
Tuition and Fees	237,436	0	0	0	237,436
Extracurricular Activities	0	0	0	104,063	104,063
Miscellaneous	1,385,341	0	100,502	401,388	1,887,231
<i>Total Revenues</i>	<u>32,883,362</u>	<u>3,651,871</u>	<u>1,452,628</u>	<u>2,019,628</u>	<u>40,007,489</u>
Expenditures					
Current:					
Instruction:					
Regular	14,289,619	0	239,541	184,761	14,713,921
Special	2,468,299	0	0	263,971	2,732,270
Other	303,989	0	304	51,874	356,167
Support Services:					
Pupil	1,318,474	0	0	199,284	1,517,758
Instructional Staff	844,295	0	0	221,626	1,065,921
General Administration	82,474	0	3,384	0	85,858
School Administration	2,699,700	0	12,000	6,774	2,718,474
Fiscal	738,025	48,013	19,716	0	805,754
Business	211,482	0	0	0	211,482
Operation and Maintenance of Plant	2,984,516	0	86,391	50,079	3,120,986
Pupil Transportation	1,509,142	0	0	3,945	1,513,087
Central	107,719	0	0	0	107,719
Operation of Non-Instructional Services	113,459	0	0	506,301	619,760
Extracurricular Activities	587,236	0	2,000	437,789	1,027,025
Capital Outlay	0	0	2,949,119	0	2,949,119
Debt Service:					
Principal Retirement	103,913	1,370,000	664,476	0	2,138,389
Interest and Fiscal Charges	7,459	1,905,766	68,697	0	1,981,922
Issuance Costs	0	232,507	15,000	0	247,507
<i>Total Expenditures</i>	<u>28,369,801</u>	<u>3,556,286</u>	<u>4,060,628</u>	<u>1,926,404</u>	<u>37,913,119</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,513,561</u>	<u>95,585</u>	<u>(2,608,000)</u>	<u>93,224</u>	<u>2,094,370</u>
Other Financing Sources (Uses)					
Sale of Fixed Assets	0	0	3,605	0	3,605
Inception of Capital Lease	0	0	4,355,000	0	4,355,000
Proceeds of Refunding Bonds	0	16,565,000	0	0	16,565,000
Premium on Debt Issuance	0	2,171,992	0	0	2,171,992
Payment to Refunded Bond Escrow Agent	0	(18,497,710)	0	0	(18,497,710)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>239,282</u>	<u>4,358,605</u>	<u>0</u>	<u>4,597,887</u>
<i>Net Change in Fund Balances</i>	4,513,561	334,867	1,750,605	93,224	6,692,257
<i>Fund Balances (Deficits) Beginning of Year, Restated (see Note 21)</i>	<u>(645,074)</u>	<u>2,774,164</u>	<u>744,639</u>	<u>303,733</u>	<u>3,177,462</u>
<i>Fund Balances End of Year</i>	<u><u>\$3,868,487</u></u>	<u><u>\$3,109,031</u></u>	<u><u>\$2,495,244</u></u>	<u><u>\$396,957</u></u>	<u><u>\$9,869,719</u></u>

See accompanying notes to the basic financial statements

Kings Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$6,692,257

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount of the difference
between capital asset additions and depreciation in the current
period.

Capital assets used in governmental activities	3,335,275	
Depreciation expense	(1,315,979)	
Total	2,019,296	2,019,296

Governmental funds only report the disposal of fixed assets to
the extent proceeds are received from the sale. In the
statement of activities, a gain or loss is reported for each
disposal. The amount of the proceeds must be removed and the
gain or loss on the disposal of capital assets must be recognized.

Proceeds from Sale of Fixed Assets	(3,605)	
Loss on Sale of Fixed Assets	(9,060)	
Total	(12,665)	(12,665)

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	528,861	
Intergovernmental	(22,749)	
Other	304,384	
Total	810,496	810,496

Repayment of bond principal is an expenditure in the liabilities in
the statement of net assets. 2,138,389

Interest expense in the statement of activities differs from the amount
reported in governmental funds for two reasons. Additional accrued
interest was calculated for bonds and notes payable and the difference
arising from the advance refunding due to premium and bond
issuance costs.

Accrued Interest	52,224	
Advance Refunding Difference	(1,939,485)	
Total	(1,887,261)	(1,887,261)

Some expenses reported in the statement of activities do not
require the use of current financial resources and therefore are
not reported when due.

Compensated Absences	(331,770)	
Total	(331,770)	(331,770)

Capital lease proceeds is a revenue in the governmental funds,
but the proceeds are capitalized with capital assets in the
statement of net assets (4,355,000)

Change in Net Assets of Governmental Activities \$5,073,742

See accompanying notes to the basic financial statements

Kings Local School District
Statement of Net Assets
Proprietary Funds
June 30, 2005

	<u>Total Business- Type Activities</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$343,626
Receivables:	
Intergovernmental	15,395
Inventory Held for Resale	42,572
Total Current Assets	401,593
Noncurrent Assets:	
Capital Assets:	
Depreciable Capital Assets	86,247
Total Noncurrent Assets	86,247
Total Assets	487,840
Liabilities	
Current Liabilities:	
Accounts Payable	1,565
Accrued Wages and Benefits	173,973
Compensated Absences Payable	15,888
Deferred Revenue	7,676
Contracts Payable	1,796
Total Current Liabilities	200,898
Long-Term Liabilities:	
Compensated Absences Payable	63,076
Total Long-Term Liabilities	63,076
Total Liabilities	263,974
Net Assets	
Invested In Capital Assets	86,247
Unrestricted	137,619
Total Net Assets	\$223,866

See accompanying notes to the basic financial statements

Kings Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005*

	Total Business- Type Activities
Operating Revenues	
Tuition	\$935,851
Charges for Services	733,610
Miscellaneous	6,837
 Total Operating Revenues	 1,676,298
 Operating Expenses	
Salaries	1,015,951
Fringe Benefits	445,252
Purchased Services	5,536
Materials and Supplies	460,933
Depreciation	12,255
 Total Operating Expenses	 1,939,927
 Operating Income (Loss)	 (263,629)
 Non-Operating Revenues (Expenses)	
Donated Commodities	58,341
Investment Earnings	3,052
Operating Grants	185,350
 Total Non-Operating Revenues (Expenses)	 246,743
 Change in Net Assets	 (16,886)
 Net Assets Beginning of Year	 240,752
 Net Assets End of Year	 \$223,866

See accompanying notes to the basic financial statements

Kings Local School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Total Business-Type Activities
Cash Flows from Operating Activities:	
Cash Received from Customers	\$1,674,596
Cash Payments to Employees for Services	(1,042,837)
Cash Payments for Employee Benefits	(445,252)
Cash Payments for Goods and Services	(401,190)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<i>(214,683)</i>
Cash Flows from Noncapital Financing Activities	
Operating Grants Received	171,387
Payments to other funds	(1,404)
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	<i>169,983</i>
Cash Flows from Investing Activities	
Interest on Investments	3,052
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<i>(41,648)</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>385,274</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$343,626</i>
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Gain (Loss)	(\$263,629)
Adjustments:	
Depreciation	12,255
Donated Commodities Used During Year	58,341
(Increase) Decrease in Assets:	
Inventory Held for Resale	10,014
Increase (Decrease) in Liabilities:	
Accounts Payable	(4,756)
Contracts Payable	1,680
Accrued Wages and Benefits	(24,334)
Compensated Absences Payable	(2,552)
Deferred Revenue	(1,702)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<i>(\$214,683)</i>

See accompanying notes to the basic financial statements

Kings Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$80,209</u>
Liabilities	
Undistributed Monies	\$1,124
Due to Students	<u>79,085</u>
<i>Total Liabilities</i>	<u>\$80,209</u>

See accompanying notes to the basic financial statements

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 1 - Description of the District and Reporting Entity

Kings Local School District (the District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in the 1950s through the consolidation of existing land area and school districts. The District serves an area of approximately twenty three square miles. It is located in Warren County and includes portions of Deerfield and Union Townships.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the 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 the District, this includes general operations, food service, preschool, latchkey and student related activities of the District.

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

The District participates in four organizations, three of which are defined as jointly governed organizations and one as an insurance purchasing pool. These organizations include the Southwest Ohio Computer Association, the Warren County Career Center, the Southwestern Ohio Instructional Technology Association and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan, respectively.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

The District's basic financial statements consist of government-wide 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 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 District that are governmental and those that are considered business-type activities.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. 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 District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Permanent Improvement Fund – The Permanent Improvement Fund is a fund provided to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Revised Code.

The other governmental funds of the District account for grants and other resources, debt service, and capital projects of the District whose uses are restricted to a particular purpose.

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the District has no internal service funds.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (continued)

Enterprise Funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. 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 therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. The Food Service and Latchkey/Preschool enterprise funds also use the accrual basis of accounting. Differences in the accrual basis and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (continued)

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants and investment earnings.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. 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 share price, which is the price the investment could be sold for on June 30, 2005.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$156,837.

For purposes of the statement of cash flows, the enterprise funds' portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the enterprise funds without prior notice or penalty.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (continued)

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements inventories of the Food Service enterprise fund are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories in the enterprise fund consist of donated and purchased food and are expensed when used.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	100 years	N/A
Buildings and Buildings Improvements	20 – 50 years	N/A
Equipment and Vehicles	5-20 years	5 - 20 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets.

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for all employees after ten years of service.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (continued)

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the enterprise funds are reported on the enterprise fund financial statements.

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Net assets restricted for other purposes represents balances in special revenue funds which are restricted to use per grant agreements.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for property taxes and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service and the preschool and latchkey programs . Operating expenses are necessary costs incurred to provide the good or service that are the primary activities of the fund.

Note 2 - Summary of Significant Accounting Policies (continued)

O. Interfund Transactions

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

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

P. Estimates

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

Note 3 – Cash and Cash Equivalents and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

Interim monies may be 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 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;

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 3 – Cash and Cash Equivalents and Investments (continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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;
5. 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;
6. The State Treasurer’s investment pool (STAR Ohio); and
7. Commercial paper and bankers’ acceptances (if authorized by the Board of Education).

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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 40, “Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.”

At fiscal year end, the carrying amount of the District’s deposits was \$9,873,725 and the bank balance was \$9,806,927. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance was covered by a 110% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the District’s name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”.

Investments

At June 30, 2005, the District’s investment balance was as follows:

<u>Description</u>	<u>Credit Rating</u>	<u>Category</u>	<u>Maturity</u>	<u>Investment Concentration</u>	<u>Fair Value</u>
STAR Ohio	AAAm	Unclassified	N/A	100%	\$718,256

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor’s rated the District’s investment AAAM. The Board has no policy on credit risk.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 3 – Cash and Cash Equivalents and Investments (continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

The District's investment in the State Treasurer's pool (STAR Ohio) is not categorized because it is not evidenced by securities that exist in physical or book entry form. Investments in STAR Ohio are backed by the securities purchased by STAR Ohio. Historically, over 90% of investments purchased by STAR Ohio are United States Government obligations and securities purchased and held in a third party custodial arrangement on behalf of STAR Ohio. The District's investment policy does not address custodial credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Education's formal investment policy states that "Investments held by the Treasurer must mature within five (5) years, unless they are matched to a specific obligation or debt of the District." This policy is intended to mitigate interest rate risk. STAR Ohio maturity dates are varied and short and are not subject to interest rate risk.

Note 4 - Property Taxes

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the 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, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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.

Tangible personal property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Warren County. The County Auditor periodically advance 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.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 4 - Property Taxes (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property and tangible personal property taxes which were measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2005 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amounts available as advances were recognized as revenue.

The amounts available as advances at June 30, 2005, were \$2,456,000 in the General Fund, \$383,000 in the Debt Service Fund and \$124,000 in the Permanent Improvement 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	\$558,142,870	85%	\$586,185,510	86%
Public Utility Personal	15,922,340	2%	15,262,740	2%
Tangible Personal	83,044,420	13%	83,680,470	12%
Total Assessed Value	<u>\$657,109,630</u>	<u>100%</u>	<u>\$685,128,720</u>	<u>100%</u>
Tax Rate per \$1,000 of Assessed Value	\$68.03		\$68.03	

Note 5 - Receivables

Receivables at June 30, 2005, consisted of taxes, accounts (rent and commissions) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
<i>Capital Assets not being depreciated:</i>				
Land	\$3,074,466	\$0	\$0	\$3,074,466
Construction in Progress	0	2,912,486	0	2,912,486
<i>Capital Assets Being Depreciated:</i>				
Land Improvements	2,324,625	282,389	0	2,607,014
Buildings and Improvements	51,610,267	140,400	0	51,750,667
Equipment	4,892,683	0	(13,029)	4,879,654
Totals at Historical Cost	<u>61,902,041</u>	<u>3,335,275</u>	<u>(13,029)</u>	<u>65,224,287</u>
Less Accumulated Depreciation:				
Land Improvements	(309,621)	(24,040)	0	(333,661)
Buildings and Improvements	(9,296,535)	(1,024,204)	0	(10,320,739)
Equipment	(3,531,912)	(267,735)	364	(3,799,283)
Total Accumulated Depreciation	<u>(13,138,068)</u>	<u>(1,315,979)</u>	<u>364</u>	<u>(14,453,683)</u>
Governmental Activities				
Capital Assets, Net	<u>\$48,763,973</u>	<u>\$2,019,296</u>	<u>(\$12,665)</u>	<u>\$50,770,604</u>

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6 - Capital Assets (continued)

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Business-Type Activities				
<i>Capital Assets being depreciated:</i>				
Land Improvements	\$7,708	\$0	\$0	\$7,708
Buildings and Improvements	77,471	0	0	77,471
Equipment	277,116	0	0	277,116
Totals at Historical Cost	<u>362,295</u>	<u>0</u>	<u>0</u>	<u>362,295</u>
Less Accumulated Depreciation:				
Land Improvements	(854)	(77)	0	(931)
Buildings & Improvements	(15,623)	(1,550)	0	(17,173)
Equipment	(247,316)	(10,628)	0	(257,944)
Less Accumulated Depreciation	<u>(263,793)</u>	<u>(12,255)</u>	<u>0</u>	<u>(276,048)</u>
Business-Type Activities				
Capital Assets, Net	<u>\$98,502</u>	<u>(\$12,255)</u>	<u>\$0</u>	<u>\$86,247</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,086,205
Support Services:	
Instructional Staff	4,001
Administration	30,357
Fiscal	2,741
Operation and Maintenance of Plant	25,248
Pupil Transportation	129,442
Operation of Non-Instructional Services	2,783
Extracurricular	<u>35,202</u>
Total Depreciation Expense	<u>\$1,315,979</u>

Note 7 - Interfund Assets/Liabilities

Interfund transactions at June 30, 2005, consisted of the following:

Fund	Interfund Receivable	Interfund Payable
General	\$80,241	\$0
<i>Non-Major Governmental Funds:</i>		
Ohio Reads	0	6,666
Summer Intervention	0	37,305
Title VIB	0	6,739
Title I	0	13,828
Title VI	0	1,419
Drug-free Schools	0	32
Improving Teacher Quality	0	12,769
Miscellaneous Federal Grants	0	1,483
<i>Total - Non-Major Governmental Funds:</i>	<u>0</u>	<u>80,241</u>
Total - All Funds	<u>\$80,241</u>	<u>\$80,241</u>

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 7 - Interfund Assets/Liabilities (continued)

These amounts are represented as “Interfund Receivables/Payables” on the balance sheet. The General Fund advanced monies to provide funds with operating cash balances. These advances were outstanding at fiscal year end and are intended to be paid back in the next fiscal year.

Note 8 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for disability benefits. 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.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations for fiscal year 2005. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District’s required contribution for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$2,079,192, \$2,058,144, and \$1,990,856, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$342,092.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 8 - Defined Benefit Pension Plans (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations for fiscal year 2005. 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 contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$791,640, \$778,620, and \$757,026, respectively; 50 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$356,624.

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 classified 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$148,514 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. 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.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based upon years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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 4.91 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 the District, this amount equaled \$102,496 during fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS net assets available for payment of health care benefits were \$34.4 million below the target amount. SERS has approximately 62,000 participants currently receiving health care benefits.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 10 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time, with the exception of the Superintendent and Treasurer.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred ninety-five days for certified employees, twelve days beyond contract year for administrators, and two hundred five days for classified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of thirty-eight days.

B. Health Care Benefits

The District provides medical, dental, vision, and life insurance benefits to most employees. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

Note 11 - Long-Term Obligations

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

	Maturity Dates	Balance At July 1, 2004	Additions	Reductions	Balance At June 30, 2005	Amounts Due in One Year
Governmental Activities:						
General Obligation Bonds and Loans Payable:						
School Improvement 1994 6.70%	12/1/2010	\$200,000	\$0	(\$100,000)	\$100,000	\$100,000
School Improvement 1995 5.86%	12/1/2021	3,410,000	0	(115,000)	3,295,000	185,000
School Improvement 1998 4.45%	12/1/2009	2,408,182	0	(495,000)	1,913,182	510,000
EPA Asbestos Loan 1993 0.00%	5/30/2013	117,909	0	(14,739)	103,170	14,739
Energy Conservation Bond 1998	12/1/2004	50,000	0	(50,000)	0	0
School Improvement 1999 4.75%	12/1/2024	2,100,000	0	(1,600,000)*	500,000	100,000
School Improvement 2000 5.47%	12/1/2025	20,560,000	0	(15,355,000)*	5,205,000	355,000
School Improvement 2005 4.3%	12/1/2016	0	18,736,992	0	18,736,992	110,000
School Improvement 2003 4.25%	12/1/2021	7,660,000	0	(270,000)	7,390,000	180,000
Loan Payable 2003 3.36%	1/1/2006	1,185,000	0	(585,000)	600,000	600,000
Total General Obligation Bonds		37,691,091	18,736,992	(18,584,739)	37,843,344	2,154,739
Compensated Absences		1,775,975	591,755	(225,214)	2,142,516	51,450
Capital Leases		83,912	4,355,000	(118,650)	4,320,262	145,181
Total Governmental Activities		\$39,550,978	\$23,683,747	(\$18,928,603)	\$44,306,122	\$2,351,370

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 11 - Long-Term Obligations (continued)

	Balance At July 1, 2004	Additions	Reductions	Balance At June 30, 2005	Amounts Due in One Year
Business-Type Activities:					
Compensated Absences	\$81,516	\$18,897	(\$21,449)	\$78,964	\$15,888

*\$16,565,000 of \$16,955,000 retired represents advance refunding dated June 3, 2005. See Note 12 for more information on the advanced refunding of debt.

School Improvement Bonds – On various occasions, the District issued general obligation bonds for the purpose of additions and improvements to school buildings in the District. The maturity dates of the bonds range from 2001 to 2025. The interest rates vary from 2.00% to 7.60%. The bonds are being paid from the debt service fund.

Energy Conservation Loans On July 9, 1998, the District issued a loan in the amount of \$565,000 for the purpose of providing energy conservation measures for the District. The \$565,000 loan was issued for a five year period with final maturity during fiscal year 2005. The loan was paid from the general fund and permanent improvement capital projects funds.

EPA Asbestos Loan – On May 18, 1993, the District obtained a loan in the amount of \$265,298 for the purpose of providing asbestos removal for the District. The loan was issued for a twenty year period with final maturity during fiscal year 2012. The loan is being paid from the permanent improvement capital projects fund.

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital lease obligations will be paid from the general and permanent improvement funds.

Principal and interest requirements to retire general obligation debt outstanding at fiscal year end are as follows:

Fiscal Year Ending	Principal	Interest	Total
2006	\$2,154,739	\$1,615,153	\$3,769,892
2007	1,744,738	1,563,578	3,308,316
2008	1,929,738	1,495,553	3,425,291
2009	1,693,274	1,843,946	3,537,220
2010	1,949,385	1,802,142	3,751,527
2011 – 2015	7,619,478	6,720,903	14,340,381
2016 – 2020	9,865,000	4,721,617	14,586,617
2021 – 2025	8,450,000	3,792,875	12,242,875
Thereafter	1,885,000	47,125	1,932,125
Totals	<u>\$37,291,352</u>	<u>\$23,602,892</u>	<u>\$60,894,244</u>

Note 12 – Advanced Refunding

On June 3, 2005, the District issued \$16,565,000 in General Obligation bonds with interest rates ranging from 3 to 5 percent until maturity. \$1,500,000 was used to advance refund \$1,500,000 of outstanding 1999 Series bonds with an average rate of 4.75 percent and which \$15,065,000 was used to advance refund \$15,065,000 of outstanding 2000 Series bonds with an average rate of 5.47 percent. The net proceeds of \$18,497,710 (after payment of \$232,507 in underwriting fees, insurance, and other issuance costs and \$6,775 in cash maintained by the District) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the 1999 and 2000 Series bonds. As a result, the principal has been reduced by the corresponding amount paid.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 12 – Advanced Refunding (continued)

The refunding bonds are not subject to optional redemption prior to maturity. Of the \$16,565,000 issued, \$1,620,000 represents serial bonds and \$120,000 is capital appreciation bonds. The serial bonds mature at varying amounts through December 1, 2025.

The capital appreciation bonds will mature in fiscal years 2010 through 2015. The final maturity amount of the bonds is \$1,740,000. For fiscal year 2005, no accretion was recorded for the capital appreciation bonds as the issuance date was June 16, 2005.

Note 13 – Loan Payable

The District in fiscal year 2002 entered into a \$1.75 million loan payable to the Rickenbacker Port Authority, Ohio (the Port Authority).

The loan was made by the Port Authority to the District as the result of the Port Authority's issuance of bonds, the proceeds of which were made available to numerous public school districts in Ohio to assist in the financing and re-financing of permanent improvements and was sponsored by the Ohio School Board Association Expanded Asset Pooled Financing program. The following is a schedule of future required minimum loan payments using an imputed interest rate:

<u>Fiscal Year Ending</u>	<u>Payments</u>
2006	\$617,265
Less Amount Representing Interest	<u>(17,265)</u>
June 30, 2005 Loan Liability	<u><u>\$600,000</u></u>

Note 14 – Capital Leases

In prior years, the District entered into capital leases for the acquisition of copiers and other reproduction equipment, and a voice, video, and data wide area network. The terms of all outstanding leases provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental fund statement. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets consisting of IP Telephony and the new voice, video and data equipment have been capitalized as capital assets in the amount of \$474,572, which represents the present value of the minimum lease payments at the time of acquisition. This lease was retired during fiscal year 2005.

The District entered into two lease-purchase agreements on December 23, 2004 and March 31, 2005 for the construction of a new athletic stadium. The District is leasing the improvements from Fifth Third Bank. The District will retain title to the project during the lease term. Fifth Third Bank deposited \$4,355,000 (less \$15,000 issuance costs) with the District for the construction. The District will make annual principal payments with monthly interest payments to Fifth Third Bank. Interest rates are 4.13% and 4.27% respectively. The leases are renewable annually and expire in fiscal year 2015. The intention of the District is to renew the lease annually. The agreements are recorded on the statement of net assets as long term liabilities. At year end, construction in progress has been capitalized in the amount of \$2,912,486. A principal payment of \$34,738 was made during fiscal year 2005. The principal amount owed on the leases at year end is \$4,320,262.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 14 – Capital Leases (continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of fiscal year end.

Fiscal Year Ending	Capital Leases
2006	\$325,330
2007	325,330
2008	325,330
2009	325,330
2010	325,330
Thereafter	4,191,342
Total	5,817,992
Less: Amount Representing Interest	(1,497,730)
Present Value of Minimum Lease Payments	\$4,320,262

Note 15 – Fund Balance Reserves For Set-Asides

The District is required by State statute to annually set aside in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years.

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance June 30, 2004	(\$226,170)	\$0
Current Year Set Aside Requirement	543,662	543,662
Current Year Offset	0	0
Qualifying Expenditures	(606,018)	(2,587,230)
Set-aside Reserve Balance June 30, 2005	(288,526)	(2,042,568)
Restricted Cash as of June 30, 2005	\$0	\$0
Amount Carried Forward to Fiscal Year 2005	(\$288,526)	\$0

Qualifying disbursements and carryover from prior years for textbooks totaled \$ 832,188, resulting in \$288,526 for carryover to offset textbook requirements in future years. The reserve balance in the capital acquisition cannot be carried forward.

Note 16 - Contingencies

A. Grants

The District receives significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 16 – Contingencies (continued)

B. Litigation

The District’s attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

Note 17 – Risk Management

The 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 2005, the District contracted with Indiana Insurance for fleet insurance and liability insurance. Property is also protected by Indiana Insurance.

Coverage provided by Indiana Insurance is as follows:

Building and Contents – replacement cost (\$2,500 deductible)	\$58,850,683
Boiler and Machinery (\$500 deductible)	4,000,000
Crime Insurance	10,000
Automobile Liability (\$250 deductible)	1,000,000
Uninsured Motorists (\$250 deductible)	300,000
General Liability	
Per occurrence	1,000,000
Total per year	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage since last year.

Workers’ Compensation

For fiscal year 2005, the District participated in the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of 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. Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the “Equity Pooling Fund.” This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Integrated Comp. Management, Inc. provides administrative, cost control and actuarial services to the GRP.

Note 18 – State School Funding Decision

On December 11, 2002, 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.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 19 – Jointly Governed Organizations

Southwest Ohio Computer Association – The District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Hamilton, Preble and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Warren County Career Center – The Warren County Career Center is a distinct political subdivision of the State of Ohio. It is operated under the direction of a Board consisting of one of the elected board members from each of the participating school districts, including one member from the Kings Local School District Board of Education. Warren County Career Center was formed for the purpose of providing vocational education opportunities to the students of the District. Financial information can be obtained from Bill Shepherd, who serves as Director, at 3525 State Route 48, Lebanon, Ohio 45036.

Southwestern Ohio Instructional Technology Association – The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representative are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members as the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the Federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

Note 20 – Insurance Purchasing Pool

Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan – The District participates in the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP’s business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the 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 21 – Change in Accounting Principle

The District has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures” which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk and outlines disclosure requirements.

Kings Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 21 – Change in Accounting Principle (continued)

The District has also implemented GASB Technical Bulletin 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers”. The Technical Bulletin clarifies the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple employer pension and other postemployment benefit plans. The implementation of GASB Technical Bulletin 2004-2 had the following effect on fund balances previously reported:

	General Fund	Debt Service	Permanent Improvement	Other Governmental Funds	Total
Fund balance at June 30, 2004 as previously reported	(\$446,865)	\$2,774,164	\$744,639	\$306,863	\$3,378,801
Implementation of GASB Technical Bulletin 2004-2	(198,209)	0	0	(3,130)	(201,339)
Fund balance at June 30, 2004 as restated	<u>(\$645,074)</u>	<u>\$2,774,164</u>	<u>\$744,639</u>	<u>\$303,733</u>	<u>\$3,177,462</u>

Kings Local School District
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$18,500,000	\$19,785,433	\$19,903,502	\$118,069
Intergovernmental	8,678,048	8,814,685	9,068,829	254,144
Interest	80,000	80,000	156,837	76,837
Tuition and Fees	230,371	214,403	229,136	14,733
Miscellaneous	1,242,154	1,228,824	1,021,431	(207,393)
<i>Total Revenues</i>	<u>28,730,573</u>	<u>30,123,345</u>	<u>30,379,735</u>	<u>256,390</u>
Expenditures				
Current:				
Instruction:				
Regular	14,854,567	14,659,913	14,203,316	456,597
Special	2,500,000	2,500,000	2,403,880	96,120
Other	300,000	300,000	310,580	(10,580)
Support Services:				
Pupils	1,250,000	1,250,000	1,312,555	(62,555)
Instructional Staff	950,000	950,000	942,522	7,478
Board of Education	88,974	90,474	82,494	7,980
Administration	2,800,000	2,800,000	2,801,836	(1,836)
Fiscal	775,000	775,000	769,866	5,134
Business	220,000	220,000	220,996	(996)
Operation and Maintenance of Plant	3,300,000	3,300,000	3,323,081	(23,081)
Pupil Transportation	1,500,000	1,500,000	1,490,150	9,850
Central	111,626	107,284	116,099	(8,815)
Operation of Non-Instructional Services	0	0	113,283	(113,283)
Extracurricular Activities	575,000	575,000	576,981	(1,981)
Debt Service:				
Principal Retirement	20,000	20,000	20,000	0
Interest and Fiscal Charges	1,088	1,088	1,088	0
<i>Total Expenditures</i>	<u>29,246,255</u>	<u>29,048,759</u>	<u>28,688,727</u>	<u>360,032</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(515,682)</u>	<u>1,074,586</u>	<u>1,691,008</u>	<u>616,422</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	0	0	26,922	26,922
Other Financing Sources	0	0	0	0
Advances In	15,000	90,487	90,487	0
Advances Out	(15,000)	(15,000)	(80,241)	(65,241)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>75,487</u>	<u>37,168</u>	<u>(38,319)</u>
<i>Net Change in Fund Balance</i>	<u>(515,682)</u>	<u>1,150,073</u>	<u>1,728,176</u>	<u>578,103</u>
<i>Fund Balance Beginning of Year</i>	<u>1,017,108</u>	<u>1,017,108</u>	<u>1,017,108</u>	<u>0</u>
Prior Year Encumbrances Appropriated	450,253	450,253	450,253	0
<i>Fund Balance End of Year</i>	<u>\$951,679</u>	<u>\$2,617,434</u>	<u>\$3,195,537</u>	<u>\$578,103</u>

See accompanying notes to the required supplementary information.

Kings Local School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2005

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources 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 that 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 the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary schedule reflects the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedule reflects the amounts on the final amended certificate of estimated resources issued during the fiscal year 2005.

The appropriation resolution is subject to amendment by the Board 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 year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarized the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis schedule for the General Fund.

Net Change in Fund Balance	
	General
GAAP basis	\$4,470,298
Net Adjustment for Revenue Accruals	(2,386,218)
Net Adjustment for Expenditure Accruals	119,813
Encumbrances	(475,717)
Budget Basis	\$1,728,176

Kings Local School District
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Donation	N/A	10.550	\$0	\$67,075	\$0	\$67,075
School Breakfast Program	05PU	10.553	13,992	0	13,992	0
National School Lunch Program	LLP4	10.555	134,267	0	134,267	0
Total United States Department of Agriculture			148,259	67,075	148,259	67,075
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
\						
Special Education-Grants to States	6BSF	84.027	645,660	0	598,021	0
Special Education-Preschool Grants	PGS1	84.173	17,360	0	15,759	0
Total Special Education Cluster			663,020	0	613,780	0
<i>Passed through Warren County Educational Service Center:</i>						
English Language Acquisition Grants	N/A	84.365	2,990	0	2,990	0
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	C1S1	84.010	153,431	0	149,430	0
Safe and Drug Free Schools and Communities-State Grants	DRS1	84.186	14,132	0	12,258	0
State Grants for Innovative Programs	C2S1	84.298	40,972	0	40,589	0
Education Technology State Grants	TJS1	84.318	2,697	0	2,717	0
Improving Teacher Quality State Grants	TRS1	84.367	100,684	0	103,185	0
Total United States Department of Education			977,926	0	924,949	0
UNITED STATES DEPARTMENT OF HOMELAND SECURITY						
<i>Passed through Ohio Department of Homeland Security:</i>						
Public Assistance Grant	165-0F847	97.036	2,759	0	2,759	0
Total United States Department of Homeland Security			2,759	0	2,759	0
Total Federal Financial Assistance			\$1,128,944	\$67,075	\$1,075,967	\$67,075

N/A = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

Kings Local School District
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2005

Note A – Significant Accounting Policies

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's Federal awards programs. The Schedule has been prepared on the cash basis of accounting.

Note B – Child Nutrition Cluster

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed that federal monies are expended first.

Note C – Matching Requirements

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Kings Local School District
Warren County, Ohio
1797 King Avenue
Kings Mills, Ohio 45034

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kings Local School District (the District), Warren County, 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, and have issued our report thereon dated February 3, 2006, in which we indicated the District implemented GASB Statement No. 40 and GASB Technical Bulletin 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated February 3, 2006.

Kings Local School District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management, Board members, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
February 3, 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Kings Local School District
Warren County, Ohio
1797 King Avenue
Kings Mills, Ohio 45034

Compliance

We have audited the compliance of Kings Local School District (the District), Warren County, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Kings Local School District

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Board members, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

February 3, 2006

Kings Local School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster, CFDA # 84.027 & 84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

Kings Local School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2005

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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**KINGS LOCAL SCHOOL DISTRICT
WARREN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**