



**Auditor of State
Betty Montgomery**

**MT. HEALTHY CITY SCHOOL DISTRICT
HAMILTON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Mt. Healthy City School District
Hamilton County
7615 Harrison Avenue
Cincinnati, Ohio 45231

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Mt. Healthy City School District, Hamilton 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Mt. Healthy City School District, Hamilton County, Ohio, as of June 30, 2004, and the respective changes in financial position 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 January 10, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management Discussion and Analysis and respective budgetary comparison for the General fund are not a required part of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine 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.

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

Betty Montgomery
Auditor of State

January 10, 2006

MT. HEALTHY CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The discussion and analysis of Mt. Healthy City 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 basic financial statements and the notes to the financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$85,578 representing a 1.8% decrease from 2003.
- General revenues accounted for \$29,716,212 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,400,815 or 18% of total revenues of \$36,117,027.
- Total assets of governmental activities increased by \$782,190 as taxes receivable increased by \$878,793 while cash and other receivables increased by \$444,240.
- The District had \$36,202,605 in expenses related to governmental activities; \$6,400,815 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$29,716,212 were also used to provide for these programs.
- As the major fund, the General Fund had \$29,411,449 in revenues and \$29,111,926 in expenditures. The General Fund's balance increased from \$1,602,291 to \$1,718,958.

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 the *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The General Fund is the only major fund 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 overall financial position of the District is presented as Governmental Activities. The District's programs and services include instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major fund is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major fund. 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.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report contains required supplementary information concerning the budget of the General Fund.

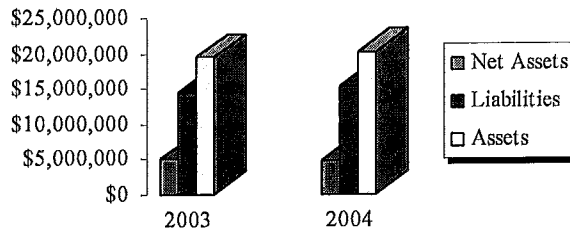
The District as a Whole

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

Table 1 provides a summary of the District’s net assets for 2004 compared to 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Assets		
Current and Other Assets	\$14,786,171	\$16,115,696
Capital Assets	<u>4,663,628</u>	<u>4,116,293</u>
Total Assets	<u>19,449,799</u>	<u>20,231,989</u>
Liabilities		
Long-Term Liabilities	1,553,656	1,731,071
Other Liabilities	<u>13,007,543</u>	<u>13,697,896</u>
Total Liabilities	<u>14,561,199</u>	<u>15,428,967</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	4,359,212	3,989,085
Restricted	196,309	383,279
Unrestricted	<u>333,079</u>	<u>430,658</u>
Total Net Assets	<u>\$4,888,600</u>	<u>\$4,803,022</u>



Over time, net assets can serve as a useful indicator of a government’s financial position. At June 30, 2004, the District’s net assets exceeded liabilities by \$4,803,022.

At year-end, capital assets represented 20% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$3,989,085. These capital assets are used to provide services to the students and are not available for future spending. Although the District’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The balance of unrestricted net assets of \$430,658 may be used to meet the District’s ongoing obligations to the students and creditors

Table 2 shows the change in net assets for fiscal year 2004 compared to 2003.

Table 2
Changes in Net Assets

	Governmental Activities	
	<u>2003 Restated</u>	<u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$1,114,825	\$1,563,679
Operating Grants	5,256,340	4,716,246
Capital Grants	75,959	120,890
General Revenue:		
Property Taxes	11,408,107	10,952,290
Grants and Entitlements	16,597,710	18,432,553
Other	<u>457,204</u>	<u>331,369</u>
Total Revenues	<u>34,910,145</u>	<u>36,117,027</u>
Program Expenses:		
Instruction	19,219,581	20,351,973
Support Services:		
Pupil and Instructional Staff	4,235,331	4,847,363
General and School Administration, Fiscal and Business	3,036,297	3,354,214
Operations and Maintenance	2,760,602	2,821,986
Pupil Transportation	1,697,987	1,774,402
Central	269,412	340,586
Operation of Non-instructional Services	1,725,734	1,806,115
Extracurricular Activities	739,003	885,274
Interest and Fiscal Charges	<u>23,768</u>	<u>20,692</u>
Total Expenses	<u>33,707,715</u>	<u>36,202,605</u>
Increase (decrease) in Net Assets	<u>\$1,202,430</u>	<u>(\$85,578)</u>

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes and grants and entitlements comprised 81% 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 30% of revenue for governmental activities for the District in fiscal year 2004.

Instruction comprises 56% of governmental program expenses. Support services expenses were 36% of governmental program expenses. All other expenses and interest expense was 8%. Interest expense was attributable to the outstanding bond. The increase in intergovernmental revenue is due to additional grants received by the District during fiscal year 2004. The decrease in tax revenue is a result of more taxes available for advance at the beginning of the year than at the end. Instruction and support service expenses increased due to wage increases.

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

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2003 Restated</u>	<u>2004</u>	<u>2003 Restated</u>	<u>2004</u>
Instruction	\$19,219,581	\$20,351,973	(\$16,310,730)	(\$17,058,006)
Support Services:				
Pupil and Instructional Staff	4,235,331	4,847,363	(2,823,596)	(3,135,406)
General and School Administration,				
Fiscal and Business	3,036,297	3,354,214	(2,897,201)	(3,124,789)
Operations and Maintenance	2,760,602	2,821,986	(2,678,026)	(2,727,837)
Pupil Transportation	1,697,987	1,774,402	(1,619,678)	(1,709,287)
Central	269,412	340,586	(243,704)	(302,934)
Operation of Non-Instructional Services	1,725,734	1,806,115	(144,270)	(1,484,044)
Extracurricular Activities	739,003	885,274	(519,618)	(238,795)
Interest and Fiscal Charges	<u>23,768</u>	<u>20,692</u>	<u>(23,768)</u>	<u>(20,692)</u>
Total Expenses	<u>\$33,707,715</u>	<u>\$36,202,605</u>	<u>(\$27,260,591)</u>	<u>(\$29,801,790)</u>

The District's Funds

Information about the District's major fund (General Fund) is presented in the Fund Financial Statements. The general fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$35,612,399 and expenditures and other financing uses of \$35,230,270. The net change in fund balance for the year was \$15,869 or 1%. The General Fund balance increased \$119,167 due to an increase in tuition and fees and intergovernmental 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; however, none of the amendments were significant. 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 \$29.70 million, the same as original budget estimates.

The District's ending unobligated cash balance was \$1.6 million.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$4,116,293 invested in land, buildings, and equipment. Table 4 shows fiscal 2004 balances compared to fiscal 2003:

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

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Land	\$359,151	\$359,151
Buildings and Improvements	3,235,500	2,853,483
Equipment	<u>1,068,977</u>	<u>903,659</u>
Total Net Assets	<u>\$4,663,628</u>	<u>\$4,116,293</u>

The decrease in capital assets is due to recognition of \$642,198 in depreciation, offset by \$94,863 in equipment purchases. This District continues its ongoing commitment to maintaining and improving its capital assets.

Debt

At June 30, 2004, the District had \$127,208 in general obligation bonds, \$127,208 due within one year. Table 5 summarizes outstanding debt at year end.

Table 5
Outstanding Debt, at Year End

	<u>Governmental Activities 2003 Restated</u>	<u>Governmental Activities 2004</u>
General Obligation Bonds:		
Energy Conservation	<u>\$249,392</u>	<u>\$127,208</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 Rebecca Brooks, Treasurer, Mt. Healthy City School District, 7615 Harrison Avenue, Cincinnati, Ohio 45231.

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Mount Healthy School District
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,089,074
Restricted Cash and Investments	372,192
Receivables:	
Taxes	12,525,938
Accounts	285,172
Intergovernmental	801,903
Inventory	41,417
Nondepreciable Capital Assets	359,151
Depreciable Capital Assets, Net	<u>3,757,142</u>
Total Assets	<u>20,231,989</u>
Liabilities:	
Accounts Payable	169,133
Accrued Wages and Benefits	4,648,345
Accrued Interest Payable	2,925
Deferred Revenue	8,877,493
Long-Term Liabilities:	
Due Within One Year	669,410
Due In More Than One Year	<u>1,061,661</u>
Total Liabilities	<u>15,428,967</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	3,989,085
Restricted for:	
Capital Projects	11,087
Set-Aside	372,192
Unrestricted	<u>430,658</u>
Total Net Assets	<u>\$4,803,022</u>

See accompanying notes to the basic financial statements.

Mount Healthy School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$13,877,750	\$768,341	\$1,298,937	\$86,350	(\$11,724,122)
Special	4,735,609	34,610	1,046,175	0	(3,654,824)
Vocational	144,093	0	15,930	0	(128,163)
Other	1,594,521	0	43,624	0	(1,550,897)
Support Services:					
Pupil	2,212,509	4,310	746,321	0	(1,461,878)
Instructional Staff	2,634,854	9,786	951,540	0	(1,673,528)
General Administration	103,486	0	0	0	(103,486)
School Administration	2,392,174	7,935	219,559	0	(2,164,680)
Fiscal	666,717	0	1,931	0	(664,786)
Business	191,837	0	0	0	(191,837)
Operations and Maintenance	2,821,986	93,666	483	0	(2,727,837)
Pupil Transportation	1,774,402	0	30,575	34,540	(1,709,287)
Central	340,586	0	37,652	0	(302,934)
Operation of Non-Instructional Services	1,806,115	0	322,071	0	(1,484,044)
Extracurricular Activities	885,274	645,031	1,448	0	(238,795)
Interest and Fiscal Charges	20,692	0	0	0	(20,692)
Total Governmental Activities	36,202,605	1,563,679	4,716,246	120,890	(29,801,790)

General Revenues:	
Property Taxes Levied for:	
General Purposes	10,807,917
Debt Service Purposes	144,373
Grants and Entitlements not Restricted to Specific Programs	18,432,553
Investment Earnings	36,902
Other Revenues	294,467
Total General Revenues	29,716,212
Change in Net Assets	(85,578)
Net Assets Beginning of Year (as restated)	4,888,600
Net Assets End of Year	\$4,803,022

See accompanying notes to the basic financial statements.

Mount Healthy School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	\$1,646,130	\$442,944	\$2,089,074
Restricted Cash and Investments	372,192	0	372,192
Receivables:			
Taxes	12,525,938	0	12,525,938
Accounts	281,348	3,824	285,172
Intergovernmental	0	801,903	801,903
Interfund	526,779	66,301	593,080
Inventory	0	41,417	41,417
Total Assets	15,352,387	1,356,389	16,708,776
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	89,903	79,230	169,133
Accrued Wages and Benefits	3,663,049	747,238	4,410,287
Compensated Absences	155,439	0	155,439
Interfund Payable	2,500	590,580	593,080
Deferred Revenue	9,722,538	347,427	10,069,965
Total Liabilities	13,633,429	1,764,475	15,397,904
Fund Balances:			
Reserved for Encumbrances	346,575	311,321	657,896
Reserved for Inventory	0	41,417	41,417
Reserved for Property Tax Advances	2,803,400	0	2,803,400
Reserved for Set-Aside	372,192	0	372,192
Unreserved, Undesignated, Reported in:			
General Fund	(1,803,209)	0	(1,803,209)
Special Revenue Funds	0	(730,386)	(730,386)
Capital Projects Funds	0	(30,438)	(30,438)
Total Fund Balances	1,718,958	(408,086)	1,310,872
Total Liabilities and Fund Balances	\$15,352,387	\$1,356,389	\$16,708,776

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balance		\$1,310,872
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.		4,116,293
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	845,045	
Intergovernmental	<u>347,427</u>	
		1,192,472
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.		(2,925)
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	(238,058)	
Compensated Absences	<u>(1,448,424)</u>	
		(1,686,482)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(127,208)</u>
Net Assets of Governmental Activities		<u><u>\$4,803,022</u></u>

See accompanying notes to the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$9,962,871	\$144,374	\$10,107,245
Tuition and Fees	837,360	0	837,360
Investment Earnings	34,003	2,899	36,902
Intergovernmental	18,510,717	4,913,485	23,424,202
Extracurricular Activities	8,948	144,157	153,105
Charges for Services	14,542	454,517	469,059
Other Revenues	43,008	355,614	398,622
Total Revenues	29,411,449	6,015,046	35,426,495
Expenditures:			
Current:			
Instruction:			
Regular	12,514,575	956,048	13,470,623
Special	3,448,284	1,218,070	4,666,354
Vocational	135,508	8,515	144,023
Other	1,594,165	356	1,594,521
Support Services:			
Pupil	1,427,629	662,046	2,089,675
Instructional Staff	1,580,579	1,007,481	2,588,060
General Administration	103,486	0	103,486
School Administration	2,219,874	125,717	2,345,591
Fiscal	652,299	11,982	664,281
Business	190,796	0	190,796
Operations and Maintenance	2,725,517	76,045	2,801,562
Pupil Transportation	1,702,981	39,385	1,742,366
Central	300,324	40,202	340,526
Operation of Non-Instructional Services	34,656	1,675,960	1,710,616
Extracurricular Activities	481,253	229,791	711,044
Capital Outlay	0	109,925	109,925
Debt Service:			
Principal Retirement	0	122,184	122,184
Interest and Fiscal Charges	0	17,767	17,767
Total Expenditures	29,111,926	6,301,474	35,413,400
Excess of Revenues Over (Under) Expenditures	299,523	(286,428)	13,095
Other Financing Sources (Uses):			
Proceeds from Sale of Equipment	274	2,500	2,774
Transfers In	0	183,130	183,130
Transfers (Out)	(183,130)	0	(183,130)
Total Other Financing Sources (Uses)	(182,856)	185,630	2,774
Net Change in Fund Balance	116,667	(100,798)	15,869
Fund Balance Beginning of Year (as restated)	1,602,291	(307,288)	1,295,003
Fund Balance End of Year	\$1,718,958	(\$408,086)	\$1,310,872

See accompanying notes to the basic financial statements.

Mount Healthy 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 \$15,869

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	94,863	
Depreciation Expense	<u>(642,198)</u>	(547,335)

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

Delinquent Property Taxes	845,045	
Intergovernmental	<u>(154,513)</u>	690,532

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 122,184

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. (2,925)

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	(41,863)	
Compensated Absences	<u>(322,040)</u>	(363,903)

Change in Net Assets of Governmental Activities (\$85,578)

See accompanying notes to the basic financial statements.

Mount Healthy School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$1,262	\$30,883
Total Assets	<u>1,262</u>	<u>\$30,883</u>
Liabilities:		
Accounts Payable	0	1,757
Other Liabilities	0	29,126
Total Liabilities	<u>0</u>	<u>\$30,883</u>
Net Assets:		
Held in Trust	<u>1,262</u>	
Total Net Assets	<u>\$1,262</u>	

See accompanying notes to the basic financial statements.

Mount Healthy School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
Additions:	
Other	1,262
Total Additions	1,262
Deductions:	
Other	0
Total Deductions	0
Change in Net Assets	1,262
Net Assets Beginning of Year	0
Net Assets End of Year	\$1,262

See accompanying notes.

**MT. HEALTHY CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

1. DESCRIPTION OF THE DISTRICT

The Mt. Healthy City School District (the District) was chartered by the Ohio State Legislature in 1832 when state laws were enacted to create local Boards of Education. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by approximately 89 support staff personnel and approximately 294 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District is the 10th largest in Hamilton County in terms of enrollment. It currently operates 6 elementary schools, 2 middle schools (grades 7-8), and 1 high school (grades 9-12).

The District is associated with three organizations, two of which are defined as jointly governed organizations, and one as an insurance purchasing pool. These organizations are the Hamilton/Clermont Cooperative Association, the Great Oaks Institute of Technology Joint Vocational School, and the Ohio School Boards Association Workers' Compensation Group Rating Plan.

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.

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 after November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. 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.

Fiduciary funds (except Agency) 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 is the District's major governmental fund:

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.

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. Private purpose 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 trust fund is a private purpose trust which accounts for scholarship programs for students.

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. Fiduciary funds 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. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. 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. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits are reported at cost.

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 \$36,902.

INVENTORY

Inventories are presented at a first-in, first-out basis and are expensed when used. Inventory consists of food held for resale and consumable supplies.

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.

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 one thousand dollars (\$1,000). 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>	Governmental Activities <u>Estimated Lives</u>
Buildings and Improvements	5-30 years
Furniture, Fixtures, and Equipment	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 termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

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

For governmental fund financial statements, the expenditures for compensated absences are recognized when paid, or in the case of termination benefits, when due for payment. These amounts due at year end are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificate</u>
How earned	Not Eligible	15-20 days service at start of each contract year	10-20 days for each year depending on length of service
Maximum Accumulation	Not Applicable	Unlimited	Unlimited
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	Paid upon Termination	Paid upon Termination
<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificate</u>
How Earned	1-1/2 days per month of employment (18 days per year)	1-1/2 days per month of employment (18 days per year)	1-1/2 days per month of employment (18 days per year)
Maximum Accumulation	265 days	265 days	265 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

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.

INTERFUND ACTIVITY

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 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 government wide 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, inventory, property tax advances and budgetary set-asides. 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

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet 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 \$908,811. The bank balance of deposits was \$1,390,846 of which \$200,000 was covered by federal depository insurance. The remaining balance was covered by 105% 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	\$1,584,600
Total Investments	\$0	\$0	\$0	\$1,584,600

*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 110% 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 Hamilton 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 of the fiscal year end are included as a receivable and tax revenue on the fund financial statements. All delinquent property taxes outstanding at June 30, 2004 are recognized as a revenue and receivable on the government-wide financial statements. 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 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 \$2,803,400 for General 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. The amount available for advance at June 30, 2003 was \$3,460,800 for General Fund, with a corresponding reserve to fund balance since the Board did not appropriate those receivables for fiscal year 2003 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	\$269,886,230
Public Utility Personal	14,466,410
Tangible Personal Property	<u>13,589,690</u>
Total	<u>\$297,942,330</u>

6. RECEIVABLES

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

A list of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Auxiliary Services	\$59
Miscellaneous State Grants	101,695
Special Education	425,156
Title I	118,086
Title V Innovative Projects	10,219
Drug Free Schools	39,685
Improving Teacher Quality	105,297
Miscellaneous Federal Grants	<u>1,706</u>
Total	<u>\$801,903</u>

7. CAPITAL ASSETS

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

	Restated Beginning Balance	Additions	Deductions	Ending Balance
Government Activities				
<i>Nondepreciable Capital Assets:</i>				
Land	<u>\$359,151</u>	<u>\$0</u>	<u>\$0</u>	<u>\$359,151</u>
Total Nondepreciable Capital Assets	<u>359,151</u>	<u>0</u>	<u>0</u>	<u>359,151</u>
<i>Depreciable Capital Assets:</i>				
Buildings and Improvements	12,598,042	0	0	12,598,042
Equipment	<u>5,546,533</u>	<u>94,863</u>	<u>0</u>	<u>5,641,396</u>
Total Depreciable Capital Assets	<u>18,144,575</u>	<u>94,863</u>	<u>0</u>	<u>18,239,438</u>
<i>Accumulated Depreciation:</i>				
Buildings and Improvements	9,362,542	382,017	0	9,744,559
Equipment	<u>4,477,556</u>	<u>260,181</u>	<u>0</u>	<u>4,737,737</u>
Total Accumulated Depreciation	<u>13,840,098</u>	<u>642,198</u>	<u>0</u>	<u>14,482,296</u>
Depreciable Capital Assets, Net	<u>4,304,477</u>	<u>(547,335)</u>	<u>0</u>	<u>3,757,142</u>
Governmental Activities Capital Assets, Net	<u>\$4,663,628</u>	<u>(\$547,335)</u>	<u>\$0</u>	<u>\$4,116,293</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$307,382
Special	26,124
Support Services:	
Pupil	1,298
Instructional Staff	10,618
School Administration	71,223
Fiscal	876
Operations and Maintenance	14,051
Pupil Transportation	16,618
Operation of Non-Instructional Services	24,599
Extracurricular Activities	<u>169,409</u>
Total Depreciation Expense	<u>\$642,198</u>

8. LONG-TERM LIABILITIES

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>								
<u>General Obligation Bonds:</u>								
Energy Conservation	5.35%	7/27/95	07/01/05	<u>\$249,392</u>	<u>\$0</u>	<u>\$122,184</u>	<u>\$127,208</u>	<u>\$127,208</u>
Total General Obligation Bonds				249,392	0	122,184	127,208	127,208
Compensated Absences				<u>1,304,264</u>	<u>819,798</u>	<u>520,199</u>	<u>1,603,863</u>	<u>542,202</u>
Total Governmental Activities Long-Term Liabilities				<u>\$1,553,656</u>	<u>\$819,798</u>	<u>\$642,383</u>	<u>\$1,731,071</u>	<u>\$669,410</u>

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.

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

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$127,208	\$3,896	\$131,104

9. 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 \$696,888, \$651,012, and \$611,700 respectively; 96% has been contributed for fiscal year 2004 and 100% for fiscal years 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, or by visiting STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 \$2,152,065, \$2,227,956, and \$2,215,896 respectively; 96% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$86,082 represents the unpaid contribution for fiscal year 2004.

10. 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 District, this amount equaled \$691,732 during the 2004 fiscal year.

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 \$425,709,000 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 fiscal year 2004, the minimum pay was established at \$24,500.

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.

11. 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.

12. 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 the fiscal year, Indiana Insurance Company provided property insurance to the District. The Ohio Plan provides liability insurance coverage with a \$3,000,000 aggregate limit to all employees and volunteers of the District.

All vehicles are insured by Nationwide Insurance Company and hold a \$250 deductible for comprehensive and collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past ten years.

The District carries performance bonds in the amount of \$50,000 for the Superintendent, Treasurer and Board President by Cincinnati Insurance Company. The Indiana Insurance Company also maintains a \$5,000 public officials blanket bond for all employees. The District pays the Ohio State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The District provides a minimum of \$45,000 life insurance and accidental death and dismemberment insurance policy to all employees through Union Central Life Insurance Co.

The District offers medical/surgical/hospitalization insurance benefits to all employees through Choice Care, which is a Health Care Maintenance Organization. The Board pays the monthly fixed premium for family or single benefits.

13. 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.

14. JOINTLY GOVERNED ORGANIZATIONS

The Hamilton/Clermont Cooperative Association (HCCA) is a computer service organization whose primary function is to provide information technology services to its members. Currently, the District along with 31 other member school districts in the Ohio counties of Hamilton and Clermont are participants. The Association 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 districts. The governing board of HCCA consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. Each of the schools support HCCA based upon a per pupil charge dependent upon the software package utilized. Financial information can be obtained from their fiscal agent, the Hamilton County Education Service Center, Donald Rabe who serves as Treasurer, at 11083 Hamilton Avenue, Cincinnati, Ohio 45231.

Great Oaks Institute of Technology Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a board consisting of eleven representatives from the various city and county boards within Hamilton County, which possesses its own budgeting and taxing authority. To obtain financial information write to the Great Oaks Institute of Technology Joint Vocational School, John Wahle who serves as Treasurer, at 3254 East Kemper Road, Cincinnati, Ohio 45241.

15. COMPLIANCE AND ACCOUNTABILITY

Compliance

Ohio Revised Code Section 5705.39, requires the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The District did not certify appropriation amounts to County Auditor for the 2004 fiscal year.

Ohio Revised Code Section 5705.41D states that no contracts or orders involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. During the year certain expenditures were not properly encumbered prior to incurring the obligation. Failure to properly certify funds could result in overspending funds.

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. At June 30, 2004, the District's disbursements plus encumbrances exceeded appropriations in the following funds: Public School Support, Student Activities, EMIS, Miscellaneous State Grants, School Net, and Food Services.

Accountability

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

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
District Managed Activity	\$23,393
Management Information Systems	4,984
Disadvantaged Pupil Impact Aid	316,973
SchoolNet Professional Development	692
Miscellaneous State Grants	4,472
Special Education	107,417
Title I	140,678
Drug Free Schools	30,318
Improving Teacher Quality	60,746
Permanent Improvement	169

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

16. 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.

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>	<u>Budget Stabilization Reserve</u>
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0	\$168,887
Current Year Set-aside Requirement	531,266	531,266	0
Qualified Disbursements	<u>(327,961)</u>	<u>(558,267)</u>	<u>0</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$203,305</u>	<u>\$ 0</u>	<u>\$168,887</u>
Restricted Cash as of June 30, 2004	<u>\$203,305</u>		<u>\$168,887</u>

Expenditures for instructional materials activity during the year totaled \$327,961.

Expenditures for capital activity during the year totaled \$558,267, which exceeded the amount required for the set-aside.

Senate Bill 345 eliminated the Budget Stabilization Reserve, except the amounts related to unspent Bureau of Workers' Compensation refunds. The Bill stipulates that the Board of Education can retain the reserve account or use the reserve for specifically discretionary purposes.

17. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2004, consisted of the following individual fund receivables and payables:

<u>Fund Type/Fund</u>	Interfund Loan		Interfund Loan	
	<u>Receivable</u>	<u>Transfers In</u>	<u>Payable</u>	<u>Transfers Out</u>
General Fund	\$526,779	\$ 0	\$ 0	\$183,130
Special Revenue:				
Public School	321	0	834	0
District Managed Activity	4,066	0	30,876	0
Auxiliary Services	0	0	14,280	0
SchoolNet Professional Development	0	0	142	0
Management Information Systems	0	123,716	0	0
Miscellaneous State Grants	0	0	95,850	0
Special Education	0	0	334,533	0
Title I	0	0	24,470	0
Title V Innovative Projects	0	0	2,851	0
Drug Free Schools	0	0	33,910	0
Improving Teacher Quality	0	0	45,448	0
Food Service	0	0	7,386	0
Special Enterprises	<u>59,414</u>	<u>59,414</u>	<u>0</u>	<u>0</u>
Total All Funds	<u>\$590,580</u>	<u>\$183,130</u>	<u>\$590,580</u>	<u>\$183,130</u>

All balances resulted from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

18. PRIOR PERIOD ADJUSTMENT

The District reclassified the enterprise funds as special revenue funds because the funds did not operate like a business. The funds required operating grants and transfers from other funds to avoid operating losses.

The beginning net asset/fund balances of district-wide and fund financial statements have been adjusted for the reclassification of enterprise funds, correction to long-term liabilities and correction to the capital assets detail as follows:

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	Other <u>Governmental</u>	<u>Enterprise</u>
June 30, 2003 Fund Balance/ Net Assets, as previously stated	\$4,720,442	\$189,490	(\$334,427)	\$189,490
Enterprise Fund Reclassification	189,490	(189,490)	27,139	(189,490)
Capital Assets	13,348	0	0	0
Long-Term Liabilities	20,344	0	0	0
Compensated Absences	<u>(55,024)</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2003 Fund Balance/ Net Assets, as restated	<u>\$4,888,600</u>	<u>\$0</u>	<u>(\$307,288)</u>	<u>\$0</u>

The District reclassified the enterprise funds to special revenue funds because the enterprise funds do not operate like a business. The enterprise funds relied on grants and transfers from the general fund to break even.

Mount Healthy 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	\$10,596,318	\$10,596,318	\$10,620,271	\$23,953
Tuition and Fees	577,345	577,345	578,650	1,305
Investment Earnings	31,808	31,808	31,880	72
Intergovernmental	18,468,968	18,468,968	18,510,717	41,749
Extracurricular Activities	0	0	0	0
Other Revenues	30,557	30,557	30,626	69
Total Revenues	29,704,996	29,704,996	29,772,144	67,148
Expenditures:				
Current:				
Instruction:				
Regular	12,347,253	12,347,253	12,715,146	(367,893)
Special	3,372,161	3,372,161	3,472,636	(100,475)
Vocational	132,151	132,151	136,089	(3,938)
Other	1,531,681	1,531,681	1,577,318	(45,637)
Support Services:				
Pupil	1,392,222	1,392,222	1,433,704	(41,482)
Instructional Staff	1,544,809	1,544,809	1,590,837	(46,028)
General Administration	107,640	107,640	110,847	(3,207)
School Administration	2,124,940	2,124,940	2,188,254	(63,314)
Fiscal	644,516	644,516	663,720	(19,204)
Business	179,912	179,912	185,273	(5,361)
Operations and Maintenance	2,842,616	2,842,616	2,927,313	(84,697)
Pupil Transportation	1,680,311	1,680,311	1,730,377	(50,066)
Central	314,278	314,278	323,642	(9,364)
Operation of Non-Instructional Services	34,278	34,278	35,299	(1,021)
Extracurricular Activities	466,608	466,608	480,511	(13,903)
Total Expenditures	28,715,376	28,715,376	29,570,966	(855,590)
Excess of Revenues Over (Under) Expenditures	989,620	989,620	201,178	(788,442)
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	273	273	274	1
Advances In	185,652	185,652	186,072	420
Advances (Out)	(538,891)	(538,891)	(554,948)	(16,057)
Transfers (Out)	(177,831)	(177,831)	(183,130)	(5,299)
Total Other Financing Sources (Uses)	(530,797)	(530,797)	(551,732)	(20,935)
Net Change in Fund Balance	458,823	458,823	(350,554)	(809,377)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,950,400	1,950,400	1,950,400	0
Fund Balance End of Year	\$2,409,223	\$2,409,223	\$1,599,846	(\$809,377)

See accompanying notes to the required supplementary information.

MT. HEALTHY CITY 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 set 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 School 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 Budgetary 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 (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

GAAP Basis	\$116,667
Net Adjustment for Revenue Accruals	546,767
Net Adjustment for Expenditure Accruals	(618,034)
Encumbrances	<u>(395,954)</u>
Budget Basis	<u>(\$350,554)</u>

**MT. HEALTHY CITY SCHOOL DISTRICT
HAMILTON 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	N/A	10.550		\$132,581		\$132,581
National School Breakfast Program	05-PU	10.553	139,741		139,741	
National School Lunch Program	LL-P4	10.555	609,557		609,557	
Child/Adult Food Program	21-FP	10.558	5,117		5,117	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>754,415</u>	<u>132,581</u>	<u>754,415</u>	<u>132,581</u>
<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	84.027	369,184		657,462	
Special Education - Preschool Grant	PG-S1	84.173	34,901		19,247	
Total Special Education Cluster			<u>404,085</u>	<u>0</u>	<u>676,709</u>	<u>0</u>
Grants to Local Educational Agencies (ESEA Title I)	C1-S1	84.010	919,200		922,596	
Drug-Free Schools Grant	DR-S1	84.186	14,449		48,184	
Innovative Education Program Grant	C2-S1	84.298	7,053		2,026	
Title II-D Technology	TJ-S1	84.318	20,924		21,343	
Comprehensive School Reform Demonstration Grant (Title I, Part F and Title V, Part D)	TJ-S1	84.332	187,058		161,114	
Assistive Technology Grant	AT-S2	84.352A	1,820		1,738	
Title II-A Improving Teacher Quality	TR-S1	84.367	219,875		277,377	
Total Department of Education			<u>1,774,464</u>	<u>0</u>	<u>2,111,087</u>	<u>0</u>
<u>U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Payments -- Title XIX (Community Alternative Financing System)	nn-n1	93.778	144,308		144,308	
Total U.S. Department of Mental Retardation and Developmental Disabilities			<u>144,308</u>	<u>0</u>	<u>144,308</u>	<u>0</u>
Totals			<u><u>\$2,673,187</u></u>	<u><u>\$132,581</u></u>	<u><u>\$3,009,810</u></u>	<u><u>\$132,581</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**MT. HEALTHY CITY SCHOOL DISTRICT
HAMILTON COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (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 non-monetary 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.



**Auditor of State
Betty Montgomery**

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

Mt. Healthy City School District
Hamilton County
7615 Harrison Avenue
Cincinnati, Ohio 45231

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Healthy City School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001 through 2004-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

In a separate letter to the District's management dated January 10, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2004-001 to 2004-004.

In a separate letter to the District's management dated January 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 10, 2006



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

Mt. Healthy City School District
Hamilton County
7615 Harrison Avenue
Cincinnati, Ohio 45231

To the Board of Education:

Compliance

We have audited the compliance of the Mt. Healthy City School District, Hamilton 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 apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that OMB A-133 requires us to report.

Internal Control Over Compliance

The District's management 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, and regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 10, 2006

**MT. HEALTHY CITY SCHOOL DISTRICT
HAMILTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA# 84.010 Title I CFDA# 84.027 and 84.173 Special Education Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

Material Noncompliance/Reportable Condition

Also, **Ohio Rev. Code, Section 149.351**, provides that no public records shall be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the Records Commission provided for under Ohio Rev. Code Sections 149.38 to 149.42.

For the 2004 school year, the District did not initially provide certain ledgers and documents required to perform an audit. The District never provided expenditure ledgers for the House Bill 412 reserve set aside amounts. The District was declared "unauditable" for audit by the Auditor of State in November 2004, and submitted the ledgers, documents and financial statements for audit in September 2005.

We recommend the Treasurer prepare and submit financial statements to the Auditor of State by the required date, and provide all information for audit as requested by the Auditor of State's Office in a timely manner.

FINDING NUMBER 2004-002

Material Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.39, provides the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The District did not certify appropriation amounts to County Auditor for the 2004 fiscal year.

At June 30, 2004, appropriations exceeded estimated resources in the Ohio Reads (459) and Rotary Fund (014) by \$19,482 and \$19,259 respectively.

Not properly monitoring budgetary activity in a timely manner could lead to inaccurate financial reporting and could adversely affect management's decisions. Therefore, we recommend that the District periodically review and update budgetary activity in a timely manner.

FINDING NUMBER 2004-003

Material Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.41 (B), requires that “no subdivision or taxing unit is to expend money unless it has been properly appropriated.” At June 30, 2004, six instances were noted where disbursements exceeded appropriations:

Fund	Appropriation Amount	Disbursement Amount	Variance
Public School Support – 018	\$74,916	\$113,164	(\$38,248)
Student Activities - 300	97,460	116,699	(19,239)
EMIS – 432	125,000	137,382	(12,382)
Misc. State Grants - 499	3,005	162,162	(159,157)
School Net - 450	0	168,568	(168,568)
Food Services - 006	1,212,124	1,228,374	(16,250)

The District should monitor disbursements and outstanding encumbrances and amend the annual appropriations if necessary to avoid spending violations.

FINDING NUMBER 2004-004

Material Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.41 (D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

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

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

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

**FINDING NUMBER 2004-004
(Continued)**

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

The availability of funds was not certified in 25% of the District's expenditures tested, nor did the District use the aforementioned exceptions. Every effort should be made by the District to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending the District's funds.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improved controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the Clerk certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**MT. HEALTHY CITY SCHOOL DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	ORC 5705.39 appropriations in excess of estimated resources.	No	Reissued as finding 2004-002.
2003-002	ORC 5705.41(B) disbursements in excess of appropriations.	No	Reissued as finding 2004-003.
2003-003	ORC 5705.09 Negative Fund Balances.	Yes	



**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

**MT. HEALTHY CITY SCHOOL DISTRICT
HAMILTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 9, 2006**