



**Auditor of State
Betty Montgomery**

**HUBER HEIGHTS CITY SCHOOL DISTRICT
MONTGOMERY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management Discussion and Analysis For Fiscal Year Ended June 30, 2004	3
Statement of Net Assets - June 30, 2004	12
Statement of Activities – For the Fiscal Year Ended June 30, 2004	13
Balance Sheet – Governmental Funds June 30, 2004	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – June 30, 2004	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended June 30, 2004.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances Of Governmental Funds to the Statement of Activities for the Fiscal Year Ended June 30, 2004	17
Statement of Revenues, Expenses and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund For the Fiscal Year Ended June 30, 2004	18
Statement of Net Assets – Fiduciary Funds June 30, 2004	20
Statement of Changes in Net Assets – Fiduciary Funds For the Fiscal Year Ended June 30, 2004	21
Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004	22
Schedule of Federal Awards Expenditures For the Year Ended June 30, 2004.....	45
Notes to the Schedule of Federal Awards Expenditures For the Year Ended June 30, 2004	47
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	49
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	51
Schedule of Findings.....	53
Schedule of Prior Audit Findings.....	54

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Huber Heights City School District
Montgomery County
5954 Longford Road
Huber Heights, Ohio 45424

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 Huber Heights City School District, Montgomery County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Huber Heights City School District, Montgomery County, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is presented for additional analysis and is 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

March 23, 2005

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

The discussion and analysis of Huber Heights 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 financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$2,022,601, which represents a 7% decrease from 2003.
- General revenues accounted for \$51,446,057 in revenue or 89% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,299,062 or 11% of total revenues of \$57,745,119.
- The District had \$59,767,720 in expenses related to governmental activities; only \$6,299,062 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$51,446,057 were adequate to provide for these programs.
- The District's only major fund, the general fund, had \$51,082,075 in revenues and \$52,759,891 in expenditures. The general fund's fund balance decreased \$1,676,991 to \$9,412,534. This decrease can be attributed to large increases in expenditures for instruction.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. The Government-Wide Financial Statements – These statements provide both long-term and short-term information about the District's overall financial status.
2. The Fund Financial Statements – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category for its activities:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

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.

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2004 compared to 2003.

	Governmental Activities		Increase (Decrease)
	2004	2003	
Current and other assets	\$43,159,195	\$42,359,993	\$799,202
Capital assets, Net	<u>18,514,726</u>	<u>19,085,113</u>	<u>(570,387)</u>
Total assets	61,673,921	61,445,106	228,815
Long-term debt outstanding	3,338,886	3,576,504	(237,618)
Other liabilities	<u>29,343,858</u>	<u>26,854,824</u>	<u>2,489,034</u>
Total liabilities	<u>32,682,744</u>	<u>30,431,328</u>	<u>2,251,416</u>
Net assets			
Invested in capital assets, net of related debt	17,512,383	17,757,862	(245,479)
Restricted	2,556,327	3,026,954	(470,627)
Unrestricted	<u>8,922,467</u>	<u>10,228,962</u>	<u>(1,306,495)</u>
Total net assets	<u><u>\$28,991,177</u></u>	<u><u>\$31,013,778</u></u>	<u><u>(\$2,022,601)</u></u>

This space intentionally left blank.

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Revenues			
Program revenues:			
Charges for Services and Sales	\$3,110,468	\$2,780,695	\$329,773
Operating Grants and Contributions	3,042,844	3,805,137	(762,293)
Capital Grants and Contributions	145,750	0	145,750
General revenues:			
Property Taxes	23,211,970	22,121,074	1,090,896
Grants and Entitlements	27,802,274	25,782,928	2,019,346
Other	431,813	346,431	85,382
Loss on Disposal of Capital Asset	0	(412,360)	412,360
Total revenues	<u>57,745,119</u>	<u>54,423,905</u>	<u>3,321,214</u>
Program Expenses			
Instruction	37,071,689	32,320,245	4,751,444
Support Services:			
Pupils	2,522,645	2,351,115	171,530
Instructional Staff	3,175,107	2,309,425	865,682
Board of Education	22,551	15,574	6,977
Administration	3,399,074	2,881,146	517,928
Fiscal Services	862,962	878,753	(15,791)
Business	521,723	662,162	(140,439)
Operation and Maintenance of Plant	5,406,828	5,420,435	(13,607)
Pupil Transportation	2,698,359	2,285,908	412,451
Central	559,358	570,205	(10,847)
Operation of Non-Instructional:			
Food Service Operations	2,098,683	2,052,684	45,999
Community Services	532,292	627,022	(94,730)
Extracurricular Activities	867,299	801,346	65,953
Debt Service:			
Interest and Fiscal Charges	29,150	38,490	(9,340)
Total expenses	<u>59,767,720</u>	<u>53,214,510</u>	<u>6,553,210</u>
Total Change in Net Assets	<u>(2,022,601)</u>	<u>1,209,395</u>	<u>(3,231,996)</u>
Beginning Net Assets	<u>31,013,778</u>	<u>29,804,383</u>	<u>1,209,395</u>
Ending Net Assets	<u><u>\$28,991,177</u></u>	<u><u>\$31,013,778</u></u>	<u><u>(\$2,022,601)</u></u>

HUBER HEIGHTS CITY SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

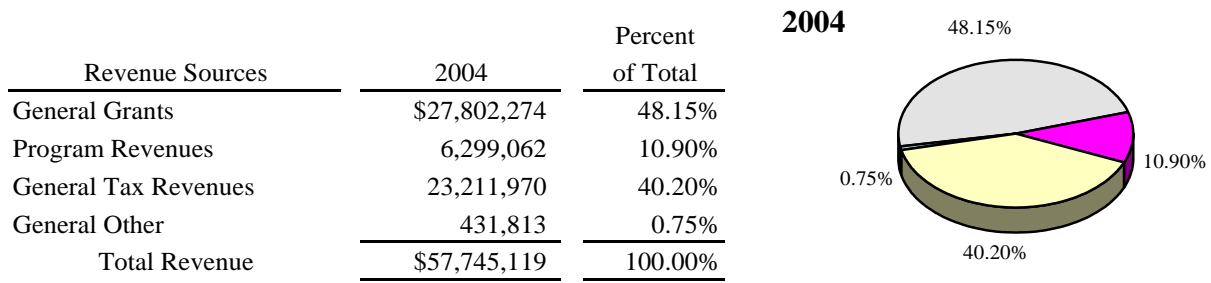
Unaudited

Governmental Activities

Although the District reported large increases in charges for services, property taxes and grant monies, overall, the net assets of the District's governmental activities decreased by \$2,022,601. This was due mainly to large increases in expenditures for instruction and administration. These increases were the result of the hiring of additional staff as well as salary increases.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the 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.

Property taxes made up 40% of revenues for governmental activities for Huber Heights City Schools in fiscal year 2004. The District's reliance upon tax revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$11,795,162, which is below last year's total of \$13,489,911. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)
General	\$9,412,534	\$11,089,525	(\$1,676,991)
Other Governmental	2,382,628	2,400,386	(17,758)
Total	\$11,795,162	\$13,489,911	(\$1,694,749)

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

General Fund – The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2004 Revenues	2003 Revenues	Increase (Decrease)
Taxes	\$22,055,339	\$20,731,886	\$1,323,453
Tuition	272,786	234,027	38,759
Transportation Fees	429,107	230,919	198,188
Investment Earnings	300,951	261,660	39,291
Extracurricular Activities	106,460	102,500	3,960
Class Materials and Fees	22,184	19,204	2,980
Intermediate Sources	203,539	200,118	3,421
Intergovernmental - State	27,475,028	26,221,737	1,253,291
Intergovernmental - Federal	90,539	57,182	33,357
All Other Revenue	126,142	82,043	44,099
Total	\$51,082,075	\$48,141,276	\$2,940,799

General Fund revenues in 2004 increased approximately 6% compared to revenues in fiscal year 2003. The primary factors contributing to this increase include increases in tax revenue and state grant monies received. The increase in tax revenue can be attributed to the passing of a replacement levy in fiscal 2003.

	2004 Expenditures	2003 Expenditures	Increase (Decrease)
Instruction	\$34,402,742	\$30,301,862	\$4,100,880
Supporting Services:			
Pupils	2,296,254	2,249,244	47,010
Instructional Staff	2,177,183	1,960,035	217,148
Board of Education	21,428	14,047	7,381
Administration	3,281,808	3,334,407	(52,599)
Fiscal Services	854,254	879,669	(25,415)
Business	520,510	685,962	(165,452)
Operation & Maintenance of Plant	5,403,289	5,516,617	(113,328)
Pupil Transportation	2,548,477	2,232,279	316,198
Central	482,466	468,176	14,290
Extracurricular Activities	551,043	517,741	33,302
Debt Service			
Principal Retirement	191,287	187,259	4,028
Interest and Fiscal Charges	29,150	38,490	(9,340)
Total	\$52,759,891	\$48,385,788	\$4,374,103

HUBER HEIGHTS CITY SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

Unaudited

The expenditures increased by \$4,374,103 or 9% compared to the prior year mostly due to a significant increase in instruction. This increase in instruction was the result of the hiring of additional teachers as well as salary increases.

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

During the course of fiscal year 2004 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue was \$51.5 million, which was higher than original budget estimates of \$49.0 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 the District had \$18,514,726 net of accumulated depreciation invested in land, buildings, equipment and vehicles. The following table shows fiscal year 2003 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$947,173	\$947,173	\$0
Land Improvements	1,123,724	1,123,724	0
Buildings and Improvements	23,910,346	23,910,346	0
Machinery and Equipment	9,450,834	9,361,805	89,029
Less: Accumulated Depreciation	(16,917,351)	(16,257,935)	(659,416)
Totals	<u>\$18,514,726</u>	<u>\$19,085,113</u>	<u>(\$570,387)</u>

The primary increase occurred in machinery and equipment, which was the result of the purchase and disposal of school buses.

Additional information on the District's capital assets can be found in Note 6.

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

Debt

At June 30, 2004, the District had \$3.3 million in notes, leases and compensated absences outstanding, \$323,756 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2004:

	<u>2004</u>	<u>2003</u>
Governmental Activities:		
Energy Conservation Note:		
School Improvement	\$467,852	\$659,139
Capital Leases Payable	534,491	668,112
Compensated Absences	<u>2,336,543</u>	<u>2,249,253</u>
Totals	<u><u>\$3,338,886</u></u>	<u><u>\$3,576,504</u></u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2004, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 8.

ECONOMIC FACTORS

The District is strong financially, but with the passage of HB 95 the District will receive less per student than originally budgeted and with the increase in salaries and increased health care cost the District will face budget challenges in the up coming years.

The Huber Heights City School District receives approximately 58% of its funding from the State and Federal Government and the remaining 42% from local sources.

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-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.

In conclusion, the Huber Heights City School District has committed itself to financial excellence for many years.

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30,2004***

Unaudited

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Freda F. Ferguson, Huber Heights City School District.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Statement of Net Assets ***June 30,2004***

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 12,053,473
Investments	3,541,082
Receivables:	
Taxes	25,063,277
Accounts	83,630
Intergovernmental	727,683
Inventory of Supplies at Cost	427,270
Restricted Assets:	
Cash and Cash Equivalents	1,227,021
Cash with Fiscal Agent	35,759
Capital Assets, Net	18,514,726
Total Assets	61,673,921
Liabilities:	
Accounts Payable	535,269
Accrued Wages and Benefits	4,647,193
Intergovernmental Payable	1,911,807
Deferred Revenue - Taxes	22,069,323
Deferred Revenue	21,015
Compensated Absences Payable	159,251
Long Term Liabilities:	
Due Within One Year	323,756
Due in More Than One Year	3,015,130
Total Liabilities	32,682,744
Net Assets:	
Invested in Capital Assets, Net of Related Debt	17,512,383
Restricted For:	
Capital Projects	1,532,206
Debt Service	69,782
Other Purposes	954,339
Unrestricted	8,922,467
Total Net Assets	\$ 28,991,177

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY 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	\$ 37,071,689	\$ 643,449	\$ 447,950	\$ 145,750	\$ (35,834,540)
Support Services:					
Pupils	2,522,645	0	186,713	0	(2,335,932)
Instructional Staff	3,175,107	0	1,130,331	0	(2,044,776)
Board of Education	22,551	0	0	0	(22,551)
Administration	3,399,074	0	40,671	0	(3,358,403)
Fiscal Services	862,962	0	44,414	0	(818,548)
Business	521,723	0	0	0	(521,723)
Operation and Maintenance of Plant	5,406,828	0	0	0	(5,406,828)
Pupil Transportation	2,698,359	429,107	54,214	0	(2,215,038)
Central	559,358	0	718,794	0	159,436
Operation of Non-Instructional:					
Food Service Operations	2,098,683	1,424,223	419,757	0	(254,703)
Community Services	532,292	0	0	0	(532,292)
Extracurricular Activities	867,299	613,689	0	0	(253,610)
Debt Service:					
Interest and Fiscal Charges	29,150	0	0	0	(29,150)
Totals	<u>\$ 59,767,720</u>	<u>\$ 3,110,468</u>	<u>\$ 3,042,844</u>	<u>\$ 145,750</u>	<u>(53,468,658)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					22,471,476
Capital Outlay					740,494
Grants and Entitlements not Restricted to Specific Programs					27,802,274
Investment Earnings					302,280
Miscellaneous					129,533
Total General Revenues					<u>51,446,057</u>
Change in Net Assets					(2,022,601)
Net Assets Beginning of Year					<u>31,013,778</u>
Net Assets End of Year					<u>\$ 28,991,177</u>

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 9,349,285	\$ 2,704,188	\$ 12,053,473
Investments	3,541,082	0	3,541,082
Receivables:			
Taxes	24,244,643	818,634	25,063,277
Accounts	82,836	794	83,630
Intergovernmental	0	727,683	727,683
Interfund Loan Receivable	335,484	0	335,484
Inventory of Supplies at Cost	396,015	31,255	427,270
Restricted Assets:			
Cash and Cash Equivalents	1,227,021	0	1,227,021
Cash with Fiscal Agent	0	35,759	35,759
Total Assets	\$ 39,176,366	\$ 4,318,313	\$ 43,494,679
Liabilities:			
Accounts Payable	\$ 437,944	\$ 97,325	\$ 535,269
Accrued Wages and Benefits	4,424,386	222,807	4,647,193
Intergovernmental Payable	1,405,075	40,872	1,445,947
Interfund Loans Payable	0	335,484	335,484
Deferred Revenue - Taxes	23,338,692	851,665	24,190,357
Deferred Revenue	0	386,016	386,016
Compensated Absences Payable	157,735	1,516	159,251
Total Liabilities	29,763,832	1,935,685	31,699,517
Fund Balance:			
Reserved for Encumbrances	786,828	1,158,175	1,945,003
Reserved for Supplies Inventory	396,015	31,255	427,270
Reserved for Debt Service	0	69,782	69,782
Reserved for Property Taxes	905,951	33,031	938,982
Reserved for Endowments	0	113	113
Statutory Reserves	1,227,021	0	1,227,021
Unreserved, Undesignated in:			
General Fund	6,096,719	0	6,096,719
Special Revenue Funds	0	544,666	544,666
Capital Projects Funds	0	545,606	545,606
Total Fund Balance	9,412,534	2,382,628	11,795,162
Total Liabilities and Fund Balance	\$ 39,176,366	\$ 4,318,313	\$ 43,494,679

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
June 30, 2004***

Total Governmental Fund Balances	\$ 11,795,162
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	18,514,726
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	2,486,035
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,804,746)</u>
<i>Net Assets of Governmental Funds</i>	<u><u>\$ 28,991,177</u></u>

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 22,055,339	\$ 730,727	\$ 22,786,066
Tuition	272,786	1,640	274,426
Transportation Fees	429,107	0	429,107
Investment Earnings	300,951	1,329	302,280
Food Services	0	1,424,223	1,424,223
Extracurricular Activities	106,460	507,229	613,689
Class Materials and Fees	22,184	346,839	369,023
Intermediate Sources	203,539	3,000	206,539
Intergovernmental - State	27,475,028	979,764	28,454,792
Intergovernmental - Federal	90,539	2,613,935	2,704,474
All Other Revenue	126,142	3,391	129,533
Total Revenue	51,082,075	6,612,077	57,694,152
Expenditures:			
Current:			
Instruction	34,402,742	1,536,021	35,938,763
Supporting Services:			
Pupils	2,296,254	192,312	2,488,566
Instructional Staff	2,177,183	931,398	3,108,581
Board of Education	21,428	0	21,428
Administration	3,281,808	68,998	3,350,806
Fiscal Services	854,254	6,349	860,603
Business	520,510	0	520,510
Operation & Maintenance of Plant	5,403,289	26,559	5,429,848
Pupil Transportation	2,548,477	317,268	2,865,745
Central	482,466	69,340	551,806
Operation of Non-Instructional:			
Food Service Operations	0	2,098,683	2,098,683
Community Services	0	535,311	535,311
Extracurricular Activities	551,043	320,871	871,914
Capital Outlay	0	537,474	537,474
Debt Service:			
Principal Retirement	191,287	0	191,287
Interest & Fiscal Charges	29,150	0	29,150
Total Expenditures	52,759,891	6,640,584	59,400,475
Net Change in Fund Balance	(1,677,816)	(28,507)	(1,706,323)
Fund Balances at Beginning of Year	11,089,525	2,400,386	13,489,911
Increase in Inventory Reserve	825	10,749	11,574
Fund Balances End of Year	\$ 9,412,534	\$ 2,382,628	\$ 11,795,162

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (1,706,323)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (528,722)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (41,665)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 62,541

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 324,908

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (133,340)

Change in Net Assets of Governmental Activities \$ (2,022,601)

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local Sources:				
Taxes	\$ 21,524,685	\$ 22,633,271	\$ 22,633,271	\$ 0
Tuition	254,909	272,211	272,211	0
Transportation Fees	328,434	349,806	349,806	0
Investment Earnings	245,100	260,731	260,731	0
Extracurricular Activities	98,040	106,460	106,460	0
Class Material and Fees	19,608	22,184	22,184	0
Intermediate Sources	191,178	203,539	203,539	0
Intergovernmental - State	26,191,383	27,475,029	27,475,028	(1)
Intergovernmental - Federal	49,021	90,539	90,539	0
All Other Revenues	117,648	123,781	123,781	0
Total Revenues	<u>49,020,006</u>	<u>51,537,551</u>	<u>51,537,550</u>	<u>(1)</u>
Expenditures:				
Current:				
Instruction	32,358,675	35,401,506	35,401,423	83
Support Services:				
Pupils	2,496,635	2,339,014	2,339,015	(1)
Instructional Staff	2,390,413	2,115,670	2,115,673	(3)
Board of Education	15,750	21,550	21,419	131
Administration	3,650,906	3,354,752	3,354,753	(1)
Fiscal Services	985,604	848,868	848,869	(1)
Business	1,179,736	600,788	600,785	3
Operation and Maintenance of Plant	7,253,752	5,800,611	5,800,610	1
Pupil Transportation	2,426,518	2,546,103	2,546,105	(2)
Central	537,510	505,217	505,217	0
Extracurricular Activities	620,130	546,557	545,431	1,126
Debt Service:				
Principal Retirement	240,000	172,000	191,287	(19,287)
Interest and Fiscal Charges	60,000	49,000	29,150	19,850
Total Expenditures	<u>54,215,629</u>	<u>54,301,636</u>	<u>54,299,737</u>	<u>1,899</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(5,195,623)	(2,764,085)	(2,762,187)	1,898

(Continued)

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Advances Out	0	(335,484)	(335,484)	0
Refund of Prior Year's Expenditures	0	38,966	38,966	0
Refund of Prior Year's Receipts	(3,184)	(1,534)	(1,429)	105
Total Other Financing Sources (Uses):	(3,184)	(298,052)	(297,947)	105
Net Change in Fund Balance	(5,198,807)	(3,062,137)	(3,060,134)	2,003
Fund Balance at Beginning of Year	13,897,206	13,897,206	13,897,206	0
Prior Year Encumbrances	1,950,476	1,950,476	1,950,476	0
Fund Balance at End of Year	\$ 10,648,875	\$ 12,785,545	\$ 12,787,548	\$ 2,003

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Statement of Net Assets
Fiduciary Funds
June 30, 2004

	<u>Private Purpose Trust</u>	
	<u>Special Trust Fund</u>	<u>Agency</u>
Assets:		
Cash and Cash Equivalents	\$ 5,855	\$ 145,287
Total Assets	<u>5,855</u>	<u>145,287</u>
Liabilities:		
Due to Students	0	145,287
Total Liabilities	<u>0</u>	<u>145,287</u>
Net Assets:		
Unrestricted	5,855	0
Total Net Assets	<u>\$ 5,855</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30,2004

	<u>Private Purpose Trust</u>
	<u>Special Trust Fund</u>
Additions:	
Contributions:	
Private Donations	\$ 1,484
Total Contributions	<u>1,484</u>
Investment Earnings:	
Interest	<u>21</u>
Total Investment Earnings	<u>21</u>
Total Additions	<u>1,505</u>
Deductions:	
Community Gifts, Awards and Scholarships	<u>1,000</u>
Total Deductions	<u>1,000</u>
Change in Net Assets	505
Net Assets at Beginning of Year	<u>5,350</u>
Net Assets End of Year	<u><u>\$ 5,855</u></u>

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Huber Heights City School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 344 non-certified and approximately 487 certified teaching personnel and administrative employees providing education to 6,761 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

The District is associated with four organizations, which are defined as jointly governed, and one public entity risk pool. These organizations include the Metropolitan Dayton Educational Computer Association (MDECA), the Southwestern Ohio Educational Purchasing Council, the Miami Valley Career Technical Center, Southwestern Ohio Instructional Technology Association and the Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are grouped into the categories governmental and fiduciary.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following is the District's only major governmental fund:

General Fund - This fund is the general operating fund of the district and is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the District 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 category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust that accounts for scholarship programs, gifts and awards for specific students. State law permits the District to appropriate for purposes consistent with the endowment's intent, net appreciation, both realized and unrealized. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation - Financial Statements

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statements are prepared using the economic resources measurement focus. Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues 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 grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Revenue considered susceptible to accrual at year end includes property taxes available for advance, income taxes, tuition, grants, student fees, and interest on investments.

Current property taxes measurable at June 30, 2004, of which are not intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2004 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include 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 fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the function level in the General Fund and fund level for all other funds. Budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2004.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund and department level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

5. Budgetary Basis of Accounting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

<u>Net Change in Fund Balance</u>	<u>General Fund</u>
GAAP Basis (as reported)	(\$1,677,816)
Increase (Decrease):	
Accrued Revenues at June 30, 2004, received during FY 2005	(1,367,815)
Accrued Revenues at June 30, 2003, received during FY 2004	1,487,806
Accrued Expenditures at June 30, 2004, paid during FY 2005	6,425,140
Accrued Expenditures at June 30, 2003, paid during FY 2004	(6,641,153)
Encumbrances Outstanding	<u>(1,286,296)</u>
Budget Basis	<u><u>(\$3,060,134)</u></u>

F. Cash and Cash Equivalents

During fiscal year 2004, cash and cash equivalents included amounts in demand deposits, money market mutual funds, and repurchase agreements.

The District pools its cash for investment and resource management purposes. Each fund's cash and cash equivalents on the balance sheet represents the balance on hand as if each fund maintained its own cash account. See Note 3, "Cash, Cash Equivalents and Investments."

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30,2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements and certificates of deposit) which are reported at cost. See Note 3, "Cash, Cash Equivalents and Investments."

H. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

I. Capital Assets and Depreciation

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those that are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

2. Depreciation

All capital assets are depreciated. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives (in years)</u>
Land Improvements	25
Buildings and Improvements	25 – 100
Machinery and Equipment	5 - 20

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Energy Conservation Notes	General Fund
Capital Leases Payable	General Fund
Compensated Absences	General Fund, Food Services Fund, and Latchkey Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, “*Accounting for Compensated Absences*,” vacation benefits are accrued as a liability when an employee’s right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee’s wage rates at fiscal year end, taking into consideration any limits specified in the School District’s termination policy. For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for classified employees after 20 years of current service with the School District and for certified employees and administrators after 20 years of service. For governmental funds, that portion of unpaid compensated absences that is expected to be paid

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

L. Net Assets

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

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

M. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred. Pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

N. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a textbook and instructional materials reserve. A fund balance reserve has also been established for this amount. (See Note 11)

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for debt service, property taxes, endowments, supplies inventory, textbook and instructional materials and encumbered amounts which have not been accrued at year end. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute. The reserve for textbook and instructional materials is required by State statute.

Q. Estimates

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District had no special items during fiscal year 2004

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2004 of \$278 in the Management Information System Fund, \$29 in the Preschool Early Childhood Development Fund, \$79 in the At Risk and Excellence Fund, \$3,250 in the Disadvantaged Pupil Impact Aid Fund, \$16,789 in the Summer Intervention Fund and \$61,196 in the Title VI-B Fund (special revenue) arose from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. A deficit does not exist under the budgetary basis of accounting.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, “*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,*” collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions’ agent in the pool’s name are classified as Category 3.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments:

- Category 1 Insured or registered, or securities held by the District or its agent in the District's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

A. Deposits

At year end the carrying amount of the District's deposits was \$9,886,469 and the bank balance was \$9,947,914. Federal depository insurance covered \$317,245 of the bank balance. All remaining deposits were classified as Category 3.

B. Investments

The District's investments at June 30, 2004 were as follows:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Repurchase Agreements	\$0	\$0	\$604,000	\$604,000	\$604,000
U.S. Agency Bonds and Notes	3,541,082	0	0	3,541,082	3,541,082
Money Market Mutual Funds	0	0	2,962,182	2,962,182	2,962,182
Total Categorized Investments	<u>3,541,082</u>	<u>0</u>	<u>3,566,182</u>	<u>7,107,264</u>	<u>7,107,264</u>
<u>Non-Categorized Investments</u>					
Huber Heights Education Foundation (mutual fund)	0	14,744	0	14,744	14,744
Total Non-Categorized Investments	<u>0</u>	<u>14,744</u>	<u>0</u>	<u>14,744</u>	<u>14,744</u>
Total Investments	<u>\$3,541,082</u>	<u>\$14,744</u>	<u>\$3,566,182</u>	<u>\$7,122,008</u>	<u>\$7,122,008</u>

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$13,467,395	\$3,541,082
Investments:		
Repurchase Agreements	(604,000)	604,000
Money Market Mutual Funds	(2,962,182)	2,962,182
Huber Heights Education Foundation	(14,744)	14,744
Per GASB Statement No. 3	<u>\$9,886,469</u>	<u>\$7,122,008</u>

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$300,951, which includes \$71,826 assigned from other District funds.

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on 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. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2003, and equalization adjustments were made in 1999. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 4 - PROPERTY TAXES (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Huber Heights City School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed value upon which the fiscal year 2004 receipts were based are:

Agricultural/Residential and Other Real Estate	\$622,467,000
Public Utility Personal	14,960,540
Tangible Personal Property	<u>44,138,639</u>
Total Assessed Value	<u>\$681,566,179</u>
Tax rate per \$1,000 of assessed valuation	\$56.60

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts receivable and intergovernmental receivables. A summary of intergovernmental receivables follows:

<u>Fund</u>	<u>Amount</u>
Title VI-B Fund	\$414,978
Immigrant Fund	27,198
Chapter I Fund	111,973
Title VI Fund	39,891
Drug Free School Grant Fund	3,304
Class Size Reduction Grant Fund	<u>130,339</u>
	<u>\$727,683</u>

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 6 - CAPITAL ASSETS

Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2004:

Historical Cost:

<u>Class</u>	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
<i>Capital assets not being depreciated:</i>				
Land	\$947,173	\$0	\$0	\$947,173
<i>Capital assets being depreciated:</i>				
Land Improvements	1,123,724	0	0	1,123,724
Buildings and Improvement	23,910,346	0	0	23,910,346
Machinery and Equipment	9,361,805	309,593	(220,564)	9,450,834
Total Cost	<u>\$35,343,048</u>	<u>\$309,593</u>	<u>(\$220,564)</u>	<u>\$35,432,077</u>

Accumulated Depreciation:

<u>Class</u>	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
Land Improvements	(\$987,650)	(\$8,890)	\$0	(\$996,540)
Buildings and Improvement	(9,164,188)	(452,340)	0	(9,616,528)
Machinery and Equipment	(6,106,097)	(377,085)	178,899	(6,304,283)
Total Depreciation	<u>(\$16,257,935)</u>	<u>(\$838,315) *</u>	<u>\$178,899</u>	<u>(\$16,917,351)</u>
<i>Net Value:</i>	<u>\$19,085,113</u>			<u>\$18,514,726</u>

* Depreciation expenses were charged to governmental functions as follows:

Instruction	(\$563,388)
Support Services:	
Pupils	(266)
Instructional Staff	(2,734)
Board of Education	(1,123)
Administration	(77,762)
Fiscal Services	(66)
Business	(3,077)
Operations & Maintenance of Plant	(10,676)
Pupil Transportation	(150,234)
Non-Instructional Services	
Food Service Operations	(18,829)
Community Services	(8,863)
Extracurricular Activities	<u>(1,297)</u>
Total Depreciation Expense	<u>(\$838,315)</u>

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 9% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2003, (latest information available) 8.17% was allocated to fund the pension benefit and 5.83% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$1,047,552, \$1,013,928, and \$868,488, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. The portion of the 2003 employer contribution rate (latest information available) that was used to fund health care for the year 2003 was 5.83%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$552,907.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 50,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204,930,737 and the target level was \$307.4 million. Net assets available for payment of benefits at June 30, 2003 was \$303.6 million.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2003, (latest information available) 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$3,819,528, \$3,493,920, and \$3,460,704, respectively, which were equal to the required contributions for each year.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2003, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$272,823 for the District. The balance of the Health Care Reserve Fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, the net health care costs paid by STRS were \$352,301,000. There were 108,294 eligible benefit recipients.

NOTE 8 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the notes, capital leases, and compensated absences of the District for the year ended June 30, 2004 is as follows:

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004	Amount Due Within One Year
Governmental Activities:					
Energy Conservation Note:					
School Improvement	\$659,139	\$0	(\$191,287)	\$467,852	\$184,202
Capital Leases Payable	668,112	0	(133,621)	534,491	139,554
Compensated Absences	2,249,253	1,662,486	(1,575,196)	2,336,543	0
Total Other					
Long-Term Obligations	\$3,576,504	\$1,662,486	(\$1,900,104)	\$3,338,886	\$323,756

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 8 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2004 follows:

Years	Energy Conservation Notes		
	Principal	Interest	Total
2005	\$184,202	\$22,623	\$206,825
2006	94,550	12,226	106,776
2007	94,550	7,569	102,119
2008	94,550	2,911	97,461
Totals	\$467,852	\$45,329	\$513,181

NOTE 9 - CAPITALIZED LEASE

The District is obligated under two leases accounted for as capital leases. The cost of the leased assets is accounted for in the Governmental Activities Capital Assets and the related liability in the Governmental Activities Other Long-Term Obligations. The original cost of the assets under capital lease was \$754,818.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2004:

Year Ending June 30,	Capital Lease
2005	\$160,039
2006	138,395
2007	116,752
2008	71,054
2009	71,054
2010	29,606
Minimum Lease Payments	586,900
Less: Amount representing interest at the District's incremental borrowing rate of interest	(52,409)
Present Value of minimum lease payments	\$534,491

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 10 – OPERATING LEASE

The District has entered into operating lease agreements for copiers. The total costs for such leases was \$128,130. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Operating Leases
2005	\$25,626
2006	8,542
Total	\$34,168

NOTE 11 – STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2004, the reserve activity (cash-basis) was as follows:

	Textbook Reserve	Capital Acquisition Reserve	Budget Stabilization Reserve	Total
Set-aside Cash Balance as of June 30, 2003	\$1,403,040	\$0	\$551,277	\$1,954,317
Current Year Set-Aside Requirement	933,070	933,070	0	1,866,140
Reduction Authorized by Legislative Restrictions	0	0	(551,277)	(551,277)
Qualifying Disbursements	(1,109,089)	(3,043,890)	0	(4,152,979)
Total	\$1,227,021	(\$2,110,820)	\$0	(\$883,799)
Cash Balance Carried Forward to FY 2005	\$1,227,021	(\$2,110,820)	\$0	(\$883,799)
Amount Restricted for Textbooks				\$1,227,021

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, the extra amount for capital acquisition may not be used to reduce the set-aside requirements of future years. Negative amounts for capital acquisition are therefore not presented as being carried forward to the next fiscal year.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 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. The District contracted with Indiana Insurance Company for building and property insurance. This policy has a limit of insurance in the amount of \$81,308,700 for property. Property has a \$500 deductible. Both Vehicle and General liability insurance is under Indiana Insurance. The base policy has a \$1,000,000 per occurrence and a \$2,000,000 aggregate limit. An additional "umbrella" policy has \$10,000,000 per occurrence and \$10,000,000 aggregate limit. The superintendent, treasurer, messengers, athletic director and all principals are bonded.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Workers' compensation claims are covered through the District's participation in the State of Ohio's program. The District pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The District is a member of the Southwestern Ohio Educational Purchasing Council (SOEPC). The council contracts with Comp Management to provide an insurance purchasing pool for workers compensation. The intent of the pool is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the pool. The workers compensation experience of the participation school districts is calculated as one experience and a common premium rate is applied to all school districts in the pool. Each participant pays this rate. Total savings is then calculated and each participants individual performance is compared to the overall savings percentage of the pool. A participant will then either receive money from or be required to contribute to the pool. This equity pooling arrangement insures that each participant shares equally in the overall performance of the pool. Participation in the pool is limited to school districts that can meet the pool's selection criteria. Comp Management provides administrative cost control and actuarial services to the SOEPC.

The District has elected to provide employee medical benefits through United Health Care as part of an insurance purchasing pool through the SOEPC. The employees share the cost of the monthly premium with the board for single and family plans. The board pays 90 percent of the premium.

The District provides life insurance to employees through Great American Life Insurance.

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Computer Association – The District is a member of the Metropolitan Dayton Educational Computer Association (MDECA), which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami, and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with aid of computers and other electronic equipment to administrative instructional functions among member districts.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 13 - JOINTLY GOVERNED ORGANIZATION (Continued)

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member schools districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The District paid MDECA \$168,472 for services provided during the year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council – The District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC). The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during the one year period. Payments to SOEPC are made from various funds. During fiscal year 2004, the District paid \$228,032 to SOEPC. To obtain financial information, write to Southwestern Ohio Educational Purchasing Council, Robert Brown, Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Miami Valley Career Technical Center – The Miami Valley Career Technical Center is a district political subdivision of the State of Ohio operated under the direction of a Board consisting of seventeen members elected from twenty-seven participating school districts. The Board possesses its own budgeting and taxing authority.

Southwestern Ohio Instructional Technology Association (SOITA) - SOITA is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of SOITA is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members of those counties i.e. Auglaize, Butler, Champaign, Clark, Clifton, Darke, Fayette, Green, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Green, and Butler counties shall elect two representatives per area. All others shall elect one representative per area. All superintendents except for those from educational service centers vote on the representatives after a nomination committee nominates individuals to run. One at-large non-public representative shall be elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative shall be elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2004, the School District paid \$10,273 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association at 150 East Sixth Street, Franklin, Ohio 45005.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 14 – INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan – The EPC Benefit Plan Trust (the Plan) is a group purchasing pool consisting of public school districts who are members of the Southwestern Ohio Educational Purchasing Cooperative. The purpose of a group purchasing pool is for members to pool funds or resources to purchase group insurance products to provide health benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the Trust fund for insurance coverage which is provided by Anthem Blue Cross or United Healthcare. Districts may also contribute monthly to the Trust fund for dental benefits provided through a self-funded dental plan administered by CoreSource. The Plan is governed by a Board of Trustees elected in accordance with the Trust Agreement and voted on by participating EPC member districts. In fiscal year 2004, The District contributed \$5,148,111, which represented 7.30 percent of total contributions to the Trust. Financial information can be obtained from Barbara Coriell, who serves as administrator, at EPC Benefits Office, 1831 Harshman Road, Dayton, Ohio 45424.

NOTE 15 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

The District is not a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2004.

C. State School Funding

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-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.

HUBER HEIGHTS CITY SCHOOL DISTRICT
MONTGOMERY 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.S. Department of Agriculture						
<i>(Passed Through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$200,350		\$200,350
School Breakfast Program	05-PU-03 05-PU-04	10.553	\$3,310 33,962 <u>37,272</u>		\$3,310 33,962 <u>37,272</u>	
National School Lunch Program	LL-P4-03 LL-P4-04	10.555	54,777 386,389 <u>441,166</u>		54,777 386,389 <u>441,166</u>	
Summer Food Service	23-PU-02 24-PU-02	10.559	20,711 2,181 <u>22,892</u>		20,711 2,181 <u>22,892</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			501,330	200,350	501,330	200,350
U.S. Department of Education						
<i>(Passed Through Ohio Department of Education)</i>						
Title I - Education Consolidation Improvement Act	C1-S1-03 C1-S1-04	84.010	116,339 383,249 <u>499,588</u>		52,185 332,859 <u>385,044</u>	
Total Title I						
Special Education Cluster:						
Special Education Grant to State Title VI-B Flow Thru	6B-SF-03 6B-SF-04	84.027	353,799 422,187 <u>775,986</u>		354,313 746,963 <u>1,101,276</u>	
Total Title VI-B						
Preschool Subsidy Flow through	PG-S1-03P PG-S1-04P	84.173	43 42,321 <u>42,364</u>		7,630 42,321 <u>49,951</u>	
Total Preschool Subsidy Flow through						
Total Special Education Cluster			818,350		1,151,227	
Drug Free Schools	DR-S1-03 DR-S1-04	84.186	20,407 21,895 <u>42,302</u>		12,808 21,895 <u>34,703</u>	
Total Drug Free Schools						
Goals 2000	G2-S2-99 G2-S2-01	84.276			21,995 9,942 <u>31,937</u>	
Total Goals 2000						
Eisenhower Professional Development Grant Title II Part B	MS-S1-02	84.281			308 1,026 <u>1,334</u>	
Total Eisenhower Professional Development Grant Title II Part B						
Innovative Education Program Strategies	C2-S1-03 C2-S1-04	84.298	9,957 12,891 <u>22,848</u>		12,775 12,107 <u>24,882</u>	
Total Innovative Education Program Strategies						
Education Tech Grant	TJS1-04	84.318	8,148 12,697 <u>20,845</u>		9,938 12,697 <u>22,635</u>	
Total Education Tech Grant						

HUBER HEIGHTS CITY SCHOOL DISTRICT
MONTGOMERY COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
State Improvement Grant	STS1-03	84.323			8,139	
Class Size Reduction	CR-S1-02	84.340			21,207	
Assistive Technology	AT-S2-02	84.352A			150	
	AT-S3-02				6,417	
	AT-S4-02				2,615	
Total Assistive Technology					9,182	
English Language Acquisition Grant	T3S1-03	84.365	10,130		10,130	
	T3S2-04		5,980		5,980	
Total English Language Acquisition Grant			16,110		16,110	
Improving Teacher Quality State Grant	TRS1-03	84.367	84,300		99,404	
			103,777		7,359	
Total Improving Teacher Quality State Grant			188,077		106,763	
<i>(Direct Receipts from U.S. Department of Education)</i>						
Impact Aid - Maintenance and Operations	N/A	84.041				
PL 874 - Special Ed			13,071			
PL 874			12,806		12,806	
PL 874			42,757		42,757	
Total Impact Aid			68,634		55,563	
Total Department of Education			1,676,754		1,868,726	
U.S. Department of Health and Human Services						
<i>(Passed through Montgomery County Education Service Center)</i>						
Medicaid (CAFS)	N/A	93.778	16,729		16,729	
National Science Foundation						
<i>(Passed through Wright State University)</i>						
Creating Laboratory Access for Science Students	N/A	47.074			1,124	
Totals			\$2,194,813	\$200,350	\$2,387,909	\$200,350

See accompanying notes to the Schedule of Federal Awards Expenditures

**HUBER HEIGHTS CITY SCHOOL DISTRICT
MONTGOMERY COUNTY**

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

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- NUTRITION CLUSTER

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

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

NOTE C -- MATCHING REQUIREMENTS

Certain federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The expenditure of non-federal funds is not included on the Schedule.

This page intentionally left blank.



Auditor of State Betty Montgomery

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

Huber Heights City School District
Montgomery County
5954 Longford Road
Huber Heights, Ohio 45424

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Huber Heights City School District, Montgomery County, (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 March 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 23, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 23, 2005.

Huber Heights City School District
Montgomery County
Independent Accountants' Report On Compliance And On
Internal Control Required By *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 23, 2005



Auditor of State Betty Montgomery

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

Huber Heights City School District
Montgomery County
5954 Longford Road
Huber Heights, Ohio 45424

Compliance

We have audited the compliance of Huber Heights City School District, Montgomery County, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Huber Heights City School District, Montgomery County, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

March 23, 2005

**HUBER HEIGHTS CITY SCHOOL DISTRICT
MONTGOMERY COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**HUBER HEIGHTS CITY SCHOOL DISTRICT
MONTGOMERY 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; <i>Explain:</i>
2003-001	Ohio Rev Code Section 117.28 – finding for recovery in the amount of \$120.00 for an overpayment.	Yes	N/A
2003-002	Ohio Rev Code Section 5705.41.D - failure to comply with “Blanket” certificate requirements.	Yes	“Blanket” certificates were not used.



**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

**HUBER HEIGHTS CITY SCHOOL DISTRICT
MONTGOMERY 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
JUNE 7, 2005**