

Reading Community City School District

Hamilton County

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER CPAs, INC.

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**Auditor of State
Betty Montgomery**

Member of the Board
Reading Community City School District
1301 Bonnel Avenue
Reading, Ohio 45215

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

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

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

BETTY MONTGOMERY
Auditor of State

June 14, 2006

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Reading Community City School District
Table of Contents
For the Fiscal Year Ended June 30, 2005

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Net Assets- Fiduciary Funds.....	19
Statement of Changes in Net Assets – Fiduciary Funds	20
Notes to the Basic Financial Statements.....	21
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	40
Notes to Required Supplementary Information.....	41
Schedule of Federal Awards Expenditures	43
Notes to the Schedule of Federal Awards Expenditures.....	44
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	45
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance With OMB Circular A-133.....	47
Schedule of Findings & Questioned Costs OMB Circular A-133 Section .505.....	49

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Reading Community City School District
1301 Bonnell Avenue
Reading, Ohio 45215

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Reading Community City School District (the School District), Hamilton County, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

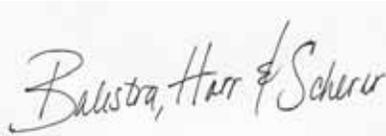
In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2006, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements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

The Management's Discussion and Analysis on pages 3 through 12 and budgetary comparison information on pages 40 through 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Reading Community City School District
Independent Auditor's Report

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Reading Community City School District for the year ended June 30, 2005. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2005 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$6.4 million. Of this amount, \$3.97 million may be used to meet the government's ongoing obligations to citizens and creditors.
- ✓ In total, net assets increased by \$2.2 million.
- ✓ The School District had \$14.7 million in expenses related to governmental activities; only \$2.3 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$14.6 million, made up primarily of property taxes and state foundation payments, provided the majority of funding for these activities.
- ✓ The General Fund balance increased by \$1.3 million from \$2.1 million at June 30, 2004 to \$3.4 million at June 30, 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The School District has no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. Some funds are required to be established by State law. Also, the School District may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

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

READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2005 and 2004:

		<u>FY05</u>	<u>FY04</u>
Current and other assets	\$	12,936,246	10,691,879
Capital assets		<u>2,399,157</u>	<u>2,484,847</u>
Total assets		<u>15,335,403</u>	<u>13,176,726</u>
Long-term debt outstanding		1,679,466	1,871,795
Other liabilities		<u>7,244,824</u>	<u>7,100,778</u>
Total liabilities		<u>8,924,290</u>	<u>8,972,573</u>
Net assets:			
Invested in capital assets, net of debt		1,676,824	1,562,596
Restricted:			
For capital purposes		678,973	520,209
Other purposes		84,064	159,377
Unrestricted		<u>3,971,252</u>	<u>1,961,971</u>
Total net assets	\$	<u><u>6,411,113</u></u>	<u><u>4,204,153</u></u>

A portion of the School District's net assets (26%) reflects its investment in capital assets, less any related debt to acquire those assets that is still outstanding. The School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The balance of unrestricted net assets (\$3,971,252) may be used to meet the government's ongoing obligations to citizens and creditors.

Total assets increased by \$2,158,677 and total net assets increased by \$2,206,960 during fiscal year 2005. The increase can be attributed to the \$2,120,322 increase in taxes receivable which mostly resulted from the approval of a 6.90 mill operating levy in November 2004. Also, taxes receivable was also impacted by the increase in the first half tangible personal property tax settlement received in early fiscal year 2006. The balance of the tax year 2005 settlement recognized as taxes receivable as of June 30, 2005 totaled \$619,325, versus the balance of the tax

READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

year 2004 settlement of \$365,200 recognized as taxes receivable as of June 30, 2004. The increase in the first half tangible personal property settlement resulted from one large taxpayer paying prior year assessments, along with the additional 6.90 mills levied for tax year 2005.

B. Governmental Activities during fiscal year 2005

The following table presents a condensed summary of the School District's activities during fiscal year 2005 and 2004 and the resulting change in net assets:

	<u>FY05</u>	<u>FY04</u>
Revenues:		
Program revenues:		
Charges for services and sales	\$ 516,031	425,783
Operating grants and contributions	1,778,680	1,436,926
Capital grants and contributions	<u>12,044</u>	<u>1,124</u>
Total program revenues	<u>2,306,755</u>	<u>1,863,833</u>
General revenues:		
Property taxes	10,383,161	6,616,740
Grants and entitlements	3,975,537	3,991,337
Investment earnings	83,036	16,528
Miscellaneous	<u>161,627</u>	<u>182,820</u>
Total general revenues	<u>14,603,361</u>	<u>10,807,425</u>
Total revenues	<u>16,910,116</u>	<u>12,671,258</u>
Expenses:		
Instruction	7,754,081	7,540,062
Support services:		
Pupil	897,864	823,077
Instructional staff	786,702	740,788
Board of Education	63,376	57,262
Administration	1,234,594	1,220,858
Fiscal	322,770	350,356
Business	14,846	38,376
Operation and maintenance of plant	1,153,060	1,217,832
Pupil transportation	227,948	200,387
Central	473,894	420,056
Non-instructional services	1,744,172	1,538,992
Interest and fiscal charges	<u>29,849</u>	<u>49,236</u>
Total expenses	<u>14,703,156</u>	<u>14,197,282</u>
Change in net assets	<u>\$ 2,206,960</u>	<u>(1,526,024)</u>

READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

Of the total governmental activities revenues of \$16,910,116, \$2,306,755 (14%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 71% (\$10,383,161) comes from property tax levies and 27% (\$3,975,537) is from state and federal funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

Property taxes increased by approximately \$3.7 million due to two primary factors. First, the actual collections on a cash basis from taxes increased by \$1,471,524 in fiscal year 2005. This increase can be attributed to the approval of the 6.90 mill operating levy, which impacted both the tax year 2004 first half real estate tax settlement and the tax year 2005 first half tangible personal property tax settlement. Also, the School District benefited from the prior years' assessments in tangible personal property taxes totaling approximately \$1.1 million that was levied against a large taxpayer. At year-end, only amounts available for advance from the County Auditor and delinquent taxes are recognized as revenue. At June 30, 2005, the amount available for advance was approximately \$1.1 million higher than at June 30, 2004.

Governmental Activities

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 16% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$7,754,081 but program revenue contributed to fund 7% of those costs. Thus, general revenues of \$7,183,643 were used to support of remainder of the instruction costs.

Governmental Activities

		<u>Total Cost of Services</u>	<u>Program Revenue</u>	<u>Revenues as a % of Total Costs</u>	<u>Net Cost of Services</u>
Instruction	\$	7,754,081	570,438	7%	7,183,643
Support services		5,175,054	474,895	9%	4,700,159
Non-instructional services		1,744,172	1,261,422	72%	482,750
Interest and fiscal charges		<u>29,849</u>	<u>-</u>	0%	<u>29,849</u>
Total	\$	<u>14,703,156</u>	<u>2,306,755</u>	<u>16%</u>	<u>12,396,401</u>

READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has one major governmental fund: the General Fund. Assets of this fund comprise \$11,945,534 (92%) of the total \$12,936,246 governmental funds assets.

General Fund. Fund balance at June 30, 2005 was \$3,415,953, including \$855,999 of unreserved balance, which represents 27% of expenditures for fiscal year 2005. The primary reason for the increase in fund balance of \$1,282,841 was the \$1,100,000 increase in real estate taxes available to be advance from the Hamilton County Auditor's Office at year-end. Also, on a cash basis, general fund revenue totaled \$12,969,651, compared to total expenditures of \$12,952,379.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. Significant differences between the original and final are as follows:

Revenue – Taxes. The original revenue estimate for taxes was \$7,166,000 versus the actual tax revenue of \$8,316,798. The actual revenue received during the fiscal year for real estate taxes and tangible personal property taxes was \$5,666,619 and \$2,650,179, respectively. After the original revenue estimate was calculated the School District learned of a \$1,100,000 prior years' assessments levied against a taxpayer for tangible personal property taxes. The majority of the assessments were received during fiscal year 2005 as advances against the first half settlement. Also, the original revenue estimates were calculated prior to the approval of the 6.90 mill levy, thus the estimates did not factor in the additional millage. The actual real estate tax collections included one-half year's collection with the additional 6.90 mills.

Revenue – Intergovernmental. The original revenue estimate was for \$4,215,000. The estimate was later increased to \$4,375,000 because the School District's administration anticipated that the Ohio Department of Taxation would act on a pending application for tax exemption filed for a large real property parcel. Removing the value of the property from the School District's total assessed property valuation would have resulted in an increase in state funding. The Department of Taxation failed to process the application in a timely manner and the additional state funding was not received as projected. The actual intergovernmental revenue received was \$4,289,776.

Expenditures – Extracurricular Services. The actual expenditures were less than the original and final budget by \$97,476. Following the defeat of the May 2004 operating levy, there was a lot of uncertainty regarding the status of certain extracurricular activities for the 2004-2005 school year. The budget was prepared as if the School District would continue most extracurricular activities, however throughout the year decisions were made to not fill certain supplemental contract positions or not to field certain freshman athletic teams, which resulted in actual expenditures falling significantly below the amount budgeted.

**READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2005, the School District had \$2,399,157 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 5 to the financial statements for more detail.

**Capital Assets at Year-End
(Net of Depreciation)**

		<u>FY05</u>	<u>FY04</u>
Land	\$	419,344	419,344
Land improvements		76,596	82,629
Buildings and improvements		1,285,893	1,299,089
Furniture and equipment		<u>617,324</u>	<u>683,785</u>
Total	\$	<u><u>2,399,157</u></u>	<u><u>2,484,847</u></u>

For fiscal year 2005, the School District reduced the amount that was budgeted for capital assets. This was the result of the failure of the operating levy in May 2004 and the plan to begin a facilities review committee to study the School District's current facilities and to make a recommendation to the board of education to either renovate or replace the existing facilities. During fiscal year 2005 the School District did expend \$42,000 for HVAC system improvements in an effort to make one of the school's system more reliable and efficient.

Debt

The School District's primary debt consists of a lease-purchase agreement through Fifth Third Leasing Company. As of June 30, 2005, the School District owed \$607,803 on the lease. A previous lease totaling \$800,000 was entered into in June 2001 and the balanced owed on the lease, \$696,000, was rolled into the current lease back in April 2004. The proceeds of the original lease were used to finance the acquisition of a district-wide energy management system and to renovate the library and two science labs at Reading Community JR/SR High School. See Note 11 to the financial statements for more detail.

READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

ECONOMIC FACTORS

A challenge facing the School District is the future of state funds. On December 11, 2002, the Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

In recent years the School District's local commercial and industrial property tax base has decreased and the School District has become more reliant on state funding and real property taxes paid by residential property owners. Part of the decline in the tax base is due to decisions made by individual companies and some of the decrease can be attributed to changes in property tax policy made by the Ohio General Assembly.

Historically, revenue from the tangible personal property tax has been a major source of revenue for the School District. Tangible personal property consists of equipment and inventory owned and used by a business and located within the School District. Until tax year 2003, a local pharmaceutical manufacturing plant currently owned by Patheon Pharmaceuticals, Inc., had always been the School District's largest tangible personal property taxpayer. However, since 1994 the reported assessed values for the plant have decreased from \$22,469,000, down to the 2003 value of \$2,795,000. The reported values for the plant for both 2004 and 2005 remained below \$3,000,000. The plant has been owned by several different companies in recent years and when Patheon Pharmaceuticals bought the plant effective January 1, 2003, the total purchase price of the plant that was allocated to personal property was significantly below the values reported by the previously owner in 2002 for property tax purposes. This resulted in the significant decrease in the reportable values for the company.

Patheon Pharmaceuticals is projecting to invest over \$43,000,000 in new equipment at their local plant. However, the company was granted a ten-year, 75% tax abatement on their investment in new tangible personal property improvements. Other companies located within the School District that have expanded their operations in recent years have also received property tax abatements for their new investment. The abatements are granted by the City of Reading and the Hamilton County Board of Commissioners. Unless an abatement percentage exceeds 75% or the duration exceeds ten years, Ohio law does not give the local school district any vote or veto rights in property tax abatement agreements. Some of the current abatement agreements require the City of Reading to share with the School District, one-half of the additional earnings tax generated from the new jobs created by the new investment in either tangible personal or real property. The revenue sharing requirement becomes effective once the new jobs generate \$1,000,000 in additional payroll for the company. However, to date the School District has received no revenue sharing payments from the City.

READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

The School District was informed in September 2004 that a major tangible personal property taxpayer, Morton International, had been assessed additional taxes for prior years. The School District's share of the taxes was approximately \$1,100,000 and the majority of the revenue was received by the School District during fiscal year 2005. A portion was received in early fiscal year 2006 as part of the first half tangible personal property settlement.

HB 66 will be eliminating tangible personal property as a source of revenue for Ohio school districts. Starting with tax year 2006, the assessment rates will be reduced approximately 25% a year over the next four years. School districts will receive additional state funding to be held harmless from any revenue losses up through fiscal year 2010. Beginning in 2011, the additional state funding will be phased out up through 2017. The additional state funding will be solely based on the District's tax year 2004 values, which happens to be the second lowest annual personal property valuation reported for the District in the last twenty-three years. The District is scheduled to receive reimbursements ranging from \$509,006 for tax year 2006, to \$1,679,615 for tax year 2010. This is not additional revenue, but only a replacement of revenue that the District has received in the form of tangible personal property taxes. After tax year 2010, the reimbursement will gradually be phased out over the next seven years and the last year that any reimbursement is to be received will be tax year 2017.

The State of Ohio's school funding formula considers each district's local property tax base in the calculation of the annual funding. As discussed above, the School District's local tax base has been decreasing and this has resulted in increased state funding in recent years. Also, the State of Ohio annually increases the per pupil funding component of the funding formula. For fiscal years 2006 and 2007, the per pupil funding levels will be \$5,283 and \$5,403, respectively.

Excluding the reimbursement for the tangible personal property taxes, no state funding increase is being projected for the next few years. HB 66 is phasing out the cost of doing business factor (CODB) over a three year period, which means the District is losing 2.50% of its state basic aid each of the next three years. Also, the District's formula ADM, the student count that is used by the Ohio Department of Education (ODE) to calculate funding, is projected to decrease slightly over the next four years.

Finally, tax year 2005 was a reappraisal year for Hamilton County and the value of the residential real property located in the District increased significantly. The higher property values will negatively impact the state funding formula because of the charge off calculation. The charge off amount, which is calculated by multiplying 23 mills times a district's total assessed property valuation, is deducted from the district's state funding.

Fortunately, the state funding formula includes various guarantees that are intended to help districts from realizing large fluctuations in state funding from one year to the next when factors like those discussed above occur. For both fiscal year 2006 and 2007, the District should qualify to receive funding at the 2005 level of \$3,500,000. At this time it can only be assumed that some type of guarantee will be part of the funding formula after 2007, and unless something significantly happens to one of the factors in the formula, the District is projected to continue receiving state funding at the fiscal year 2005 level up through fiscal year 2010.

READING COMMUNITY CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

While revenue growth has been stagnant at best, the School District's operating expenses continue to increase. Total general fund salaries and wages totaled \$7,739,209 for 2005, compared to the 2004 total of \$7,571,057, an increase of 2.2 percent. The increase resulted from approved increases in the School District's various salary schedules, training and experience increases. At this time, the School District has an approved contract in place with the Reading Education Association (REA) up through August 31, 2006. The approved REA contract includes a salary schedule increase of 3.00% for fiscal year 2006. The School District's classified employees do not have a bargaining unit. However, the various salary schedules for the classified employees was also increased 3.00% for fiscal year 2006.

Total general fund expenses for employee benefits, which includes retirement contributions, health, dental and life insurance premiums and Medicare taxes totaled \$2,396,166 for fiscal year 2005, compared to the 2004 total of \$2,212,104, an increase of 8.3%. Like most employers, the rising cost of employee health insurance has been an issue that the School District has had to deal with in recent years. Since 1999, the School District has been a member of the Greater Cincinnati Insurance Consortium (GCIC), a group of thirteen Hamilton County school districts that have joined together to purchase employee benefits. GCIC is one of the largest employee groups in the area and this provides the Consortium the ability to negotiate with insurance carriers for better rates.

The cost of supplies, materials and textbooks totaled \$352,084 in 2005, versus \$440,513 for 2004. In recent years the School District has allocated an increased amount of the budget for textbook purchases in an attempt to replace outdated textbooks. After fiscal year 2004 the process is basically completed and the School District is back on a five-year replacement cycle for textbooks which resulted in a decrease in expenditures for textbooks for 2005.

Beginning with fiscal year 2004, the School District began using monies in the permanent improvement fund, to fund certain capital projects in lieu of using general fund monies. Permanent improvement fund expenditures for fiscal year 2004 totaled \$193,531. The expenditure of the permanent improvement fund monies continued in fiscal year 2005 as the School District spent an additional \$141,236. The School District did transfer \$300,000 into the permanent improvement fund from the general fund in June 2005. This decision was made as a result of the School District receiving the \$1,100,000 in prior year tangible personal property tax assessments. The unreserved fund balance of this fund as of June 30, 2005 was \$678,973.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Reading Community City School District, 1301 Bonnell Avenue, Cincinnati, Ohio 45215.

READING COMMUNITY CITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,620,912
Receivables:	
Taxes	10,170,711
Accounts	3,189
Intergovernmental	67,598
Interest	20,010
Prepays	53,826
Nondepreciable capital assets	419,344
Depreciable capital assets, net	<u>1,979,813</u>
Total assets	<u>15,335,403</u>
Liabilities:	
Accounts payable	142,654
Accrued wages and benefits	985,314
Intergovernmental payable	289,915
Deferred revenue	5,823,000
Accrued interest payable	3,941
Noncurrent liabilities:	
Due within one year	450,094
Due within more than one year	<u>1,229,372</u>
Total liabilities	<u>8,924,290</u>
Net Assets:	
Invested in capital assets, net of related debt	1,676,824
Restricted for:	
Capital projects	678,973
Other purposes	84,064
Unrestricted	<u>3,971,252</u>
Total net assets	<u>\$ 6,411,113</u>

See accompanying notes to the basic financial statements.

READING COMMUNITY CITY SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					Governmental Activities
Instruction:					
Regular	\$ 5,892,958	197,007	112,348	-	\$ (5,583,603)
Special education	1,518,451	-	261,083	-	(1,257,368)
Adult/continuing	342,672	-	-	-	(342,672)
Support services:					
Pupil	897,864	-	74,357	-	(823,507)
Instructional staff	786,702	-	265,091	-	(521,611)
Board of Education	63,376	-	-	-	(63,376)
Administration	1,234,594	-	15,226	-	(1,219,368)
Fiscal	322,770	-	-	-	(322,770)
Business	14,846	-	-	-	(14,846)
Operation and maintenance of plant	1,153,060	-	-	-	(1,153,060)
Pupil transportation	227,948	-	93,496	1,124	(133,328)
Central	473,894	-	14,681	10,920	(448,293)
Non-instructional services:					
Extracurricular activities	445,867	83,706	-	-	(362,161)
Community service	997,339	-	837,471	-	(159,868)
Food service	300,966	235,318	104,927	-	39,279
Interest and fiscal charges	29,849	-	-	-	(29,849)
Total Governmental Activities	14,703,156	516,031	1,778,680	12,044	(12,396,401)
General Revenues:					
Property taxes, levied for general purposes					10,383,161
Grants and entitlements not restricted to specific programs					3,975,537
Investment earnings					83,036
Miscellaneous					161,627
Total general revenues					14,603,361
Change in net assets					2,206,960
Net assets beginning of year					4,204,153
Net assets end of year					\$ 6,411,113

See accompanying notes to the basic financial statements.

READING COMMUNITY CITY SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments	\$ 1,690,008	930,904	2,620,912
Receivables:			
Taxes	10,170,711	-	10,170,711
Accounts	85	3,104	3,189
Accrued interest	20,010	-	20,010
Intergovernmental	10,894	56,704	67,598
Prepays	53,826	-	53,826
Total assets	<u>11,945,534</u>	<u>990,712</u>	<u>12,936,246</u>
Liabilities:			
Accounts payable	122,697	19,957	142,654
Accrued wages and benefits	922,197	63,117	985,314
Intergovernmental payable	273,408	16,507	289,915
Compensated absences payable	117,097	-	117,097
Deferred revenue	7,094,182	-	7,094,182
Total liabilities	<u>8,529,581</u>	<u>99,581</u>	<u>8,629,162</u>
Fund Balances:			
Reserved for:			
Encumbrances	36,128	98,901	135,029
Property taxes	2,470,000	-	2,470,000
Prepays	53,826	-	53,826
Unreserved, reported in:			
General Fund	855,999	-	855,999
Special Revenue Funds	-	113,257	113,257
Capital Projects Funds	-	678,973	678,973
Total fund balances	<u>3,415,953</u>	<u>891,131</u>	<u>4,307,084</u>
Total liabilities and fund balances	<u>\$ 11,945,534</u>	<u>990,712</u>	<u>12,936,246</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances	\$	4,307,084
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,399,157
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Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		1,271,182
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Lease-purchase agreement	607,803		
Capital leases payable	114,530		
Compensated absences	840,036		
Accrued interest payable	<u>3,941</u>		
Total			<u>(1,566,310)</u>

Net Assets of Governmental Activities	\$	<u>6,411,113</u>
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READING COMMUNITY CITY SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 9,693,223	-	9,693,223
Tuition and fees	165,366	-	165,366
Interest	76,994	6,401	83,395
Intergovernmental	4,215,857	1,568,613	5,784,470
Extracurricular	-	83,706	83,706
Charges for services	-	266,959	266,959
Other local revenues	123,387	38,240	161,627
Total revenues	14,274,827	1,963,919	16,238,746
Expenditures:			
Current:			
Instruction:			
Regular	5,693,222	122,215	5,815,437
Special education	1,372,377	155,466	1,527,843
Other instruction	338,865	-	338,865
Support services:			
Pupil	840,947	74,602	915,549
Instructional staff	505,303	260,803	766,106
Board of Education	62,924	-	62,924
Administration	1,193,855	14,798	1,208,653
Fiscal	313,218	-	313,218
Business	14,846	-	14,846
Operation and maintenance of plant	1,073,955	144,158	1,218,113
Pupil transportation	168,645	59,303	227,948
Central	440,067	33,383	473,450
Non-instructional services:			
Extracurricular activities	387,374	73,935	461,309
Community service	3,005	975,975	978,980
Food services	-	293,379	293,379
Debt Service:			
Principal	199,918	-	199,918
Interest and fiscal charges	30,470	-	30,470
Total expenditures	12,638,991	2,208,017	14,847,008
Excess of revenues over (under) expenditures	1,635,836	(244,098)	1,391,738
Other financing sources (uses):			
Transfers in	-	352,995	352,995
Transfers out	(352,995)	-	(352,995)
Total other financing sources (uses):	(352,995)	352,995	-
Change in fund balance	1,282,841	108,897	1,391,738
Fund balance, beginning of year, restated	2,133,112	782,234	2,915,346
Fund balance, end of year	\$ 3,415,953	891,131	4,307,084

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	1,391,738
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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.

Capital outlay		104,249
Depreciation expense		(189,939)

Repayment of capital lease principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.		199,918
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In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		621
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Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		29,003
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		<u>671,370</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>2,206,960</u></u>
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READING COMMUNITY CITY SCHOOL DISTRICT

Statement of Net Assets

Fiduciary Funds

June 30, 2005

	Private Purpose Trusts	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Equity in pooled cash and investments	\$ 108,368	32,332
Total assets	<u>108,368</u>	<u>32,332</u>
LIABILITIES		
Accounts payable	3,150	-
Due to student groups	-	32,332
Total liabilities	<u>3,150</u>	<u>32,332</u>
NET ASSETS		
Held in trust	\$ <u>105,218</u>	

See accompanying notes to the basic financial statements.

READING COMMUNITY CITY SCHOOL DISTRICT

Statement of Changes in Net Assets

Fiduciary Funds

Year Ended June 30, 2005

	<u>Private- Purpose Trust Funds</u>
Additions:	
Interest income	\$ <u>2,706</u>
Total additions	<u>2,706</u>
Deductions:	
Community gifts, awards and scholarships	<u>6,209</u>
Total deductions	<u>6,209</u>
Change in net assets	(3,503)
Net assets, beginning of year	<u>108,721</u>
Net assets, end of year	\$ <u><u>105,218</u></u>

See accompanying notes to the basic financial statements.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Reading Community City School District (the "School District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 in its government-wide financial statements provided they do not conflict with or contradict GASB pronouncements. The School District has the option to follow subsequent FASB statements and interpretations but has elected not to do so. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal guidelines. This Board controls the District's three instructional facilities that provide services to approximately 1,350 students. Currently, the School District operates two elementary schools, Central and Hilltop, and Reading Jr./Sr. High School, which serves grades seven through twelve.

The School District was established in 1863 and was later organized under Section 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms. The School District serves an area of approximately 3.14 square miles including all of the City of Reading, a small area of the City of Evendale, and a portion of Sycamore Township. The City of Reading was incorporated as a village in 1851. It is located in southwest Ohio, in the north-central portion of Hamilton County.

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

The School District is associated with three organizations two of which are defined as jointly governed organizations and the other is an insurance purchasing pool. These organizations are Great Oaks Institute of Technology and Career Development, the Hamilton/Clermont Cooperative Association and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 13 and 14.

B. Basis of Presentation

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations 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 of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore 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 School 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 School District.

Fund Financial Statements Fund financial statements report detailed information about the School 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.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

C. **Fund Accounting**

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental and fiduciary.

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

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

Fiduciary Funds report on net assets and changes in net assets. The School District's fiduciary funds consist of private-purpose trust funds and agency funds. The School District's private-purpose trust funds account for scholarship programs. These assets are not available for the School District's use. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable except for unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, agency funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues - Exchange and Non-exchange transactions. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School District receives value without directly giving 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 were 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2005 which are intended to finance fiscal year 2005 operations have been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments".

During fiscal year 2005, the School District's investments were limited to certificates of deposit, US Agency securities and the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments, with certain exceptions, be recorded at their fair value and that changes in the fair value be reported in the operating statement. The School District recorded investments held at June 30, 2005 at fair value.

By policy of the Board, investment earnings are assigned to the general fund except those specifically related to agency funds, certain trust funds, and those other funds individually authorized by Board resolution. Interest earnings are allocated to these funds based on average monthly cash balance. The general fund was credited more interest than would have been received based upon its share of the School District's investments during fiscal year 2005.

F. Prepays

Prepayments for governmental funds represent cash disbursements that have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At period end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

G. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The School District defines capital assets as those with an individual cost of more than \$2,500 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Building improvements	20 - 30 years
Equipment and furniture	5-20 years

H. Compensated Absences

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

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only if they have matured, for example, as a result of employee resignations and retirements.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above and contractually required pension contributions.

J. Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, prepaids and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statutes.

K. 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 School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

L. Parochial Schools

Within the School District boundaries, Saints Peter and Paul Elementary, Sacred Heart Elementary, and Mount Notre Dame High School are operated through the Cincinnati Archdiocese. Current state and federal legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. The receipt and expenditure of these state monies is reflected in a special revenue fund for financial reporting purposes.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

M. Estimates

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

2. CHANGE IN ACCOUNTING PRINCIPLES

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

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

	General Fund	Nonmajor Governmental Funds
Fund balance at June 30, 2004 as previously reported	\$ 2,194,953	790,305
Implementation of GASB Technical Bulletin 2004-2	<u>(61,841)</u>	<u>(8,071)</u>
Fund balance at June 30, 2004, restated	\$ <u><u>2,133,112</u></u>	<u><u>782,234</u></u>

3. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that the Board has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

1. 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;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided 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;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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;
6. The State Treasurer's investment pool (STAROhio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement 40 "Deposit and Investment Risk Disclosures":

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. However, protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the financial institution holding the deposits. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific financial institution. At year-end, \$317,426 of the School District's bank balance of \$617,883 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments

The School District's investments at June 30, 2005 are as summarized as follows:

	<u>Fair Value</u>	<u>Average Maturity Years</u>
FHLB	\$ 2,033,600	1.28
FNMA	392,500	1.29
Star Ohio	<u>783</u>	<u>n/a</u>
	<u>\$ 2,426,883</u>	<u>1.28</u>

Credit Risk

It is the School District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The School District's investments in FHLB and FNMA securities were rated AAA by Standard & Poor's and Aaa by Moody's. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a counter party, the School District will not be able to recover the value of its investments or collateral securities that are in the

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

possession of an outside party. The School District's investment securities are registered in the name of the School District.

Interest Rate Risk

In accordance with the investment policy, the School District manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District's investment policy allows investments in eligible securities as described in the Ohio Revised Code. As of June 30, 2005, 84% and 16% of the School District's investments were invested in FHLB securities and FNMA securities, respectively.

4. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed for tax year 1999. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The Hamilton County Treasurer collects property tax on behalf of the School District. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005 are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent. Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The assessed values upon which fiscal year 2005 taxes were collected are:

	<u>2004 Second- Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 174,468,330	84.12%	174,344,410	83.16%
Public Utility	7,846,630	3.78%	8,326,250	3.97%
Tangible Personal Property	<u>25,100,050</u>	12.10%	<u>26,988,000</u>	12.87%
Total Assessed Value	\$ <u><u>207,415,010</u></u>	100.00%	<u><u>209,658,660</u></u>	100.00%

5. CAPITAL ASSETS

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

	<u>Balance 7/1/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/05</u>
<i>Governmental Activities</i>				
Nondepreciable:				
Land	\$ 419,344	-	-	419,344
Depreciable:				
Land improvements	120,651	-	-	120,651
Buildings and improvements	3,396,291	76,684	-	3,472,975
Equipment and furniture	1,106,867	27,565	-	1,134,432
Subtotal	<u>4,623,809</u>	<u>104,249</u>	<u>-</u>	<u>4,728,058</u>
Totals at historical cost	<u>5,043,153</u>	<u>104,249</u>	<u>-</u>	<u>5,147,402</u>
Less accumulated depreciation:				
Land improvements	38,022	6,033	-	44,055
Buildings and improvements	2,097,202	89,880	-	2,187,082
Equipment and furniture	423,082	94,026	-	517,108
Total accumulated depreciation	<u>2,558,306</u>	<u>189,939</u>	<u>-</u>	<u>2,748,245</u>
Capital assets, net	\$ <u><u>2,484,847</u></u>	<u><u>(85,690)</u></u>	<u><u>-</u></u>	<u><u>2,399,157</u></u>

READING COMMUNITY CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	62,562
Special		8,112
Other		2,013
Support services:		
Pupil		5,826
Instructional staff		18,585
General administration		452
School administration		13,671
Fiscal		1,896
Operation and maintenance of plant		33,015
Central		9,409
Community service		18,359
Extracurricular activities		8,452
Food service		<u>7,587</u>
Total depreciation expense	\$	<u><u>189,939</u></u>

6. INTERFUND TRANSACTIONS

During the year ended June 30, 2005, the General Fund made transfers of \$352,995 to non-major governmental funds. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

7. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District maintained comprehensive insurance coverage with private carriers for real property, building contents, vehicles and general liability coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior year.

The School District provides life insurance and accidental death and dismemberment insurance to eligible employees through the Sun Life Financial Insurance Company. The School District also provides employee medical insurance through United Healthcare. All covered employees are required to contribute 10% toward the cost of the total monthly premium. The School District also provides dental insurance coverage to its employees, at no cost to the employee, through Dental Care Plus.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

8. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were approximately \$218,000, \$187,000 and \$179,000 respectively; 48% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is recorded as a liability within the respective funds and the government wide financial statements.

State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basis retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS 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.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the years ended June 30, 2005, 2004, and 2003 were approximately \$966,000, \$929,000 and \$895,000 respectively; 84% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is recorded as a liability within the respective funds.

9. POSTEMPLOYMENT BENEFITS

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

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2005, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was approximately \$69,000 during fiscal year 2005. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254.8 million and STRS had 115,395 eligible benefit recipients.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

For SERS, 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. For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$25,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the year ended June 30, 2005 were \$178.2 million and the target level was \$238.2 million. At June 30, 2005, SERS' net assets available for payment of health care benefits was \$267.5 million. SERS has approximately 58,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits was approximately \$53,000 during the 2005 fiscal year.

10. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of 1.25 days per month.

11. LONG-TERM OBLIGATIONS

The changes in the School District's long-term liabilities during fiscal year 2005 were as follows:

	Principal Outstanding <u>7/1/04</u>	<u>Additions</u>	<u>Deletions</u>	Principal Outstanding <u>6/30/05</u>	Amounts Due in <u>One Year</u>
Lease-purchase agreement	\$ 696,000	-	(88,197)	607,803	91,756
Capital leases	226,251	-	(111,721)	114,530	114,530
Compensated absences	<u>949,544</u>	<u>88,104</u>	<u>(80,515)</u>	<u>957,133</u>	<u>243,808</u>
Total	\$ <u>1,871,795</u>	<u>88,104</u>	<u>(280,433)</u>	<u>1,679,466</u>	<u>450,094</u>

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

In June 2001, the School District authorized financing for improvements to the junior/senior high school of \$800,000 with a lease-purchase agreement through the Ohio Association of School Business Official's Expanded Asset Pooled Financing Program. The School District was required to make payments of interest only at a variable interest rate with the principal due in May 2004. In May 2004, the School District refinanced the lease-purchase with a new lease in the amount of \$696,000. The new lease calls for quarterly payments of principal and interest at an interest rate of 3.9% with final maturity in 2011. Future minimum lease payments are as follows:

	Year Ending	
	<u>June 30</u>	
	2006	\$ 114,071
	2007	114,071
	2008	114,071
	2009	114,071
	2010	114,071
	2011	<u>114,071</u>
Minimum lease payments		684,426
Less: Amount representing interest		<u>76,623</u>
Present value of minimum lease payments		\$ <u>607,803</u>

Compensated absences will be paid by the fund which pays the employee's salary. The School District's voted legal debt margin was \$18,869,279 with an unvoted debt margin of \$209,659 at June 30, 2005.

12. CAPITALIZED LEASES

The School District is obligated under certain leases accounted for as capital leases. The cost of the equipment acquired by capital leases is \$367,950. The future minimum lease payments under capital leases as of June 30, 2005 are \$116,317, including \$1,787 of interest in the year ending June 30, 2006.

13. JOINTLY GOVERNED ORGANIZATIONS

Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development, a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school districts' elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. The School District has no ongoing financial interest in nor responsibility for Great Oaks. To obtain financial information, write to the Treasurer's Office, Great Oaks Institute of Technology and Career Development, 3254 E. Kemper Road, Cincinnati, Ohio 45241.

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

The Hamilton/Clermont Cooperative Association

The School District is a participant in a consortium of school districts that operate the Hamilton/Clermont Cooperative Association (H/CCA). H/CCA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Board of H/CCA consists of one representative from each of the participating members. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati 45231.

14. INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The Executive Director of the OASBO, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

15. CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 School District at June 30, 2005.

16. REQUIRED SET-ASIDES

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

READING COMMUNITY CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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

		<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance as of June 30, 2004	\$	(658,940)	-
Current year set-aside requirement		208,187	208,187
Less qualifying disbursements and offsets		<u>(259,804)</u>	<u>(300,000)</u>
Total		<u>(710,557)</u>	<u>(91,813)</u>
Balance carried to FY2005	\$	<u>(710,557)</u>	<u>-</u>

Since the School District had offsets and qualifying disbursements during the year that reduced the set aside amount for textbooks and instructional materials to below zero, these extra amounts may be used to reduce the set aside requirements of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set aside requirements of future years.

READING COMMUNITY CITY SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

General Fund

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	\$ 7,166,000	7,752,000	8,316,798	564,798
Tuition and fees	171,000	171,000	171,250	250
Interest	110,000	110,000	74,727	(35,273)
Intergovernmental	4,215,000	4,375,000	4,289,776	(85,224)
Other local revenues	127,000	127,000	117,100	(9,900)
Total revenues	<u>11,789,000</u>	<u>12,535,000</u>	<u>12,969,651</u>	<u>434,651</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,911,375	5,765,821	5,724,532	41,289
Special education	1,398,761	1,399,813	1,340,157	59,656
Other instruction	286,528	338,128	329,724	8,404
Support services:				
Pupil	840,393	861,052	828,759	32,293
Instructional staff	509,603	521,394	505,076	16,318
Board of Education	83,443	83,443	63,563	19,880
Administration	1,230,128	1,246,728	1,239,920	6,808
Fiscal	330,767	328,076	324,763	3,313
Business	25,167	25,167	14,846	10,321
Operation and maintenance of plant	1,098,222	1,170,650	1,148,483	22,167
Pupil transportation	172,708	175,748	171,771	3,977
Central	401,989	413,400	399,600	13,800
Non-instructional services:				
Extracurricular activities	481,445	481,445	383,969	97,476
Capital outlay	114,100	114,100	114,071	29
Total expenditures	<u>12,884,629</u>	<u>12,924,965</u>	<u>12,589,234</u>	<u>335,731</u>
Excess of revenues under expenditures	(1,095,629)	(389,965)	380,417	770,382
Other financing sources (uses):				
Transfers out	(139,760)	(363,145)	(363,145)	-
Change in fund balance	(1,235,389)	(753,110)	17,272	770,382
Fund balance, beginning of year	1,622,061	1,622,061	1,622,061	
Prior year encumbrances appropriated	32,702	32,702	32,702	
Fund balance, end of year	\$ <u>419,374</u>	<u>901,653</u>	<u>1,672,035</u>	

See accompanying notes to required supplemental information.

READING COMMUNITY CITY SCHOOL DISTRICT
Notes to the Required Supplementary Information
Year Ended June 30, 2005

1. 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 appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Hamilton County Budget Commission for rate determination.

Estimated Resources. Prior to April 1, the Board of Education 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 School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary schedule reflect the amounts in the final amended certificate issued during 2005.

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the fund level.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. The Board passed supplemental appropriations during the fiscal year.

READING COMMUNITY CITY SCHOOL DISTRICT
Notes to the Required Supplementary Information
Year Ended June 30, 2005

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

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 appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

2. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance.

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General Fund</u>
Change in fund balance - GAAP Basis	\$ 1,282,841
Increase / (decrease):	
Due to revenues	(1,305,176)
Due to expenditures	98,429
Due to other sources (uses)	(10,150)
Due to encumbrances	<u>(48,672)</u>
Change in fund balance - budget basis	\$ <u><u>17,272</u></u>

Reading Community City School District
Hamilton County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	NA	10.550	\$ -	\$ 23,410	\$ -	\$ 23,410
National School Breakfast Program	05PU	10.553	13,329	-	13,329	-
National School Lunch Program	LLP4	10.555	87,198	-	87,198	-
Total United States Department of Agriculture			100,527	23,410	100,527	23,410
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education</i>						
Title I						
Special Education- Grants to States	C1S1	84.010	116,304	-	122,082	-
Safe and Drug Free Schools	6BSF	84.027	380,344	-	383,648	-
Innovative Education Program Strategy	DRS1	84.186	6,826	-	6,826	-
Education Technology State Grants	C2S1	84.298	15,985	-	15,984	-
Improving Teacher Quality State Grants	TJS1	84.318	6,051	-	7,375	-
	TRS1	84.367	50,351	-	51,057	-
<i>Passed through Great Oaks Institute of Technology and Career Development</i>						
Vocational Education- Basic Grants to States	NA	84.048	2,368	-	2,368	-
Total United States Department of Education			578,229	-	589,340	-
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
State Children's Insurance Program	NA	93.767	589	-	589	-
Medical Assistance Program	NA	93.778	15,820	-	15,820	-
Total United States Department of Health and Human Services			16,409	-	16,409	-
Total Federal Financial Assistance			\$ 695,165	\$ 23,410	\$ 706,276	\$ 23,410

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

READING COMMUNITY CITY SCHOOL DISTRICT
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -FOOD DISTRIBUTIONS

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported on 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.

BALESTRA, HARR & SCHERER CPAs, INC.

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Members of the Board
Reading Community City School District
1301 Bonnell Avenue
Reading, Ohio 45215

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Reading Community City School District (the School District), Hamilton County, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 3, 2006, in which we indicated that the School District implemented GASB Statement No. 40 and GASB Technical Bulletin 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Members of the Board
Reading Community City School District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, members of the Board, 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 cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

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

BALESTRA, HARR & SCHERER CPAs, INC.

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

Members of the Board
Reading Community School District
1301 Bonnell Avenue
Reading, Ohio 45215

Compliance

We have audited the compliance of Reading Community City School District (the School 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, 2005. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School 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 of the School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of the School 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 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.

Members of the Board
Reading Community School District
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133
Page 2

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

This report is intended solely for the information and use of the audit committee, management, members of the Board, 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.



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

Reading Community City School District, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

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

Reading Community City School District, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2005

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

Finding Number	None
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**Auditor of State
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**READING COMMUNITY CITY SCHOOL DISTRICT
HAMILTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 27, 2006**