

***INDIAN HILL EXEMPTED
VILLAGE SCHOOL DISTRICT***

HAMILTON COUNTY, OHIO

SINGLE AUDIT

For the Year Ended June 30, 2004

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





**Auditor of State
Betty Montgomery**

Board of Education
Indian Hill Exempted Village School District
6855 Drake Road
Cincinnati, Ohio 45243

We have reviewed the Independent Auditor's Report of the Indian Hill Exempted Village School District, Hamilton County, prepared by J.L. Uhrig and Associates, Inc., for the audit period July 1, 2003 to June 30, 2004. 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 Indian Hill Exempted Village School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 14, 2005

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INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
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Independent Auditor's Report

Board of Education
Indian Hill Exempted Village School District
6855 Drake Road
Cincinnati, Ohio 45243

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Indian Hill Exempted Village School District (the District) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 District as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund 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 a report dated January 25, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* is presented for purposes of additional analysis 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 presented in all material respects in relation to the basic financial statements taken as a whole.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

January 25, 2005

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the Indian Hill Exempted Village School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$1,567,163 which represents a 7.72% decrease from 2003.
- General revenues accounted for \$24,896,598 in revenue or 90.69% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,554,555 or 9.31% of total revenues of \$27,451,153.
- The District had \$29,018,316 in expenses related to governmental activities; only \$2,554,555 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$24,896,598 were not adequate to provide for these programs.
- The District has three major governmental funds. They are the general fund, debt service fund and building fund. The general fund had \$22,466,248 in revenues and other financing sources and \$24,653,493 in expenditures. During fiscal 2004, the general fund's fund balance decreased \$2,187,245 from \$16,920,426 to \$14,733,181.
- The debt service fund is a major fund of the District. The debt service fund had \$3,245,512 in revenues and \$3,420,166 in expenditures. During fiscal 2004, the debt service fund's fund balance decreased \$174,654 from \$3,000,677 to \$2,826,023.
- The building fund is a major fund of the District. The building fund had no revenues and \$15,290,776 in expenditures. During fiscal 2004, the building fund's fund balance decreased \$15,290,776 from \$22,695,669 to \$7,404,893.
- The District has \$47,634,356 in capital assets at June 30, 2004. This amount is net of accumulated depreciation in the amount of \$11,916,430. Fiscal year 2004 depreciation expense was \$553,619. Total capital assets, net of related debt to acquire or construct the assets were \$7,115,249 at June 30, 2004.
- The District has \$49,043,418 in long-term liabilities outstanding at June 30, 2004. Of this total, \$1,490,804 is due within one year and \$47,552,614 is due in greater than one year.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Using These Basic Financial Statements (BFS)

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, debt service fund and building fund are by far the most significant funds, and the only governmental funds reported as major funds.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The statement of net assets and the statement of activities, include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, food service operations and uniform school supplies activities.

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and building fund. All other governmental funds are considered nonmajor.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for students. These activities are reported in an agency fund. At June 30, 2004, the balances in the agency fund are reported in a separate statement of fiduciary net assets on page 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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. These notes to the basic financial statements can be found on pages 23-48 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 45,628,003	\$ 60,415,247
Capital assets	<u>47,634,356</u>	<u>32,022,685</u>
Total assets	<u>93,262,359</u>	<u>92,437,932</u>
<u>Liabilities</u>		
Current liabilities	20,111,272	17,077,553
Long-term liabilities	<u>49,043,418</u>	<u>49,685,547</u>
Total liabilities	<u>69,154,690</u>	<u>66,763,100</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	7,115,249	7,826,215
Restricted	2,739,351	25,763,862
Unrestricted (deficit)	<u>14,253,069</u>	<u>(7,915,245)</u>
Total net assets	<u>\$ 24,107,669</u>	<u>\$ 25,674,832</u>

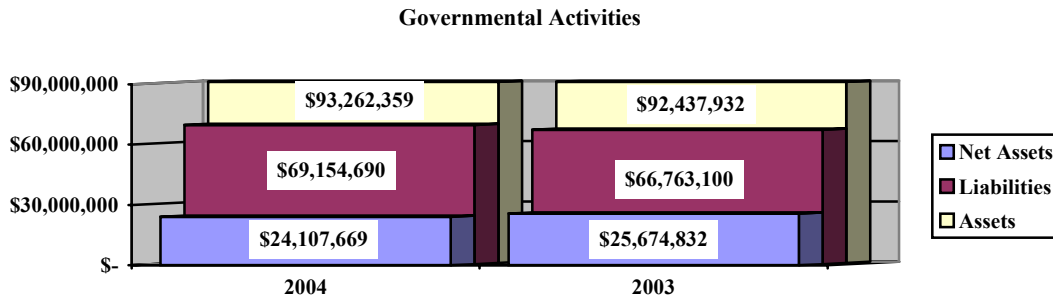
**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$18,730,239. Of this total \$2,739,351 is restricted in use resulting in unrestricted net assets of \$14,253,069.

At fiscal year-end, capital assets represented 51.08% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$7,115,249. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,739,351, represents resources that are subject to external restriction on how they may be used. Of this total, \$2,658,903 is restricted for debt service and \$80,448 is restricted for other purposes.



The table below shows the change in net assets for fiscal years 2004 and 2003.

Change in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 934,652	\$ 881,049
Operating grants and contributions	1,619,903	1,481,665
Capital grants and contributions	-	37,134
General revenues:		
Property taxes	18,537,941	23,304,317
Grants and entitlements	6,076,566	5,721,025
Investment earnings	240,970	1,279,328
Gain on disposal of capital assets	-	800
Miscellaneous	<u>41,121</u>	<u>34,069</u>
Total revenues	<u>27,451,153</u>	<u>32,739,387</u>

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	11,458,618	10,224,845
Special	2,217,027	1,994,561
Vocational	64,921	87,495
Other	50,513	16,977
Support services:		
Pupil	1,824,315	1,691,142
Instructional staff	1,869,609	1,989,671
Board of education	17,703	22,743
Administration	1,987,544	1,835,728
Fiscal	631,165	606,147
Business	70,443	55,552
Operations and maintenance	2,503,115	1,364,252
Pupil transportation	1,396,416	1,364,137
Central	54,988	19,586
Operations of non-instructional services	142,193	94,418
Extracurricular activities	634,667	665,360
Intergovernmental pass through	1,065,982	928,930
Food service operations	615,597	767,812
Interest and fiscal charges	<u>2,413,500</u>	<u>2,434,982</u>
Total expenses	<u>29,018,316</u>	<u>26,164,338</u>
Change in net assets	<u>\$ (1,567,163)</u>	<u>\$ 6,575,049</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,567,163. Total governmental expenses of \$29,018,316 were offset by program revenues of \$2,554,555 and general revenues of \$24,896,598. Program revenues supported 8.80% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 89.67% of total governmental revenue.

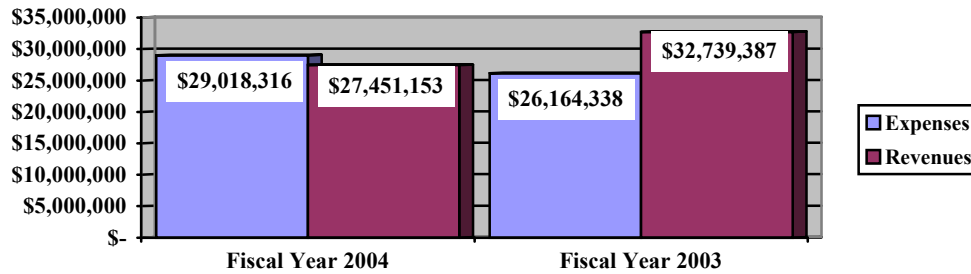
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,791,079 or 47.53% of total governmental expenses for fiscal year 2004.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses				
Instruction:				
Regular	\$ 11,458,618	\$ 11,427,366	\$ 10,224,845	\$ 10,159,701
Special	2,217,027	2,099,617	1,994,561	1,908,167
Vocational	64,921	64,921	87,495	87,495
Other	50,513	50,513	16,977	16,977
Support services:				
Pupil	1,824,315	1,801,788	1,691,142	1,670,644
Instructional staff	1,869,609	1,456,502	1,989,671	1,645,068
Board of education	17,703	17,703	22,743	22,743
Administration	1,987,544	1,987,544	1,835,728	1,835,728
Fiscal	631,165	631,165	606,147	606,147
Business	70,443	70,443	55,552	55,552
Operations and maintenance	2,503,115	2,503,115	1,364,252	1,359,252
Pupil transportation	1,396,416	1,396,416	1,364,137	1,364,137
Central	54,988	46,770	19,586	11,264
Operations of non-instructional services	142,193	109,203	94,418	46,718
Extracurricular activities	634,667	451,106	665,360	505,494
Intergovernmental pass through	1,065,982	73,002	928,930	(26,521)
Food service operations	615,597	(136,913)	767,812	60,942
Interest and fiscal charges	2,413,500	2,413,500	2,434,982	2,434,982
Total expenses	<u>\$ 29,018,316</u>	<u>\$ 26,463,761</u>	<u>\$ 26,164,338</u>	<u>\$ 23,764,490</u>

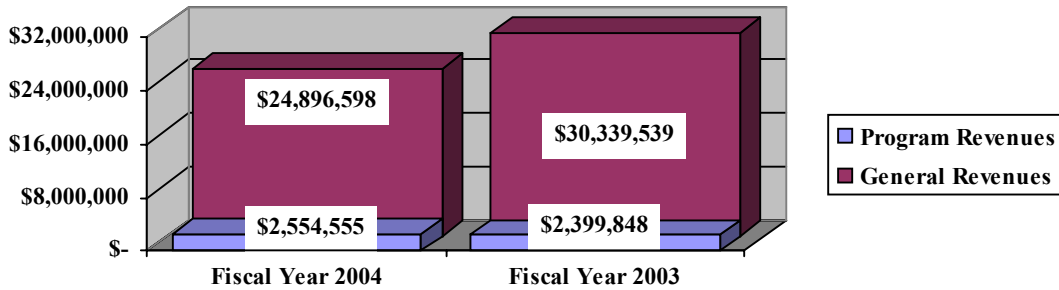
**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The dependence upon tax and other general revenues for governmental activities is apparent, 98.92% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 91.20%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$25,414,971, which is lower than last year's total of \$43,028,083. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ 14,733,181	\$ 16,920,426	\$ (2,187,245)
Debt service	2,826,023	3,000,677	(174,654)
Building	7,404,893	22,695,669	(15,290,776)
Other Governmental	<u>450,874</u>	<u>411,311</u>	<u>39,563</u>
Total	<u>\$ 25,414,971</u>	<u>\$ 43,028,083</u>	<u>\$ (17,613,112)</u>

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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General Fund

The District's general fund balance decreased \$2,187,245. The table that follows assists in illustrating the financial activities of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 15,663,995	\$ 19,527,484	\$ (3,863,489)	(19.78) %
Earnings on investments	375,397	1,439,462	(1,064,065)	(73.92) %
Extracurricular	28,107	18,055	10,052	55.67 %
Intergovernmental	5,658,872	5,315,303	343,569	6.46 %
Other revenues	<u>55,877</u>	<u>37,700</u>	<u>18,177</u>	48.21 %
Total	<u>\$ 21,782,248</u>	<u>\$ 26,338,004</u>	<u>\$ (4,555,756)</u>	(17.30) %
<u>Expenditures</u>				
Instruction	\$ 13,004,541	\$ 12,069,276	\$ 935,265	7.75 %
Support services	10,049,216	9,654,400	394,816	4.09 %
Operation of non-instructional services	17,616	21,728	(4,112)	(18.92) %
Extracurricular activities	490,728	507,122	(16,394)	(3.23) %
Capital outlay	684,000	280,000	404,000	144.29 %
Debt service	<u>407,392</u>	<u>276,592</u>	<u>130,800</u>	47.29 %
Total	<u>\$ 24,653,493</u>	<u>\$ 22,809,118</u>	<u>\$ 1,844,375</u>	8.09 %

The decrease in tax revenue is due primarily to a decrease in the amount of real estate tax collected that was available as an advance at fiscal year-end. This amount can fluctuate depending upon when tax bills are sent. Earnings on investments decreased due to interest rate cuts by the Federal Reserve Bank on available investments and due to less cash available for investment at June 30, 2004 versus 2003.

Debt Service Fund

The District's debt service fund balance decreased \$174,654. The debt service fund had revenues of \$3,245,512 and expenditures of \$3,420,166. The primary revenue source was tax revenue which was \$2,827,818 in fiscal year 2004 and \$3,844,933 in fiscal year 2003. During fiscal year 2004, the debt service fund made \$1,000,000 in principal payments and \$2,376,213 in interest payments.

Building Fund

The District's building fund balance decreased \$15,290,776. The building fund had no revenue in fiscal year 2004 or fiscal year 2003. Total expenditures in the building fund were \$15,290,776 in fiscal year 2004 and \$18,283,987 in fiscal year 2003. The fund balance of the building fund at June 30, 2002 included proceeds of a \$49.6 million bond issue used for various construction projects undertaken by the District.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$24,772,305, which was higher than the original budgeted revenues estimate of \$24,010,055. Actual revenues and other financing sources for fiscal 2004 was \$24,753,887. This represents a \$18,418 decrease from final budgeted revenues.

General fund final appropriations (appropriated expenditures plus other financing uses) were \$24,866,307, which was higher than the original budgeted appropriations estimate of \$24,151,564. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$24,144,917, which was \$721,390 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$42,256,926 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

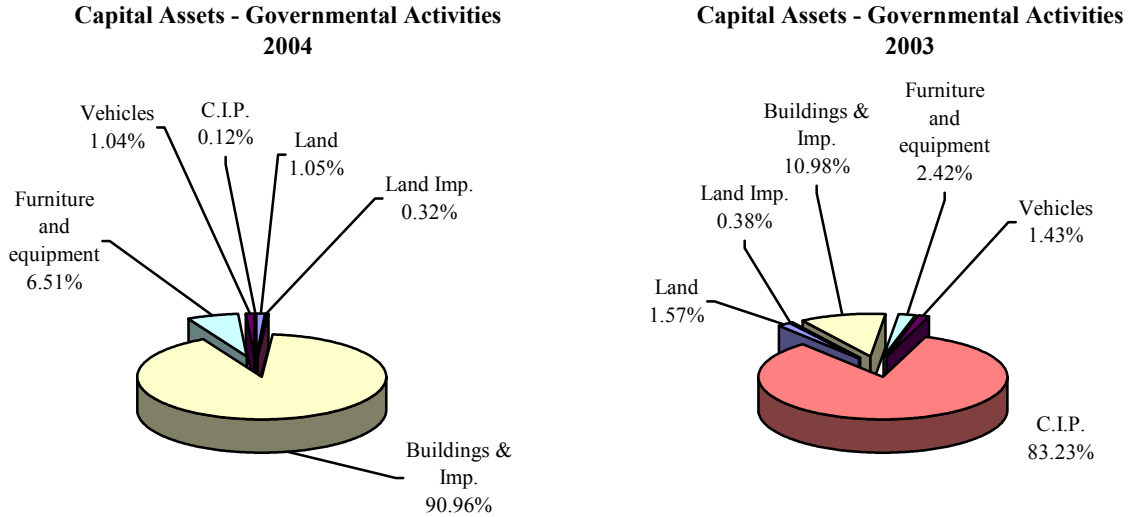
	Governmental Activities	
	2004	2003
Land	\$ 501,523	\$ 501,523
Land improvements	151,543	120,439
Buildings and improvements	43,327,345	3,517,593
Furniture and equipment	3,101,653	774,387
Vehicles	496,543	457,814
Construction in progress	55,749	26,650,929
Total	\$ 47,634,356	\$ 32,022,685

Total additions to capital assets for 2004 were \$16,491,994 and total disposals were \$326,704 (net of accumulated depreciation). The disposal of Construction In Progress of \$40,359,180 represents construction projects which were completed in fiscal year 2004 and transferred to buildings and improvements. The overall increase in capital assets of \$15,611,671 is primarily due to the construction in progress going on within the District in fiscal 2004.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The graphs below present the District's capital assets for fiscal 2004 and fiscal 2003.



See Note 10 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had \$47,924,000 in general obligation bonds and capital lease obligations outstanding. The following table summarizes the bonds and capital leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2004	Governmental Activities 2003
General obligation bonds	\$ 47,225,000	\$ 48,225,000
Capital lease obligations	699,000	394,569
Total	\$ 47,924,000	\$ 48,619,569

The District has issued various general obligation bonds to provide resources to finance construction projects throughout the District. The District's general obligation bonds consist of both current interest serial bonds and current interest term bonds. The District's general obligation bond activity is detailed in Note 11 to the basic financial statements.

The capital lease obligations represent agreements for computer equipment, musical equipment and school buses. The capital lease obligations are detailed in Note 9 of the basic financial statements.

At June 30, 2004, the District's overall legal debt margin was \$42,699,871 with an unvoted debt margin of \$967,765.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Current Financial Related Activities

The District relies heavily upon grants, entitlements, and property taxes. These combined revenues increased about 7% in fiscal year 2004, largely due to our county's triennial update. Similarly the District's expenditures increased about 6% due to large increases in health insurance and utilities. However, the District has operated within a balanced budget in each of the past three budget cycles.

The District has carefully managed its general fund budget in order to optimize the dollars available for educating the students it serves, and to minimize the levy millage amounts needed periodically from the community's citizens. As the preceding information shows, the general fund cash balance was \$12,260,860 at June 30, 2004. The general fund cash balance includes interest earnings from the bond issue proceeds and bond tax collections as well as TIF funds received from the bond millage. On a GAAP basis, these amounts are consolidated with the general fund. Fiscal year-end general fund cash balances were \$11,838,277, \$10,331,624, \$7,370,618, \$7,300,828, and \$9,376,516 at June 30 in Fiscal Years 2003, 2002, 2001, 2000, and 1999, respectively. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance, allow a 5-year emergency levy to expire in 1998, obtain voter approval of a \$49.6 million bond issue in 2000, and continue a quality, comprehensive educational program.

The Board's five-year projections indicate that the district will require additional operating income beginning in Fiscal Year 2009. With Board guidance, the recent fiscal year budgets have been carefully managed in order to prolong the timing of the operating request, anticipated in 2007. The Board's timing for requesting additional operating funds will be triggered when the cash reserves equal one-fourth of a year's expenditures.

In November 2000, the Board submitted, and the electors of the District approved a 4.18-mill bond issue to generate \$49.6 million dollars to construct a new elementary, a new high school, and other district renovations to existing facilities. The interest income from the bond issue proceeds has been reserved to the general fund to offset operating deficits, fund capital projects not included in the bond issue, and provide for expenses inherent in operating larger facilities.

Several important legislative and judicial actions have occurred that have had significant impact on our School District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." The State has not yet developed a school-funding plan that has been deemed acceptable by the Court, and ultimate resolution still seems to be some time in the future. There is concern that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget. The biennial budget approved by the State for Fiscal Years 2004 and 2005 did not prove helpful to the funding situation for Indian Hill Schools. Changes to the State's school foundation funding formula did not provide additional revenue, and in fact, caused a decline in foundation funding for 2004. In spite of this, the Board is committed to balancing its operating budget.

Other factors affecting our revenue projections and which will cause the District to seek voter approval of additional operating funds include:

- State legislated phase out of inventory portion of Personal Property Tax.
- State legislated phase out of the Personal Property Tax Exemption Reimbursement.
- State legislated reductions in the State Formula Per Pupil increase from 2.8% to 2.2%.
- Potential repeal of the 1% sales tax increase enacted in June 2003 to balance the State budget.
- Reduction in investment income due to reduction in market rates.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Steady or slightly increasing enrollment over the past several years is a trend that has received, and will continue to receive, the attention of the Board and Administration. Reduced student counts have resulted in staffing reductions in targeted areas. Other areas of the operations are regularly evaluated for best practices in terms of effectiveness, efficiency and cost containment.

The District has committed itself to educational and financial excellence for many years. The budgeting and internal controls utilized by the School District are well regarded by the Auditor of State, as exemplified by the unqualified audit opinions that have been received. Each challenge identified in this section is viewed simultaneously as an opportunity for the District to foray down paths not previously traveled to continue its commitment to excellence. The District is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support the educational program.

Traditionally, our community has been supportive of school tax issues. We have had only two levy attempts fail in the last 28 years. In today's climate of no tax increases, passing an additional tax levy will be a challenge. The key will be informing our voters why this need exists. In explaining that ever since the DeRolph case declared the current state funding formula unconstitutional, the State has been directing additional revenue to low property wealth districts and not districts such as ours. The only way that districts such as ours can anticipate additional funding is through local property tax levies.

At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations. The District has not anticipated a significant growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With approximately 20 percent of taxes paid for the District coming from business or industry, this could have a significant impact on the District's residential taxpayers.

Presently, the District's largest commercial taxpayer, Kenwood Towne Centre, has filed an appeal of the local Board of Revision decision to uphold the Auditor's valuation with the State's Department of Taxation. The District has also filed an appeal of the local Board of Revision decision seeking an increase to the County Auditor's valuation.

The District has continued to maintain the highest standards of service to our students, parents and community. The District is always presented with challenges and opportunities. Overall, the District continues to perform at the highest level determined by the State of Ohio, which is measured by a defined set of proficiency criteria. Our most recent state report card shows the District students achieving a perfect 27 out of 27.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Julia Toth, Treasurer, Indian Hill Exempted Village School District, 6855 Drake Road, Cincinnati, Ohio 45243.

**BASIC
FINANCIAL STATEMENTS**

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 23,395,128
Receivables:	
Taxes	21,997,073
Accounts	8,689
Intergovernmental	37,164
Accrued interest	121,199
Prepayments	55,962
Materials and supplies inventory.	12,788
Capital assets:	
Land and construction in progress	557,272
Depreciable capital assets, net	47,077,084
Total capital assets, net.	<u>47,634,356</u>
 Total assets.	 <u>93,262,359</u>
Liabilities:	
Accounts payable.	392,764
Contracts payable	1,216,929
Accrued wages and benefits	2,040,477
Pension obligation payable.	617,478
Intergovernmental payable	96,700
Deferred revenue	15,510,950
Accrued interest payable	207,482
Matured bonds payable	28,492
Long-term liabilities:	
Due within one year.	1,490,804
Due within more than one year	47,552,614
 Total liabilities	 <u>69,154,690</u>
Net Assets:	
Invested in capital assets, net of related debt.	7,115,249
Restricted for:	
Debt service.	2,658,903
Other purposes	80,448
Unrestricted	<u>14,253,069</u>
 Total net assets	 <u>\$ 24,107,669</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 11,458,618	\$ 23,348	\$ 7,904	\$ -	\$ (11,427,366)
Special	2,217,027	-	117,410	-	(2,099,617)
Vocational	64,921	-	-	-	(64,921)
Other	50,513	-	-	-	(50,513)
Support services:					
Pupil	1,824,315	16,155	6,372	-	(1,801,788)
Instructional staff	1,869,609	-	413,107	-	(1,456,502)
Board of education	17,703	-	-	-	(17,703)
Administration	1,987,544	-	-	-	(1,987,544)
Fiscal	631,165	-	-	-	(631,165)
Business	70,443	-	-	-	(70,443)
Operations and maintenance	2,503,115	-	-	-	(2,503,115)
Pupil transportation	1,396,416	-	-	-	(1,396,416)
Central	54,988	-	8,218	-	(46,770)
Operation of non-instructional services	142,193	5,500	27,490	-	(109,203)
Extracurricular activities	634,667	183,561	-	-	(451,106)
Intergovernmental pass through	1,065,982	-	992,980	-	(73,002)
Food service operations	615,597	706,088	46,422	-	136,913
Interest and fiscal charges	2,413,500	-	-	-	(2,413,500)
Total governmental activities	\$ 29,018,316	\$ 934,652	\$ 1,619,903	\$ -	(26,463,761)
General Revenues:					
Property taxes levied for:					
General purposes					15,709,084
Debt service					2,828,857
Grants and entitlements not restricted to specific programs					6,076,566
Investment earnings					240,970
Miscellaneous					41,121
Total general revenues					24,896,598
Change in net assets					(1,567,163)
Net assets at beginning of year, as restated					25,674,832
Net assets at end of year					\$ 24,107,669

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and investments	\$ 12,260,860	\$ 1,866,023	\$ 8,566,718	\$ 701,527	\$ 23,395,128
Receivables:					
Taxes	18,770,314	3,226,759	-	-	21,997,073
Accounts	1,885	-	-	6,804	8,689
Intergovernmental	-	-	-	37,164	37,164
Accrued interest	120,736	-	-	463	121,199
Interfund loans	5,767	-	-	-	5,767
Prepayments	858	-	55,104	-	55,962
Materials and supplies inventory	-	-	-	12,788	12,788
Total assets	\$ 31,160,420	\$ 5,092,782	\$ 8,621,822	\$ 758,746	\$ 45,633,770
Liabilities:					
Accounts payable	\$ 210,898	\$ -	\$ -	\$ 181,866	\$ 392,764
Contracts payable	-	-	1,216,929	-	1,216,929
Accrued wages and benefits	1,982,331	-	-	58,146	2,040,477
Compensated absences payable	43,804	-	-	-	43,804
Pension obligation payable	377,256	-	-	7,924	385,180
Intergovernmental payable	73,905	-	-	22,795	96,700
Matured bonds payable	28,492	-	-	-	28,492
Interfund loans payable	-	-	-	5,767	5,767
Deferred revenue	13,710,553	2,266,759	-	31,374	16,008,686
Total liabilities	16,427,239	2,266,759	1,216,929	307,872	20,218,799
Fund Balances:					
Reserved for encumbrances	312,131	-	5,468,878	62,248	5,843,257
Reserved for property tax unavailable for appropriation	5,086,000	960,000	-	-	6,046,000
Reserved for prepayments	858	-	55,104	-	55,962
Reserved for debt service	-	1,866,023	-	-	1,866,023
Unreserved, undesignated, reported in:					
General fund	9,334,192	-	-	-	9,334,192
Special revenue funds	-	-	-	388,626	388,626
Capital projects funds	-	-	1,880,911	-	1,880,911
Total fund balances	14,733,181	2,826,023	7,404,893	450,874	25,414,971
Total liabilities and fund balances	\$ 31,160,420	\$ 5,092,782	\$ 8,621,822	\$ 758,746	\$ 45,633,770

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	25,414,971
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			47,634,356
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	440,123	
Intergovernmental revenue		31,374	
Accrued interest		26,239	
Total			497,736
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		47,225,000	
Capital lease obligation		699,000	
Compensated absences		1,075,614	
Pension benefit obligation		232,298	
Accrued interest payable		207,482	
Total			(49,439,394)
Net assets of governmental activities		\$	24,107,669

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 15,663,995	\$ 2,827,818	\$ -	\$ -	\$ 18,491,813
Tuition	10,130	-	-	-	10,130
Earnings on investments	375,397	-	-	6,031	381,428
Charges for services	-	-	-	706,088	706,088
Extracurricular	28,107	-	-	184,827	212,934
Other local revenues	45,747	-	-	874	46,621
Intergovernmental - intermediate sources	2,145,963	-	-	-	2,145,963
Intergovernmental - state	3,512,909	417,694	-	1,050,938	4,981,541
Intergovernmental - federal	-	-	-	577,415	577,415
Total revenue	<u>21,782,248</u>	<u>3,245,512</u>	<u>-</u>	<u>2,526,173</u>	<u>27,553,933</u>
Expenditures:					
Current:					
Instruction:					
Regular	10,847,481	-	-	47,023	10,894,504
Special	2,044,809	-	-	127,223	2,172,032
Vocational	61,738	-	-	-	61,738
Other	50,513	-	-	-	50,513
Support Services:					
Pupil	1,792,783	-	-	23,885	1,816,668
Instructional staff	1,666,731	-	-	402,399	2,069,130
Board of education	17,703	-	-	-	17,703
Administration	1,969,694	-	-	-	1,969,694
Fiscal	591,434	43,953	-	-	635,387
Business	70,443	-	-	-	70,443
Operations and maintenance	2,521,511	-	-	-	2,521,511
Pupil transportation	1,360,957	-	-	-	1,360,957
Central	54,391	-	-	463	54,854
Operation of non-instructional services	17,616	-	-	55,050	72,666
Extracurricular activities	490,728	-	-	138,624	629,352
Food service operations	-	-	-	580,763	580,763
Intergovernmental pass through	-	-	-	1,111,180	1,111,180
Facilities acquisition and construction	3,569	-	15,290,776	-	15,294,345
Capital outlay	684,000	-	-	-	684,000
Debt service:					
Principal retirement	379,569	1,000,000	-	-	1,379,569
Interest and fiscal charges	27,823	2,376,213	-	-	2,404,036
Total expenditures	<u>24,653,493</u>	<u>3,420,166</u>	<u>15,290,776</u>	<u>2,486,610</u>	<u>45,851,045</u>
Excess of revenues over (under) expenditures	<u>(2,871,245)</u>	<u>(174,654)</u>	<u>(15,290,776)</u>	<u>39,563</u>	<u>(18,297,112)</u>
Other financing sources:					
Proceeds of capital lease transaction	684,000	-	-	-	684,000
Total other financing sources	<u>684,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>684,000</u>
Net change in fund balances	(2,187,245)	(174,654)	(15,290,776)	39,563	(17,613,112)
Fund balances at beginning of year	<u>16,920,426</u>	<u>3,000,677</u>	<u>22,695,669</u>	<u>411,311</u>	<u>43,028,083</u>
Fund balances at end of year	<u>\$ 14,733,181</u>	<u>\$ 2,826,023</u>	<u>\$ 7,404,893</u>	<u>\$ 450,874</u>	<u>\$ 25,414,971</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(17,613,112)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$16,491,994) exceed depreciation expense (\$553,619) in the current period.		15,938,375
The net effect of various miscellaneous transactions involving capital assets (i.e.; disposals, sales, trade-ins, and donations) is to decrease net assets.		(326,704)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(102,780)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		1,000,000
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		379,569
Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		(684,000)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(9,464)
Some expenses reported in the statement of activities, such as compensated absences, future retirement obligations, and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(149,047)
Change in net assets of governmental activities	\$	(1,567,163)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 17,623,363	\$ 18,182,853	\$ 18,182,853	\$ -
Tuition	9,818	10,130	10,130	-
Earnings on investments	776,906	801,571	801,571	-
Extracurricular	25,757	26,575	28,107	1,532
Other local revenues	49,784	51,364	31,364	(20,000)
Intergovernmental - intermediate sources	2,079,931	2,145,963	2,145,963	-
Intergovernmental - state	3,404,816	3,512,909	3,512,909	-
Total revenue	<u>23,970,375</u>	<u>24,731,365</u>	<u>24,712,897</u>	<u>(18,468)</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,887,497	11,209,838	10,925,975	283,863
Special	2,086,828	2,148,611	2,026,111	122,500
Vocational	60,373	62,160	61,201	959
Other	40,792	42,000	50,513	(8,513)
Support Services:				
Pupil	1,674,817	1,724,402	1,744,287	(19,885)
Instructional staff	1,956,982	2,014,921	1,951,701	63,220
Board of education	24,903	25,640	17,703	7,937
Administration	1,963,916	2,022,060	1,964,667	57,393
Fiscal	612,001	630,120	598,221	31,899
Business	62,840	64,700	70,792	(6,092)
Operations and maintenance	2,737,466	2,818,512	2,485,243	333,269
Pupil transportation	1,448,480	1,491,364	1,642,683	(151,319)
Central	52,447	54,000	52,911	1,089
Operation of non-instructional services	40,053	41,239	17,889	23,350
Extracurricular activities	492,169	506,740	531,451	(24,711)
Facilities acquisition and construction	-	-	3,569	(3,569)
Total expenditures	<u>24,141,564</u>	<u>24,856,307</u>	<u>24,144,917</u>	<u>711,390</u>
Excess of revenues over (under) expenditures	<u>(171,189)</u>	<u>(124,942)</u>	<u>567,980</u>	<u>692,922</u>
Other financing sources (uses):				
Refund of prior year expenditure	39,588	40,845	40,845	-
Transfers out	(10,000)	(10,000)	-	10,000
Proceeds from sale of capital assets	92	95	145	50
Total other financing sources (uses)	<u>29,680</u>	<u>30,940</u>	<u>40,990</u>	<u>10,050</u>
Net change in fund balance	(141,509)	(94,002)	608,970	702,972
Fund balance at beginning of year	11,342,284	11,342,284	11,342,284	-
Prior year encumbrances appropriated	63,183	63,183	63,183	-
Fund balance at end of year	<u>\$ 11,263,958</u>	<u>\$ 11,311,465</u>	<u>\$ 12,014,437</u>	<u>\$ 702,972</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments	\$ 47,626
Total assets	<u>\$ 47,626</u>
Liabilities:	
Due to students	\$ 47,626
Total liabilities	<u>\$ 47,626</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Indian Hill Exempted Village School District (the "District") is located in Hamilton County, including all of the Village of Indian Hill, Ohio, and portions of surrounding townships. The District serves an area of approximately 23 square miles.

The District was established in 1936 through the consolidation of existing land areas and school districts. The District is organized under Sections 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 District was originally chartered by the Ohio State Legislature. In 1853, state laws were enacted to create local Boards of Education. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.09 of the Ohio Revised Code.

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 97 non-certified personnel and 197 certified teaching and administrative personnel to provide services to 2,260 students and other community members, which ranks it 244 out of 613 public school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATION

The Hamilton/Clermont Cooperative Association (HCCA):

The District is a participant in the Hamilton/Clermont Cooperative Association (HCCA) which is a computer consortium. HCCA is an association of 24 public school districts within the boundaries of Hamilton and Clermont Counties. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The governing board of HCCA consists of the superintendents and/or treasurers of the participating districts. HCCA is not accumulating significant financial resources nor is it experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. Financial information can be obtained from the HCCA Board of Education, Steve Hawley, Director, at 7615 Harrison Avenue, Cincinnati, Ohio 45231-3107.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, 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. Refer to Note 12.B. for further information on this group rating plan.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

Building Fund - The building fund is used to account for the receipts and expenditures related to all special bond funds in the District and to account for receipts and expenditures involved in the construction and replacement of facilities for the instruction of students in job skills. All proceeds from the sale of bonds must be paid into this fund. Expenditures recorded here represent the costs of acquiring and improving capital facilities, including real property.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for food service and uniform school supplies operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

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

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

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

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 legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 Hamilton County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the 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 further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts from the certificate of amended resources that was in effect at the time the final appropriations were passed by the Board of Education.

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 is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level for all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the fund level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

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. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

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.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the basic financial statements.

During fiscal year 2004, investments were limited to a repurchase agreement, federal agency securities, U.S. Government money market mutual funds, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$375,397, which includes \$227,728 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at fiscal year-end is provided in Note 5.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the cost of inventory items are recorded as an expenditure in the governmental funds when consumed.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintained a capitalization threshold of \$5,000 for its general capital assets during fiscal 2004. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 - 30 years
Buildings and improvements	20 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

I. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the "vesting method". A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for this future severance eligibility, all employees at least fifty (50) years of age, with at least ten (10) years of service, or twenty (20) years of service at any age were included.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments, debt service, and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the asset.

N. Estimates

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

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Note 18 for additional information regarding set-asides.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Interfund Activity

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

Interfund activity between governmental funds is eliminated in the statement of activities.

Q. Parochial Schools

Within the District boundaries, All Saints, St. Vincent Ferrer, Holy Trinity Episcopal, Cincinnati Country Day, and Yavneh Day schools operate as parochial schools. Current state legislation provides funding to these schools. These monies are received and disbursed on behalf of the schools by the Treasurer of the District, as directed by the school. The receipt and expenditure of these state monies by the District are reflected in a nonmajor governmental fund for financial reporting purposes because the District has administrative involvement in the disbursement of the monies.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 – PRIOR PERIOD ADJUSTMENT

It was found that the District's June 30, 2004 capital asset amount for buildings was understated. This was due to the District not capitalizing all the construction in progress from the previous year. Therefore, the capital assets at June 30, 2003 were understated.

	Governmental Activities
Net assets at June 30, 2003, as previously stated	\$20,297,402
Understatement of capital assets	5,377,430
Restated net assets at June 30, 2003	\$25,674,832

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Ohio Reads	\$ 15
Summer Intervention	132
Vocational Education Enhancements	297
IDEA Part B Grants	23,457
IDEA Preschool-Handicapped	23
Improving Teacher Quality	5,786

All funds, except the Improving Teacher Quality fund, complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

B. Compliance

Contrary to Ohio Revised Code Section 5705.10, the District had a negative cash balance in the Improving Teacher Quality special revenue fund of \$5,767.

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Investments". Statutes require the classification of monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Interim monies may 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 any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Deposits: At year-end, the carrying amount of the District's deposits was \$(374,589) and the bank balance was \$462,737. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements, which are reported as "investments". Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$262,737 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category</u> 1	<u>Category</u> 3	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Repurchase agreements	\$ -	\$ 2,234,748	\$ 2,234,748	\$ 2,234,748
Federal agency securities	<u>16,239,127</u>	<u>-</u>	16,239,127	16,239,127
Total	<u>\$ 16,239,127</u>	<u>\$ 2,234,748</u>		
U.S. Government money market mutual fund			4,740,081	4,740,081
Investment in STAR Ohio			<u>603,387</u>	<u>603,387</u>
Total investments			<u>\$ 23,817,343</u>	<u>\$ 23,817,343</u>

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 23,442,754	\$ -
Investments of the cash management pool:		
Repurchase agreements	(2,234,748)	2,234,748
Federal agency securities	(16,239,127)	16,239,127
U.S. Government money market mutual fund	(4,740,081)	4,740,081
Investment in STAR Ohio	<u>(603,387)</u>	<u>603,387</u>
GASB Statement No. 3	<u>\$ (374,589)</u>	<u>\$ 23,817,343</u>

NOTE 6 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2004 as reported on the fund statements consist of the following individual interfund loan receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	\$ 5,767

The purpose of the interfund balance is to cover the deficit cash balance in the Improving Teacher Quality special revenue fund. This interfund balance will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market 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.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Hamilton County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$5,086,000 in the general fund and \$960,000 in the debt service fund. The amount that was available as advance at June 30, 2003 was \$7,265,000 in the general fund and \$1,505,000 in the debt service fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 900,211,080	95.45	\$ 927,216,410	95.81
Public utility personal	10,361,860	1.10	10,618,110	1.10
Tangible personal property	<u>32,552,300</u>	<u>3.45</u>	<u>29,930,460</u>	<u>3.09</u>
Total	<u>\$ 943,125,240</u>	<u>100.00</u>	<u>\$ 967,764,980</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 42.92		\$ 45.62	
Debt Service	4.18		3.78	

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes	\$ 21,997,073
Accounts	8,689
Accrued interest	121,199
Intergovernmental	<u>37,164</u>
Total	<u>\$ 22,164,125</u>

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within subsequent years.

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2004, and in prior years, the District entered into capitalized lease agreements for the acquisition of school buses, computers and laptops, and fitness equipment.

These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the leases were accounted for as a capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements and as a reduction of the lease liability in the government-wide financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in the statement of net assets in the amount of \$1,735,478, which is equal to the present value of the future minimum lease payments as of the date of inception. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2004 fiscal year totaled \$379,569. This amount is reflected as debt service principal retirement in the general fund.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE – (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2004.

<u>Year Ending June 30</u>	<u>Equipment</u>
2005	\$ 391,081
2006	288,937
2007	<u>47,884</u>
Total minimum lease payment	727,902
Less: amount representing interest	<u>(28,902)</u>
Present value of minimum lease payments	<u>\$ 699,000</u>

NOTE 10 - CAPITAL ASSETS

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

	<u>Restated Balance 7/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/04</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 501,523	\$ -	\$ -	\$ 501,523
Construction in progress	<u>26,650,929</u>	<u>13,764,000</u>	<u>(40,359,180)</u>	<u>55,749</u>
Total capital assets, not being depreciated	<u>27,152,452</u>	<u>13,764,000</u>	<u>(40,359,180)</u>	<u>557,272</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	435,676	49,695	-	485,371
Buildings and improvements	13,703,859	40,359,180	(2,383,309)	51,679,730
Furniture and equipment	2,485,671	2,581,616	-	5,067,287
Vehicles	<u>1,664,443</u>	<u>96,683</u>	<u>-</u>	<u>1,761,126</u>
Total capital assets, being depreciated	<u>18,289,649</u>	<u>43,087,174</u>	<u>(2,383,309)</u>	<u>58,993,514</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(315,237)	(18,591)	-	(333,828)
Buildings and improvements	(10,186,266)	(222,724)	2,056,605	(8,352,385)
Furniture and equipment	(1,711,284)	(254,350)	-	(1,965,634)
Vehicles	<u>(1,206,629)</u>	<u>(57,954)</u>	<u>-</u>	<u>(1,264,583)</u>
Total accumulated depreciation	<u>(13,419,416)</u>	<u>(553,619)</u>	<u>2,056,605</u>	<u>(11,916,430)</u>
Governmental activities capital assets, net	<u>\$ 32,022,685</u>	<u>\$ 56,297,555</u>	<u>\$ (40,685,884)</u>	<u>\$ 47,634,356</u>

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 154,184
Special	12,903
Vocational	1,981
<u>Support Services:</u>	
Pupil	5,096
Instructional staff	128,829
Administration	15,763
Fiscal	653
Operations and maintenance	26,473
Pupil transportation	86,658
Central	134
Operation of non-instructional	23,582
Extracurricular activities	7,967
Facilities acquisition and construction	65,860
Food service operations	<u>23,536</u>
Total depreciation expense	<u>\$ 553,619</u>

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	Amount
	<u>July 1, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2004</u>	<u>Due in</u>
					<u>One Year</u>
Compensated absences	\$ 1,065,978	\$ 122,131	\$ (68,691)	\$ 1,119,418	\$ 43,804
G.O. Bonds	48,225,000	-	(1,000,000)	47,225,000	1,075,000
Capital lease obligations	<u>394,569</u>	<u>684,000</u>	<u>(379,569)</u>	<u>699,000</u>	<u>372,000</u>
Total	<u>\$ 49,685,547</u>	<u>\$ 806,131</u>	<u>\$ (1,448,260)</u>	<u>\$ 49,043,418</u>	<u>\$ 1,490,804</u>

The capital lease obligation will be paid from the general fund. Compensated absences will be paid from the fund from which the employee is paid.

- B. On April 1, 2001, the District issued \$49,600,000 in general obligation bonds (Series 2001, School Facilities Improvement Bonds). These bonds are general obligations of the District, for which its full faith and credit is pledged for repayment. Payments of principal and interest relating to these bonds are recorded as expenditures of the debt service fund. The source of payment is derived from a current 4.18 (average) mill bonded debt tax levy.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

This issue is comprised of current interest serial bonds, par value \$31,070,000, and current interest term bonds, par value \$18,530,000.

The bonds maturing on December 1, 2020 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amount as follows:

<u>Redemption Date (December 1)</u>	<u>Principal Amount Subject to Mandatory Redemption</u>
2019	\$ 3,245,000

Unless previously redeemed, the remaining principal amount of \$3,465,000 will mature at stated maturity (December 1, 2020).

The bonds maturing on December 1, 2023 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amount as follows:

<u>Redemption Date (December 1)</u>	<u>Principal Amount Subject to Mandatory Redemption</u>
2021	\$ 3,695,000
2022	3,935,000

Unless previously redeemed, the remaining principal amount of \$4,190,000 will mature at stated maturity (December 1, 2023).

The bonds maturing on or after December 1, 2012, are subject to optional redemption, in whole or in part on any date at the option of the District on or after December 1, 2011, at par.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2023.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- C. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal on Bonds</u>	<u>Interest on Bonds</u>	<u>Total</u>
2005	\$ 1,075,000	\$ 2,334,713	\$ 3,409,713
2006	1,160,000	2,290,013	3,450,013
2007	1,255,000	2,241,713	3,496,713
2008	1,350,000	2,188,769	3,538,769
2009	1,455,000	2,124,550	3,579,550
2010 - 2014	9,180,000	9,384,694	18,564,694
2015 - 2019	13,220,000	6,484,331	19,704,331
2020 - 2024	<u>18,530,000</u>	<u>2,434,248</u>	<u>20,964,248</u>
Total	<u>\$ 47,225,000</u>	<u>\$ 29,483,031</u>	<u>\$ 76,708,031</u>

D. Legal Debt Margin

The Ohio Revised Code provides that the total net indebtedness of a school district shall never exceed 9% of the total assessed valuation of the district. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the district.

The effects of these debt limitations for the District at June 30, 2004 are a voted debt margin of \$42,699,871 (including available funds of \$2,826,023) and an unvoted debt margin of \$967,765.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - CONTRACTUAL COMMITMENTS

At June 30, 2004, the District had the following outstanding contractual commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Balance Remaining</u>
Beacon Electric Company	\$ 488,000	\$ 18,400	\$ 469,600
Cinfab, Inc.	735,790	12,361	723,429
CJ Hughes & Sons Plumbing	108,562	5,331	103,231
Seyferth Building Company	<u>903,842</u>	<u>19,657</u>	<u>884,185</u>
Total	<u>\$ 2,236,194</u>	<u>\$ 55,749</u>	<u>\$ 2,180,445</u>

NOTE 13 - RISK MANAGEMENT

A. Comprehensive and Employee Health Benefits

The District does not have a “self-insurance” fund with formalized risk management programs.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year, the District contracted with Indiana Insurance Company for general liability insurance with a \$1,000,000 single occurrence and a \$2,000,000 aggregate. Property insurance carries a \$1,000 deductible.

The bus fleet and maintenance vehicles are insured by The Indiana Insurance Company with a \$250 deductible and \$1,000,000 limit per occurrence.

The District provides life and dental insurance to all employees through MetLife Insurance.

The District has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2003.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$293,431, \$256,381, and \$159,304, respectively; 40.75% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$173,858, represents the unpaid contribution for fiscal year 2004.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,578,626, \$1,511,117, and \$1,076,075, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal 2004 were \$27,136 made by the District and \$46,831 made by plan members.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$121,433 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$25,400. The surcharge, 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, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$177,161 during the 2004 fiscal year.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 608,970
Net adjustment for revenue accruals	(2,930,649)
Net adjustment for expenditure accruals	(832,063)
Net adjustment for other sources/uses	643,010
Adjustment for encumbrances	323,487
GAAP basis	<u>\$ (2,187,245)</u>

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 17 - CONTINGENCIES - (Continued)

B. Litigation

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 18 - STATUTORY RESERVES

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

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (686,229)	\$ -
Current year set-aside requirement	317,543	317,543
Qualifying disbursements	<u>(364,849)</u>	<u>(15,856,382)</u>
Set-aside reserve balance at June 30, 2004	<u>\$ (733,535)</u>	<u>\$ (15,538,839)</u>
Cash balance carried forward to FY 2005	<u>\$ (733,535)</u>	<u>\$ -</u>

The District had qualifying disbursements during the year for textbooks/instructional materials and capital acquisition that reduced the set-aside amount below zero. Only the excess amount for the Textbooks/Instructional Materials may be used to reduce the set-aside requirement of future years.

INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT

HAMILTON COUNTY, OHIO

SCHEDULE OF FEDERAL AWARDS EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Lunch Program	LL-P4 2004	10.555	\$24,170	\$24,170
Total U.S. Department of Agriculture			<u>24,170</u>	<u>24,170</u>
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1-S1 2003	84.010	6,693	14,206
Title I Grants to Local Educational Agencies	C1-S1 2004	84.010	<u>92,824</u>	<u>72,771</u>
			99,517	86,977
Special Education Cluster:				
Special Education - Grants to States (IDEA Part B)	6B-SF-03	84.027	22,450	37,202
Special Education - Grants to States (IDEA Part B)	6B-SF-04	84.027	318,575	303,755
Special Education - Handicapped Preschool	PG-S1-04P	84.173	<u>4,688</u>	<u>4,688</u>
			345,713	345,645
Safe and Drug-Free Schools and Communities	DR-S1-02	84.186	0	650
Safe and Drug-Free Schools and Communities	DR-S1-03	84.186	8,836	8,144
Safe and Drug-Free Schools and Communities	DR-S1-04	84.186	<u>3,244</u>	<u>772</u>
			12,080	9,566
Innovative Educational Program Strategies	C2-S1-02	84.298	0	11
Innovative Educational Program Strategies	C2-S1-03	84.298	2,513	2,652
Innovative Educational Program Strategies	C2-S1-04	84.298	<u>21,719</u>	<u>15,004</u>
			24,232	17,667
Title II-D Technology	TJ-S1-04	84.318	<u>2,421</u>	<u>2,421</u>
			2,421	2,421
School Renovation Grants	AT-S3 2003	84.352	0	8,412
			<u>0</u>	<u>8,412</u>
Improving Teacher Quality	TR-S1 2004	84.367	43,145	56,871
			<u>43,145</u>	<u>56,871</u>
Total U.S. Department of Education			<u>527,108</u>	<u>527,559</u>
Total Federal Financial Assistance			<u>\$551,278</u>	<u>\$551,729</u>

INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

Note 1 - Noncash Federal Financial Assistance

During the year ended June 30, 2004, the District received \$44,475 and used \$43,645 in fair value inventory under the Nutrition Cluster - Food Distribution (Commodities) Program, Federal CFDA Number 10.550, that is not reported in the above schedule. At June 30, 2004 the District had no significant food commodities inventory.

Note 2 - Significant Accounting Policies

The District prepares its Schedule of Federal Awards Expenditures on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Education
Indian Hill Exempted Village School District
6855 Drake Road
Cincinnati, Ohio 45243

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Indian Hill Exempted Village School District (the District) as of and for the year ended June 30, 2004. 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 of America.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We did note certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated January 25, 2005.

Internal Control over Financial Reporting

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

Board of Education
Indian Hill Exempted Village School District
Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

We did note other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated January 25, 2005.

This report is intended for the information and use of the Board of Education, management, 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.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

January 25, 2005

**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in Accordance with
OMB Circular A-133**

Board of Education
Indian Hill Exempted Village School District
6855 Drake Road
Cincinnati, Ohio 45243

Compliance

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

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

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

Internal Control over Compliance

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

Board of Education
Indian Hill Exempted Village School District
Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in Accordance with
OMB Circular A-133

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

This report is intended for the information and use of the Board of Education, management, 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.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

January 25, 2005

INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY, OHIO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

A. SUMMARY OF AUDITOR'S RESULTS

1. Type of Financial Statement Opinion	Unqualified
2. Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
3. Were there any other reportable internal control weaknesses reported at the financial statement level (GAGAS)?	No
4. Was there any material noncompliance reported at the financial statement level (GAGAS)?	No
5. Were there any material internal control weaknesses reported for major federal programs?	No
6. Were there any other reportable internal control weaknesses reported for major federal programs?	No
7. Type of Major Programs' Compliance Opinion	Unqualified
8. Are there any reportable findings under §.510?	No
9. Major Programs (list):	Special Education Cluster CFDA # 84.027 and # 84.173
10. Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Other Programs
11. Low Risk Auditee?	Yes

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

There were no findings related to the financial statements required to be reported in accordance with GAGAS.

C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs for federal awards.

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Betty Montgomery**

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**INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT
HAMILTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 24, 2005**