



**Auditor of State
Betty Montgomery**

**KINGS LOCAL SCHOOL DISTRICT
WARREN COUNTY**

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KINGS LOCAL SCHOOL DISTRICT
WARREN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Kings Local School District, Warren County, Ohio (the District), as of and for the year ended June 30, 2004, 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 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 Kings Local School District, Warren County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, 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 March 31, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We subjected Federal Awards Expenditure Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 31, 2005

KINGS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(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, 2004. 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.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June, 1999.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$3,420,265. Net assets of governmental activities decreased \$3,317,328 which represents a 21% decrease from 2003. Net assets of business-type activities decreased \$102,937 or 30% from 2003.
- General revenues accounted for \$28,921,839 in revenue or 88.7% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,673,084 or 11.3% of total revenues of \$32,594,923.
- Total assets of governmental activities decreased by \$2,045,654 as taxes receivable increased by \$98,014 while cash and other receivables decreased by \$1,943,820.
- The District had \$33,990,686 in expenses related to governmental activities; only \$1,766,367 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$28,906,991 were also used to provide for these programs.
- As a major fund, the General Fund had \$25,109,942 in revenues and \$28,215,852 in expenditures. The General Fund's balance decreased from \$2,659,045 to (\$446,865). The other major fund, Debt Service, had \$2,759,154 in revenues and \$2,918,750 in expenditures. The Debt Service fund balance decreased from \$2,933,760 to \$2,774,164.
- Net assets for business-type activities decreased \$102,937. This decrease resulted from operating revenue of \$1,682,089 and grants of \$239,476 being exceeded by operating expenses of \$2,024,502.

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 and Debt Service Funds are the major funds of the District.

Reporting the School 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 2004?" 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.

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 2003 compared to 2004:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003 Restated	2004	2003	2004	2003 Restated	2004
Assets						
Current and Other Assets	\$30,258,124	\$28,403,397	\$408,990	\$437,888	\$30,667,114	\$28,841,285
Capital Assets	48,954,900	48,763,973	110,756	98,502	49,065,656	48,862,475
Total Assets	<u>79,213,024</u>	<u>77,167,370</u>	<u>519,746</u>	<u>536,390</u>	<u>79,732,770</u>	<u>77,703,760</u>
Liabilities						
Long-Term Liabilities	40,890,833	39,550,978	36,832	81,516	40,927,665	39,632,494
Other Liabilities	22,253,402	24,864,931	139,225	214,122	22,392,627	25,079,053
Total Liabilities	<u>63,144,235</u>	<u>64,415,909</u>	<u>176,057</u>	<u>295,638</u>	<u>63,320,292</u>	<u>64,711,547</u>
Net Assets						
Invested in Capital						
Assets Net of Debt	8,081,528	10,988,970	40,428	98,502	8,121,956	11,087,472
Restricted	6,570,691	3,660,919	0	0	6,570,691	3,660,919
Unrestricted	<u>1,416,570</u>	<u>(1,898,428)</u>	<u>303,261</u>	<u>142,250</u>	<u>1,719,831</u>	<u>(1,756,178)</u>
Total Net Assets	<u>\$16,068,789</u>	<u>\$12,751,461</u>	<u>\$343,689</u>	<u>\$240,752</u>	<u>\$16,412,478</u>	<u>\$12,992,213</u>

For Governmental Activities total assets decreased \$2,045,654. Equity in pooled cash and cash equivalents decreased \$1,884,602 due to the completion of the building projects and escrow account payouts. Taxes receivable increased \$98,014. Total liabilities increased \$1,271,674, resulting in a net asset decrease of \$3,317,328. The increase in liabilities is due to an increase in wages which increased accrued wages payable.

The net assets of the District business-type activities decreased by \$102,937. Because of the decrease, management has reviewed and, where feasible, increased fees. This action should ensure that business-type activities remain self-supporting.

Table 2 shows the change in net assets for fiscal year 2004.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Revenues						
Program Revenues:						
Charges for Services	\$234,959	\$472,230	\$1,774,203	\$1,668,841	\$2,009,162	\$2,141,071
Operating Grants	1,157,893	1,274,930	192,173	237,876	1,350,066	1,512,806
Capital Grants	41,986	19,207	0	0	41,986	19,207
General Revenue:						
Property Taxes	22,818,990	18,574,782	0	0	22,818,990	18,574,782
Grants and Entitlements	8,997,104	9,126,344	0	0	8,997,104	9,126,344
Other	<u>1,634,046</u>	<u>1,205,865</u>	<u>16,965</u>	<u>14,848</u>	<u>1,651,011</u>	<u>1,220,713</u>
Total Revenues	<u>34,884,978</u>	<u>30,673,358</u>	<u>1,983,341</u>	<u>1,921,565</u>	<u>36,868,319</u>	<u>32,594,923</u>
Program Expenses:						
Instruction	18,285,159	17,522,629	0	0	18,285,159	17,522,629
Support Services:						
Pupil and Instructional Staff	3,036,471	3,299,722	0	0	3,036,471	3,299,722
School Administration, General Administration, Fiscal and Business	3,516,004	3,901,912	0	0	3,516,004	3,901,912
Operations and Maintenance	3,170,600	3,731,558	0	0	3,170,600	3,731,558
Pupil Transportation	1,451,626	1,630,437	0	0	1,451,626	1,630,437
Central	132,422	237,225	0	0	132,422	237,225
Operation of Non-Instructional Services	549,925	631,312	0	0	549,925	631,312
Extracurricular Activities	1,187,602	1,061,344	0	0	1,187,602	1,061,344
Interest and Fiscal Charges	2,252,324	1,974,547	0	0	2,252,324	1,974,547
Food Service	0	0	979,554	1,014,700	979,554	1,014,700
Uniform School Supply	0	0	188,621	31,660	188,621	31,660
Special Enterprise	0	0	704,876	964,894	704,876	964,894
Preschool Grant	<u>0</u>	<u>0</u>	<u>23,650</u>	<u>13,248</u>	<u>23,650</u>	<u>13,248</u>
Total Expenses	<u>33,582,133</u>	<u>33,990,686</u>	<u>1,896,701</u>	<u>2,024,502</u>	<u>35,478,834</u>	<u>36,015,188</u>
Change in Net Assets	<u>\$1,302,845</u>	<u>(\$3,317,328)</u>	<u>\$86,640</u>	<u>(\$102,937)</u>	<u>\$1,389,485</u>	<u>(\$3,420,265)</u>

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general, debt service and capital projects purposes and grants and entitlements comprised 90.3% 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 60.6% of revenue for governmental activities for the District in fiscal year 2004.

Instruction comprises 51.6% of governmental program expenses. Instruction expense decreased due to a reduction in force. Support services expenses were 37.7% of governmental program expenses. All other expenses including interest expense were 10.7% of governmental program expenses. Interest expense was attributable to the outstanding bond and borrowing for capital projects. The decrease in tax revenues is the result of more taxes available for advance at the beginning of the year than at the end of the year. Support services expense increased from the prior year due to the following: higher salaries for administrators, health insurance costs increased and the current year had more retirees than the previous year. Operation and maintenance expense increased due to the completion of renovation projects throughout the District.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government 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

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Instruction	\$18,285,159	\$17,522,629	\$17,951,454	\$16,900,304
Support Services:				
Pupil and Instructional Staff	3,036,471	3,299,722	2,630,587	2,886,328
School Administration, General				
Administration, Fiscal and				
Business	3,516,004	3,901,912	3,497,144	3,882,651
Operations and Maintenance	3,170,600	3,731,558	3,084,850	3,594,640
Pupil Transportation	1,451,626	1,630,437	1,408,402	1,609,734
Central	132,422	237,225	132,422	237,225
Operation of Non-Instructional Services	549,925	631,312	127,447	182,458
Extracurricular Activities	1,187,602	1,061,344	1,062,665	956,432
Interest and Fiscal Charges	<u>2,252,324</u>	<u>1,974,547</u>	<u>2,252,324</u>	<u>1,974,547</u>
Total Expenses	<u>\$33,582,133</u>	<u>\$33,990,686</u>	<u>\$32,147,295</u>	<u>\$32,224,319</u>

Business-Type Activities

Business-type activities include the food service operation, the sale of uniform school supplies, special enterprise and preschool grants. These programs had revenues of \$1,921,565 and expenses of \$2,024,502 for fiscal year 2004. Net assets decreased \$102,937 due to a decrease in tuition 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 \$38,470,082 and expenditures and other financing uses of \$42,935,261. The net change in fund balance for the year was (\$4,465,179) or 56.9%.

The General Fund balance decreased \$3,105,910 due to a decrease in tax revenue and investment earnings. The Debt Service Fund balance decreased \$159,596 due to a decrease 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 2004, 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 revenue was \$27,128,478, below original budget estimates of \$27,633,137. Of this \$504,659 difference, most was due to an overestimate for taxes and intergovernmental revenue. Budget basis expenditures were \$29,510,102, above budget estimates of \$19,525,573, due to a very conservative estimation of District salaries.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$48,862,475 invested in land, land improvements, buildings and equipment. Table 4 shows fiscal 2004 balances compared to fiscal 2003:

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

	Governmental Activities		Business-Type Activities		Total	
	2003 Restated	2004	2003	2004	2003 Restated	2004
Land	\$3,074,466	\$3,074,466	\$0	\$0	\$3,074,466	\$3,074,466
Land Improvements	2,084,912	2,015,004	6,931	6,854	2,091,843	2,021,858
Buildings and Improvements	42,385,414	42,313,732	63,397	61,848	42,448,811	42,375,580
Furniture and Equipment	1,410,108	1,360,771	40,428	29,800	1,450,536	1,390,571
Total Net Assets	<u>\$48,954,900</u>	<u>\$48,763,973</u>	<u>\$110,756</u>	<u>\$98,502</u>	<u>\$49,065,656</u>	<u>\$48,862,475</u>

The decrease in capital assets is due to the total of \$164,228 in capital asset disposals and \$1,346,112 in depreciation recognition exceeding \$1,307,159 in building and improvements and equipment additions. This District continues its ongoing commitment to maintaining and improving its capital assets.

Debt

At June 30, 2004, the District had \$37,775,003 in bonds and capital leases payable, \$2,060,667 due within one year. Table 5 summarizes bonds and capital leases outstanding at year end.

Table 5
Outstanding Debt, at Year End

	Governmental Activities 2003	Governmental Activities 2004
General Obligation Bonds:		
Energy Conservation Loan	\$45,000	\$0
EPA Asbestos	132,648	117,909
Loan Payable	1,750,000	1,185,000
School Improvement Bonds	800,000	200,000
School Improvement Bonds	10,595,000	3,410,000
School Improvement Bonds	2,878,182	2,408,182
Energy Conservation Bonds	105,000	50,000
School Improvement Bonds	2,200,000	2,100,000
School Improvement Bonds	20,810,000	20,560,000
School Improvement Bonds	<u>0</u>	<u>7,660,000</u>
Subtotal Bonds	39,315,830	37,691,091
Capital Leases Payable		
IP Telephony	<u>122,882</u>	<u>83,912</u>
Total Outstanding Debt at Year End	<u>\$39,438,712</u>	<u>\$37,775,003</u>

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.

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, and 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 E-mail at mmowery@kingslocal.k12.oh.us.

Kings Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$5,422,325	\$385,274	\$5,807,599
Receivables:			
Taxes	22,814,130	0	22,814,130
Accounts	40,596	0	40,596
Intergovernmental	124,942	1,432	126,374
Internal Balances	1,404	(1,404)	0
Inventory	0	52,586	52,586
Nondepreciable Capital Assets	3,074,466	0	3,074,466
Depreciable Capital Assets, Net	45,689,507	98,502	45,788,009
Total Assets	77,167,370	536,390	77,703,760
Liabilities:			
Accounts Payable	244,941	6,321	251,262
Accrued Wages and Benefits	2,745,382	198,307	2,943,689
Retainage Payable	25,777	0	25,777
Accrued Interest Payable	187,204	0	187,204
Deferred Revenue	21,585,250	9,378	21,594,628
Intergovernmental Payable	7,685	0	7,685
Contracts Payable	68,692	116	68,808
Long-Term Liabilities:			
Due Within One Year	2,285,881	21,449	2,307,330
Due In More Than One Year	37,265,097	60,067	37,325,164
Total Liabilities	64,415,909	295,638	64,711,547
Net Assets:			
Invested in Capital Assets, Net of Related Debt	10,988,970	98,502	11,087,472
Restricted for:			
Special Revenue	344,787	0	344,787
Debt Service	2,437,269	0	2,437,269
Capital Projects	878,863	0	878,863
Unrestricted	(1,898,428)	142,250	(1,756,178)
Total Net Assets	\$12,751,461	\$240,752	\$12,992,213

See accompanying notes to the basic financial statements.

Kings Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$14,669,277	\$250,651	\$258,508	\$0	(\$14,160,118)	\$0	(\$14,160,118)
Special	2,496,525	0	112,127	0	(2,384,398)	0	(2,384,398)
Other	356,827	0	1,039	0	(355,788)	0	(355,788)
Support Services:							
Pupil	1,454,797	540	195,899	0	(1,258,358)	0	(1,258,358)
Instructional Staff	1,844,925	0	216,955	0	(1,627,970)	0	(1,627,970)
General Administration	88,418	0	0	0	(88,418)	0	(88,418)
School Administration	2,740,628	16,385	2,876	0	(2,721,367)	0	(2,721,367)
Fiscal	845,227	0	0	0	(845,227)	0	(845,227)
Business	227,639	0	0	0	(227,639)	0	(227,639)
Operations and Maintenance	3,731,558	112,665	24,253	0	(3,594,640)	0	(3,594,640)
Pupil Transportation	1,630,437	0	1,496	19,207	(1,609,734)	0	(1,609,734)
Central	237,225	0	0	0	(237,225)	0	(237,225)
Operation of Non-Instructional Services	631,312	0	448,854	0	(182,458)	0	(182,458)
Extracurricular Activities	1,061,344	91,989	12,923	0	(956,432)	0	(956,432)
Interest and Fiscal Charges	1,974,547	0	0	0	(1,974,547)	0	(1,974,547)
Total Governmental Activities	33,990,686	472,230	1,274,930	19,207	(32,224,319)	0	(32,224,319)
Business-Type Activities:							
Food Service	1,014,700	730,413	224,892	0	0	(59,395)	(59,395)
Uniform School Supply	31,660	0	0	0	0	(31,660)	(31,660)
Latchkey	964,894	938,428	0	0	0	(26,466)	(26,466)
Preschool Grant	13,248	0	12,984	0	0	(264)	(264)
Total Business-Type Activities	2,024,502	1,668,841	237,876	0	0	(117,785)	(117,785)
Totals	\$36,015,188	\$2,141,071	\$1,512,806	\$19,207	(\$32,224,319)	(\$117,785)	(\$32,342,104)

General Revenues:

Property Taxes Levied for:

General Purposes	15,308,689	0	15,308,689
Debt Service Purposes	2,307,464	0	2,307,464
Capital Projects Purposes	958,629	0	958,629
Grants and Entitlements not Restricted to Specific Programs	9,126,344	0	9,126,344
Payment in Lieu of Taxes	724,934	0	724,934
Unrestricted Contributions	5,250	0	5,250
Investment Earnings	92,292	1,600	93,892
Other Revenues	383,389	13,248	396,637

Total General Revenues

28,906,991 14,848 28,921,839

Change in Net Assets

(3,317,328) (102,937) (3,420,265)

Net Assets Beginning of Year

16,068,789 343,689 16,412,478

Net Assets End of Year

\$12,751,461 \$240,752 \$12,992,213

See accompanying notes to the basic financial statements.

Kings Local School District
 Balance Sheet
 Governmental Funds
 June 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$1,467,359	\$2,695,039	\$1,259,927	\$5,422,325
Receivables:				
Taxes	18,759,862	2,956,509	1,097,759	22,814,130
Accounts	8,844	0	31,752	40,596
Intergovernmental	12,923	0	112,019	124,942
Interfund	90,487	0	0	90,487
Total Assets	20,339,475	5,651,548	2,501,457	28,492,480
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	132,538	0	112,403	244,941
Accrued Wages and Benefits	2,473,719	0	70,324	2,544,043
Compensated Absences	29,355	0	0	29,355
Retainage Payable	0	0	25,777	25,777
Interfund Payable	0	0	89,083	89,083
Deferred Revenue	18,132,099	2,877,384	1,094,620	22,104,103
Intergovernmental Payable	5,509	0	2,176	7,685
Contracts Payable	13,120	0	55,572	68,692
Total Liabilities	20,786,340	2,877,384	1,449,955	25,113,679
Fund Balances:				
Reserved for Encumbrances	317,715	0	480,443	798,158
Reserved for Property Tax Advances	431,187	79,125	25,888	536,200
Unreserved, Undesignated, Reported in:				
General Fund	(1,195,767)	0	0	(1,195,767)
Special Revenue Funds	0	0	179,153	179,153
Debt Service Funds	0	2,695,039	0	2,695,039
Capital Projects Funds	0	0	366,018	366,018
Total Fund Balances	(446,865)	2,774,164	1,051,502	3,378,801
Total Liabilities and Fund Balances	\$20,339,475	\$5,651,548	\$2,501,457	\$28,492,480

See accompanying notes to the basic financial statements.

Kings Local School District
Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Fund Balance \$3,378,801

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 48,763,973

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	213,524	
Intergovernmental	22,749	
Other	<u>282,580</u>	
		518,853

In the statement of net assets interest payable is accrued when
incurred, whereas in the governmental funds interest is
reported as a liability only when it will require the use of
current financial resources. (187,204)

Some liabilities reported in the statement of net assets do not
require the use of current financial resources and therefore
are not reported as liabilities in governmental funds.

Pension Obligation	(201,339)	
Compensated Absences	<u>(1,746,620)</u>	
		(1,947,959)

Long-term liabilities, are not due and payable in the current
period and therefore are not reported in the funds. (37,775,003)

Net Assets of Governmental Activities \$12,751,461

See accompanying notes to the basic financial statements.

Kings Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$15,156,186	\$2,435,956	\$788,319	\$18,380,461
Tuition and Fees	250,386	0	0	250,386
Investment Earnings	68,444	0	23,848	92,292
Intergovernmental	8,802,408	322,915	1,475,234	10,600,557
Extracurricular Activities	0	0	92,969	92,969
Other Revenues	832,518	283	558,044	1,390,845
Total Revenues	25,109,942	2,759,154	2,938,414	30,807,510
Expenditures:				
Current:				
Instruction:				
Regular	13,042,164	0	399,282	13,441,446
Special	2,297,796	0	194,809	2,492,605
Other	255,794	653	100,921	357,368
Support Services:				
Pupil	1,260,388	0	200,831	1,461,219
Instructional Staff	1,587,422	0	261,115	1,848,537
General Administration	88,418	0	0	88,418
School Administration	2,702,912	0	58,468	2,761,380
Fiscal	767,032	43,849	19,281	830,162
Business	216,465	0	0	216,465
Operations and Maintenance	3,415,039	0	173,205	3,588,244
Pupil Transportation	1,456,294	0	36,983	1,493,277
Central	237,422	0	0	237,422
Operation of Non-Instructional Services	135,477	0	493,489	628,966
Extracurricular Activities	645,472	0	405,644	1,051,116
Capital Outlay	0	0	1,127,193	1,127,193
Debt Service:				
Principal Retirement	98,970	945,000	619,739	1,663,709
Interest and Fiscal Charges	8,787	1,929,248	49,699	1,987,734
Total Expenditures	28,215,852	2,918,750	4,140,659	35,275,261
Excess of Revenues Over (Under) Expenditures	(3,105,910)	(159,596)	(1,202,245)	(4,467,751)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	0	0	2,572	2,572
Proceeds of Refunding Bonds	0	7,660,000	0	7,660,000
Payments to Refunded Bond Escrow Agent	0	(7,660,000)	0	(7,660,000)
Total Other Financing Sources (Uses)	0	0	2,572	2,572
Net Change in Fund Balance	(3,105,910)	(159,596)	(1,199,673)	(4,465,179)
Fund Balance Beginning of Year	2,659,045	2,933,760	2,251,175	7,843,980
Fund Balance End of Year	(\$446,865)	\$2,774,164	\$1,051,502	\$3,378,801

See accompanying notes to the basic financial statements.

Kings Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance - Total Governmental Funds (\$4,465,179)

Amounts reported for governmental activities in the
 statement of activities are different because:

Governmental funds report capital asset additions 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	1,307,159	
Depreciation Expense	<u>(1,333,858)</u>	(26,699)

Governmental funds only report the disposal of 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. This is the
 amount of the difference between the proceeds and the gain or loss.

(164,228)

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

Delinquent Property Taxes	213,524	
Intergovernmental	(85,694)	
Other	<u>(100,326)</u>	27,504

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets.

1,663,709

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due.

13,187

Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

Pension Obligation	13,592	
Compensated Absences	<u>(379,214)</u>	(365,622)

Change in Net Assets of Governmental Activities (\$3,317,328)

See accompanying notes to the basic financial statements.

Kings Local School District
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Total Business-Type Activities
Assets:	
Equity in Pooled Cash and Investments	\$385,274
Receivables:	
Intergovernmental	1,432
Inventory	52,586
Total Current Assets	<u>439,292</u>
Depreciable Capital Assets, Net	<u>98,502</u>
Total Assets	<u>537,794</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	6,321
Accrued Wages and Benefits	198,307
Compensated Absences	21,449
Interfund Payable	1,404
Deferred Revenue	9,378
Contracts Payable	116
Total Current Liabilities	<u>236,975</u>
Long-Term Liabilities:	
Compensated Absences	<u>60,067</u>
Total Liabilities	<u>297,042</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	98,502
Unrestricted	142,250
Total Net Assets	<u>\$240,752</u>

See accompanying notes to 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, 2004

	Total Business-Type Activities
Operating Revenues:	
Tuition and Fees	\$938,428
Charges for Services	730,413
Other Revenues	<u>13,248</u>
Total Operating Revenues	<u>1,682,089</u>
Operating Expenses:	
Personal Services	1,473,133
Contactual Services	2,311
Materials and Supplies	536,804
Depreciation	<u>12,254</u>
Total Operating Expenses	<u>2,024,502</u>
Operating Income (Loss)	<u>(342,413)</u>
Non-Operating Revenues (Expenses):	
Investment Earnings	1,600
Donated Commodities	60,907
Operating Grants	<u>176,969</u>
Total Non-Operating Revenues (Expenses)	<u>239,476</u>
Income (Loss) Before Contributions & Transfers	(102,937)
Change in Net Assets	(102,937)
Net Assets Beginning of Year	<u>343,689</u>
Net Assets End of Year	<u>\$240,752</u>

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, 2004

	Total Business-Type Activities
Cash Flows from Operating Activities:	
Cash Received from Customers	\$1,682,089
Cash Payments to Employees	(1,340,216)
Cash Payments to Suppliers	(478,628)
	<u>(136,755)</u>
Net Cash Provided (Used) by Operating Activities	
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received	185,895
Payments from Other Funds	1,404
Payments to Other Funds	(10,325)
	<u>176,974</u>
Net Cash Provided (Used) by Noncapital Financing Activities	
Cash Flows from Investing Activities:	
Earnings on Investments	1,600
	<u>1,600</u>
Net Cash Provided (Used) by Cash Flows from Investing Activities	
Net Increase (Decrease) in Cash and Cash Equivalents	41,819
Cash and Cash Equivalents Beginning of Year	<u>343,455</u>
Cash and Cash Equivalents End of Year	<u><u>385,274</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(342,413)
Adjustments:	
Depreciation	12,254
Donated Commodities	60,907
Changes in Assets & Liabilities:	
(Increase) Decrease in Inventory	12,826
Increase (Decrease) in Payables	(3,679)
Increase (Decrease) in Accrued Liabilities	127,573
Increase (Decrease) in Deferred Revenue	(4,223)
	<u>(136,755)</u>
Net Cash Provided (Used) by Operating Activities	

See accompanying notes to the basic financial statements.

Kings Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$64,218</u>
Total Assets	<u>\$64,218</u>
Liabilities:	
Accounts Payable	728
Other Liabilities	<u>63,490</u>
Total Liabilities	<u>\$64,218</u>
Net Assets:	
Held in Trust	
Total Net Assets	

See accompanying notes to the basic financial statements.

**KINGS LOCAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

1. DESCRIPTION OF THE DISTRICT

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 1950's through the consolidation of existing land areas and school districts. The District serves an area of approximately 23 square miles. It is located in Warren County, and includes portions of Deerfield and Union Townships.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

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.

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. For business-type activities and proprietary funds, the District has elected not to follow subsequent private-sector guidance. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

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 or program of the District's governmental activities. 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 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

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 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, all proprietary fund types are 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.

Fiduciary Funds are reported using the economic resources measurement focus.

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 balance is available 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.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income 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.

Enterprise Funds – The enterprise fund 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 custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund.

3. 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. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the actual and the 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 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 year end: property taxes available for advance, grants and interest.

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, 2004, but which were levied to finance fiscal year 2005 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.

Expenses/Expenditures

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 in 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 the governmental funds.

CASH AND CASH EQUIVALENTS

Cash received by the District is pooled for investment purposes. 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 2004. 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, 2004.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2004 amounted to \$93,892.

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.

INVENTORY

On government-wide and proprietary fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

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 in 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 respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000). 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. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated, except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

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

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 probably of receiving payment in the future. The amount is based on accumulated sick leave employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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 expected to be paid when due. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The entire amount of compensated absences is reported as a fund liability in Proprietary Funds.

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

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, adult education and community school. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

INTERFUND ACTIVITY

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 proprietary funds and are eliminated on the statement of activities. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

4. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. The pool is displayed on the financial statements as "Equity in Pooled Cash and Investments".

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) Repurchase agreements in the securities enumerated above.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits – At the year end, the carrying amount of the District's deposits was \$3,182,262. The bank balance of deposits was \$3,208,878 of which \$100,000 was covered by federal depository insurance. The remaining balance was covered by 110% public depository pool, which was collateralized with securities held by the pledging financial institution's trust department but not in the District's name.

Investments – The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

- 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 counterparty'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 department or agent, but not in the District's name.

Based on the above criteria, the District's investments at year-end are classified as follows:

<u>Description</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount/ Fair Value</u>
State Treasury Pool*	\$0	\$0	\$0	\$2,689,555
Total Investments	\$0	\$0	\$0	\$2,689,555

*The District's Investment in the Ohio State Treasury Pool is not categorized because it is not evidenced by securities that exist in physical or book entry form.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

5. PROPERTY TAXES

Real property taxes collected in 2004 were levied in April on the assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). In 2004, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2004, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The Warren County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2004. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$431,187 for General Fund, \$79,125 for Debt Service and \$25,888 for the Permanent Improvement Fund, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2004 operations.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$558,142,870
Public Utility Personal	15,922,340
Tangible Personal Property	<u>83,044,420</u>
Total	<u>\$657,109,630</u>

6. RECEIVABLES

Receivables at June 30, 2004, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interest. 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.

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Government Activities				
<i>Capital Assets not being depreciated:</i>				
Land	\$3,074,466	\$0	\$0	\$3,074,466
<i>Capital Assets Being Depreciated:</i>				
Land Improvements	2,384,043	0	59,418	2,324,625
Buildings & Improvements	51,416,480	1,070,709	876,922	51,610,267
Equipment	<u>5,005,945</u>	<u>236,450</u>	<u>349,712</u>	<u>4,892,683</u>
Totals at Historical Cost	<u>\$61,880,934</u>	<u>\$1,307,159</u>	<u>\$1,286,052</u>	<u>\$61,902,041</u>
Less Accumulated Depreciation:				
Land Improvements	\$299,131	\$24,041	\$13,551	\$309,621
Building Improvements	9,031,066	1,023,692	758,223	9,296,535
Equipment	<u>3,595,837</u>	<u>286,125</u>	<u>350,050</u>	<u>3,531,912</u>
Total Accumulated Depreciation	<u>\$12,926,034</u>	<u>\$1,333,858</u>	<u>\$1,121,824</u>	<u>\$13,138,068</u>
Governmental Activities Capital Assets, Net	<u>\$48,954,900</u>	<u>(\$26,699)</u>	<u>\$164,228</u>	<u>\$48,763,973</u>
Business-Type Activities				
<i>Capital Assets not being depreciated:</i>				
Land Improvements	\$7,708	\$0	\$0	\$7,708
Buildings & Improvements	77,471	0	0	77,471
Equipment	<u>277,116</u>	<u>0</u>	<u>0</u>	<u>277,116</u>
Total at Historical Cost	<u>\$362,295</u>	<u>\$0</u>	<u>\$0</u>	<u>\$362,295</u>
Less Accumulated Depreciation:				
Land Improvements	\$777	\$77	\$0	\$854
Buildings & Improvements	14,074	1,549	0	15,623
Equipment	<u>236,688</u>	<u>10,628</u>	<u>0</u>	<u>247,316</u>
Total Accumulated Depreciation	<u>\$251,539</u>	<u>\$12,254</u>	<u>\$0</u>	<u>\$263,793</u>
Business-Type Activities Capital Assets, Net	<u>\$110,756</u>	<u>(\$12,254)</u>	<u>\$0</u>	<u>\$98,502</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,092,120
Support Services:	
Instructional Staff	5,494
School Administration	29,513
Fiscal	2,741
Operations and Maintenance	24,109
Pupil Transportation	141,897
Operation of Non-Instructional Services	2,782
Extracurricular Activities	<u>35,202</u>
Total Depreciation Expense	<u>\$1,333,858</u>

8. LONG-TERM LIABILITIES

	Maturity Dates	Beginning/Principal Outstanding	Additions	Deductions	Ending/Principal Outstanding	Due In One Year
<u>Governmental Activities:</u>						
General Obligation Bonds and Loans Payable:						
School Improvement* 1994 6.70%	12/01/10	\$800,000	\$ 0	\$600,000	\$200,000	\$100,000
School Improvement* 1995 5.86%	12/01/21	10,595,000	0	7,185,000	3,410,000	115,000
School Improvement 1998 4.45%	12/01/09	2,878,182	0	470,000	2,408,182	495,000
EPA Asbestos Loan 1993 0.00%	05/30/13	132,648	0	14,739	117,909	14,739
Energy Conservation Loan 1993 4.65%	12/01/03	45,000	0	45,000	0	0
Energy Conservation Bond 1998 4.20%	12/01/04	105,000	0	55,000	50,000	50,000
School Improvement 1999 4.75%	12/01/24	2,200,000	0	100,000	2,100,000	100,000
School Improvement 2000 5.47%	12/01/25	20,810,000	0	250,000	20,560,000	290,000
School Improvement 2003 4.25%	12/01/21	0	7,660,000	0	7,660,000	270,000
Loan Payable 2003 3.36%	01/01/06	<u>1,750,000</u>	<u>0</u>	<u>565,000</u>	<u>1,185,000</u>	<u>585,000</u>
Total General Obligation Bonds		39,315,830	7,660,000	9,284,739	37,691,091	2,019,739
Compensated Absences		1,452,121	501,570	177,716	1,775,975	225,214
Capital Leases		<u>122,882</u>	<u>0</u>	<u>38,970</u>	<u>83,912</u>	<u>40,928</u>
Total Governmental Activities Long-Term Liabilities		<u>\$40,890,833</u>	<u>\$8,161,570</u>	<u>\$9,501,425</u>	<u>\$39,550,978</u>	<u>\$2,285,881</u>
<u>Business-Type Activities</u>						
Compensated Absences		<u>\$36,832</u>	<u>\$56,987</u>	<u>\$12,303</u>	<u>\$81,516</u>	<u>\$21,449</u>

*\$7,660,000 of \$7,785,000 retired represents advance refunding dated April 7,2004

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 2026. The interest rates vary from 4.25% to 11.625%. The bonds are being paid from the general fund.

In fiscal year 1999, the District defeased a portion of general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the District's financial statements. As of June 30, 2004, \$3,823,332 of bonds outstanding are considered defeased.

ENERGY CONSERVATION LOANS

On December 1, 1993, the District issued a loan in the amount of \$355,000 for the purpose of providing energy conservation measures for the District. The \$355,000 loan was issued for a ten year period with final maturity during fiscal year 2005. The loan is being paid from the general fund.

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 is being 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 person is paid. Capital lease obligations will be paid from the general fund.

9. ADVANCED REFUNDING

On April 7, 2004, the District issued \$7,660,000 in General Obligation bonds with an average interest rate of 4.33 percent, of which \$7,660,000 was used to advance refund \$7,660,000 of outstanding 1994 and 1995 Series bonds with an average interest rate of 5.57 percent. The net proceeds of \$8,471,738 (after payment of \$167,435 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 and 1995 Series bonds. As a result, the 1994 and 1995 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of Net Assets.

The District partially advance refunded the 1994 and 1995 Series bonds to reduce its total debt service payments over the remaining life of the issue by \$511,781 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$401,972

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

<u>General Obligation Bonds and Loan Payable</u>			
<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$2,005,000	\$1,943,103	\$3,948,103
2006	2,030,000	1,861,308	3,891,308
2007	1,575,000	1,781,313	3,356,313
2008	1,755,000	1,718,013	3,473,013
2009	1,920,000	1,659,893	3,579,893
2010-2014	6,480,000	7,526,887	14,006,887
2015-2019	9,530,000	5,174,243	14,704,243
2020-2024	9,230,000	4,592,935	13,822,935
2025-2026	<u>3,166,091</u>	<u>239,505</u>	<u>3,405,596</u>
Totals	<u>\$37,691,091</u>	<u>\$26,497,200</u>	<u>\$64,188,291</u>

10. 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</u> <u>Ending</u>	<u>Payments</u>
2005	\$621,250
2006	<u>617,265</u>
Total Loan Payments	\$1,238,515
Less Amount Representing Interest	<u>53,515</u>
June 30, 2004 Loan Liability	<u>\$1,185,000</u>

11. LEASES

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.

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

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Long-Term</u> <u>Debt</u>
2005	43,263
2006	<u>43,168</u>
Total Minimum Lease Payments	86,431
Less: Amount Representing Interest	(2,519)
Present Value of Minimum Lease Payments	<u>\$83,912</u>

12. DEFINED BENEFIT PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion being used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$778,620, \$757,026 and \$673,644 respectively; 49.2% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

STATE TEACHERS RETIREMENT SYSTEM

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003 and 2002 were \$2,058,144, \$1,990,856 and \$1,712,424 respectively; 83.2% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

13. POST EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$92,408 for the fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was 3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2004, 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, 2004, 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 \$324,240 during the 2004 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of 300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

14. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2004.

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.

15. 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 2004, the District contracted with Indiana Insurance for fleet insurance and liability insurance. Property is 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 have been no significant reduction in coverage since last year.

B. Workers' Compensation

For fiscal year 2004, 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.

16. 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.

17. COMPLIANCE AND ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
General Fund	\$446,865
Special Revenue Fund:	
Title VIB	36,561
Title I	4,223
Improving Teacher Quality	2,008
Capital Projects Fund:	
Building	25,776

18. 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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

For fiscal year ended June 30, 2003, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2003	(\$181,763)	\$ 0
Current Year Set-aside Requirement	517,406	517,406
Qualified Disbursements	(561,813)	(1,591,610)
Current Year Offsets	<u>0</u>	<u>0</u>
Set-Aside Reserve Balance as of June 30, 2003	<u>(\$226,170)</u>	<u>(\$1,074,204)</u>
Restricted Cash as of June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>
Carried Forward to FY 2005	<u>(\$226,170)</u>	<u>\$ 0</u>

Qualifying disbursements and carryover from prior years for textbooks totaled \$743,576, resulting in \$226,170 for carryover to offset textbook requirements in future years. The reserve balance in the capital acquisition cannot be carried forward.

19. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2004, consisted of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$90,487	
Special Revenue Fund:		
Title VI-B		33,939
Title I		19,290
Title VI Innovative Education		22,365
Drug-Free Schools		2,906
Improving Teacher Quality		10,583
Enterprise Fund:		
Preschool Grant	<u> </u>	<u>1,404</u>
Total All Funds	<u>\$90,487</u>	<u>\$90,487</u>

20. 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 representatives 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 the 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.

21. 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.

22. PRIOR PERIOD ADJUSTMENT

The beginning net assets for governmental activities has been adjusted for the correction to the capital assets detail as follows:

	Governmental <u>Activities</u>
June 30, 2003 Net Assets, as previously stated	\$16,078,929
Net Governmental Capital Assets	<u>(10,140)</u>
June 30, 2003 Net Assets, as restated	<u>\$16,068,789</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Kings Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$17,543,652	\$17,257,165	\$17,286,254	\$29,089
Tuition and Fees	245,139	235,343	241,542	6,199
Investment Earnings	69,463	64,073	68,444	4,371
Intergovernmental	8,922,712	8,718,026	8,791,799	73,773
Other Revenues	852,171	853,871	839,668	(14,203)
Total Revenues	27,633,137	27,128,478	27,227,707	99,229
Expenditures:				
Current:				
Instruction:				
Regular	9,142,369	25,065,023	13,525,460	11,539,563
Special	1,599,217	330,731	2,365,923	(2,035,192)
Vocational	0	0	0	0
Other	174,187	297,997	257,697	40,300
Support Services:	0			
Pupil	918,429	168,755	1,358,748	(1,189,993)
Instructional Staff	1,065,330	129,933	1,576,077	(1,446,144)
General Administration	60,544	86,599	89,571	(2,972)
School Administration	1,800,807	644,615	2,664,161	(2,019,546)
Fiscal	488,866	375,358	723,241	(347,883)
Business	141,109	31,681	208,760	(177,079)
Operations and Maintenance	2,268,999	1,523,806	3,356,816	(1,833,010)
Pupil Transportation	1,108,750	482,214	1,640,314	(1,158,100)
Central	168,151	203,353	248,767	(45,414)
Operation of Non-Instructional Services	95,617	1	141,458	(141,457)
Extracurricular Activities	449,665	105,632	665,246	(559,614)
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	60,000	60,000	60,000	0
Interest and Fiscal Charges	(16,467)	4,404	4,404	0
Total Expenditures	19,525,573	29,510,102	28,886,643	623,459
Excess of Revenues Over (Under) Expenditures	8,107,564	(2,381,624)	(1,658,936)	722,688
Other financing sources (uses):				
Advances In	126,524	124,668	124,668	0
Advances (Out)	(61,164)	(15,000)	(90,487)	(75,487)
Transfers In	0	0	0	0
Transfers (Out)	0	0	0	0
Total Other Financing Sources (Uses)	65,360	109,668	34,181	(75,487)
Net Change in Fund Balance	8,172,924	(2,271,956)	(1,624,755)	647,201
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	2,641,863	2,641,863	2,641,863	0
Fund Balance End of Year	\$10,814,787	\$369,907	\$1,017,108	\$647,201

See accompanying notes to the required supplementary information.

KINGS LOCAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2004

1. 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 statements reflect 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 statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2004.

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 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual 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 and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
<i>Betty Montgomery</i>	(\$5,088,881)
or Revenue Accruals	2,242,433
or Expenditure Accruals	1,671,946
Encumbrances	<u>(450,253)</u>
Budget Basis	<u>(\$1,624,755)</u>

**KINGS LOCAL SCHOOL DISTRICT
WARREN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550	\$0	\$60,907	\$0	\$60,907
National School Breakfast Program	05-PU-03	10.553	2,641	0	2,641	0
	05-PU-04		7,262	0	7,262	0
National School Lunch Program	LL-P4-03	10.555	45,237	0	45,237	0
	LL-P4-04		103,368	0	103,368	0
Total U.S. Department of Agriculture - Nutrition Cluster			158,508	60,907	158,508	60,907
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B	6B-SF-04	84.027	438,568	0	446,677	0
Preschool Disability Grant	PG-S1-04	84.173	21,910	0	12,914	0
Total Special Education Cluster			460,478	0	459,591	0
Grants to Local Educational Agencies						
Targeted Assistance, Title 1	C1-S1-03/04	84.010	173,331	0	172,785	0
Title V, Innovative Programs	C2-S1-04	84.298	26,112	0	25,639	0
Title IV-SDFSC	DR-S1-03/04	84.186	21,737	0	15,149	0
Title II-D, Technology Fund	TJ-S1-04	84.318	3,065	0	777	0
Title II-A, Improving Teacher Quality	TR-S1-03/04	84.367	146,876	0	149,866	0
Total U.S. Department of Education			831,599	0	823,807	0
TOTAL FEDERAL ASSISTANCE			<u>\$990,107</u>	<u>\$60,907</u>	<u>\$982,315</u>	<u>\$60,907</u>

**KINGS LOCAL SCHOOL DISTRICT
WARREN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award 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 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.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Education:

We have audited the financial statements of the Kings Local School District, Warren County, Ohio (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated March 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 31, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 31, 2005.

Kings Local School District
Warren County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, Board of Education, and 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 black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 31, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Kings Local School District, Clinton County, Ohio (the District), 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, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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, 2004.

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 internal control over compliance in accordance with OMB Circular A-133.

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 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 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 for the information and use of the audit committee, management, the Board of Education, and 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 black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 31, 2005

**KINGS LOCAL SCHOOL DISTRICT
WARREN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2004**

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 material non-compliance 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 Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster CFDA : 84.027 and 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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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 10, 2005**