



**Auditor of State
Betty Montgomery**

**TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets - June 30, 2004	12
Statement of Activities - For the Fiscal Year Ended June 30, 2004	13
Balance Sheet – Governmental Funds - June 30, 2004.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities - June 30, 2004	15
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds - For the Fiscal Year Ended June 30, 2004	16
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities – For the Fiscal Year Ended June 30, 2004.....	17
Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis) – General Fund - For the Fiscal Year Ended June 30, 2004.....	18
Statement of Net Assets - Fiduciary Fund - June 30, 2004	19
Notes to the Basic Financial Statements - For the Fiscal Year Ended June 30, 2004.....	20
Schedule of Federal Awards Expenditures – For the Fiscal Year Ended June 30, 2004.....	43
Notes to the Schedule of Federal Awards Expenditures	44
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	47
Schedule of Findings.....	49

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Tipp City Exempted Village School District
Miami County
90 South Tippecanoe Drive
Tipp City, Ohio 45371

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tipp City Exempted Village School District, Miami County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

March 10, 2005

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- ❑ In total, net assets increased \$832,506, which represents a 16.1% increase from 2003.
- ❑ General revenues accounted for \$18,059,243 in revenue or 90% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,976,538 or 10% of total revenues of \$20,035,781.
- ❑ The District had \$19,203,275 in expenses related to governmental activities; only \$1,976,538 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$18,059,243 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$15,584,583 in revenues and \$16,028,942 in expenditures. The general fund's fund balance decreased \$442,759 to \$569,059. This decrease can be attributed to a substantial increase in expenditures for instruction. The building fund's fund balance decreased \$8,177,412 as a result of large capital outlay expenditures for a new high school.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Unaudited

Government-wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
 - To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

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

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

Fund Financial Statements

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

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

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs. All of the District's fiduciary activities are reported in the Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Unaudited

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

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

	Governmental Activities		Increase (Decrease)
	2004	2003	
Current and other assets	\$15,078,962	\$24,016,529	(\$8,937,567)
Capital assets, Net	<u>26,969,819</u>	<u>25,352,907</u>	<u>1,616,912</u>
Total assets	42,048,781	49,369,436	(7,320,655)
Long-term debt outstanding	21,299,048	23,774,467	(2,475,419)
Other liabilities	<u>15,567,673</u>	<u>13,316,157</u>	<u>2,251,516</u>
Total liabilities	<u>36,866,721</u>	<u>37,090,624</u>	<u>(223,903)</u>
Net assets			
Invested in capital assets, net of related debt	5,331,361	10,595,412	(5,264,051)
Restricted	505,551	7,590,660	(7,085,109)
Unrestricted	<u>(654,852)</u>	<u>(5,907,260)</u>	<u>5,252,408</u>
Total net assets	<u>\$5,182,060</u>	<u>\$12,278,812</u>	<u>(\$7,096,752)</u>

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TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004 compared with fiscal year 2003:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Revenues			
Program revenues:			
Charges for Services and Sales	\$1,115,443	\$1,008,596	\$106,847
Operating Grants and Contributions	646,095	796,828	(150,733)
Capital Grants and Contributions	215,000	40,051	174,949
General revenues:			
Property Taxes	10,309,308	9,615,628	693,680
Grants and Entitlements	7,525,220	7,229,504	295,716
Other	224,715	541,993	(317,278)
Total revenues	<u>20,035,781</u>	<u>19,232,600</u>	<u>803,181</u>
Program Expenses			
Instruction	11,180,721	10,776,909	403,812
Support Services:			
Pupils	835,423	786,220	49,203
Instructional Staff	767,044	859,044	(92,000)
Board of Education	36,932	47,575	(10,643)
Administration	1,243,313	1,188,258	55,055
Fiscal Services	487,380	470,500	16,880
Business	40,696	49,780	(9,084)
Operation and Maintenance of Plant	1,308,893	1,158,094	150,799
Pupil Transportation	737,968	774,634	(36,666)
Central	330,404	400,998	(70,594)
Operation of Non-Instructional Services	401,487	623,102	(221,615)
Extracurricular Activities	827,178	821,461	5,717
Debt Service:			
Interest and Fiscal Charges	1,005,836	1,007,661	(1,825)
Total expenses	<u>19,203,275</u>	<u>18,964,236</u>	<u>239,039</u>
Total Change in Net Assets	832,506	268,364	564,142
Beginning Net Assets	<u>4,349,554</u>	<u>4,081,190</u>	<u>268,364</u>
Total Change in Net Assets	<u><u>\$5,182,060</u></u>	<u><u>\$4,349,554</u></u>	<u><u>\$832,506</u></u>

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

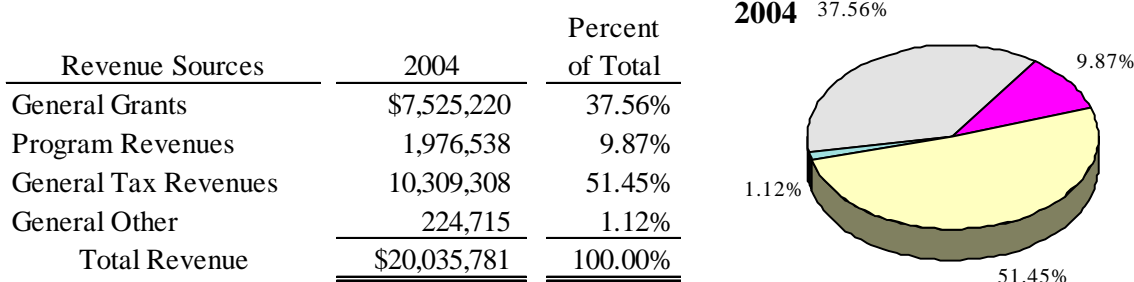
Unaudited

Governmental Activities

Net assets of the District's governmental activities increased by \$832,506. This was due mainly to increases in tax revenues and state grant monies.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property taxes made up 51% of revenues for governmental activities for the District in fiscal year 2004. The District's reliance upon tax revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund deficit of \$493,604, which is below last year's total of \$8,243,577. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)
General	\$569,059	\$1,011,818	(\$442,759)
Debt Service	378,053	415,359	(37,306)
Building	(2,366,910)	5,810,502	(8,177,412)
Other Governmental	926,194	1,005,898	(79,704)
Total	<u>(\$493,604)</u>	<u>\$8,243,577</u>	<u>(\$8,737,181)</u>

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Unaudited

General Fund – The District's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2004 Revenues	2003 Revenues	Increase (Decrease)
Taxes	\$8,280,457	\$7,721,634	\$558,823
Tuition and Fees	23,548	20,708	2,840
Investment Earnings	35,273	65,794	(30,521)
Intergovernmental - State	7,163,330	7,192,932	(29,602)
Intergovernmental - Federal	8,343	0	8,343
All Other Revenue	73,632	25,694	47,938
Total	\$15,584,583	\$15,026,762	\$557,821

General Fund revenues in 2004 increased approximately 4% compared to revenues in fiscal year 2003. The primary factor contributing to this increase was an increase in property tax revenues.

	2004 Expenditures	2003 Expenditures	Increase (Decrease)
Instruction	\$10,098,271	\$9,899,929	\$198,342
Supporting Services:			
Pupils	649,039	655,142	(6,103)
Instructional Staff	760,377	765,875	(5,498)
Board of Education	36,932	47,295	(10,363)
Administration	1,202,820	1,130,733	72,087
Fiscal Services	458,472	468,063	(9,591)
Business	59,499	58,402	1,097
Operation & Maintenance of Plant	1,331,262	1,153,374	177,888
Pupil Transportation	668,709	713,955	(45,246)
Central	387,984	241,254	146,730
Extracurricular Activities	375,577	361,158	14,419
Total	\$16,028,942	\$15,495,180	\$533,762

The expenditures increased by \$533,762 or 3% compared to the prior year mostly due to increases in instruction, operation of maintenance and plant and central support services. The increases in each of these programs was the result of increases in salaries, retirement benefits and purchased services.

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

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Unaudited

For the General Fund, budget basis revenue was \$15.5 million, above original budget estimates of \$15.2 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 the District had \$33,656,477 net of accumulated depreciation invested in land, buildings, equipment and vehicles. The following table shows fiscal year 2004 and 2003 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$1,928,313	\$1,928,313	\$0
Land Improvements	3,346,639	546,188	2,800,451
Buildings and Improvements	26,383,111	6,397,541	19,985,570
Machinery and Equipment	2,691,272	2,792,301	(101,029)
Vehicles	1,241,198	0	1,241,198
Construction in Progress	0	13,870,597	(13,870,597)
Less: Accumulated Depreciation	(8,620,714)	(8,111,291)	(509,423)
Totals	\$26,969,819	\$17,423,649	\$9,546,170

The primary increase occurred in buildings and improvements, which represents the construction of a new high school.

Additional information on the District's capital assets can be found in Note 10.

Debt

At June 30, 2004, the District had \$18.9 million in bonds outstanding, \$365,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2004:

	2004	2003
Governmental Activities:		
General Obligation Bond:		
School Building	\$18,940,000	\$19,285,000
Capital Leases Payable	363,458	0
Compensated Absences	1,995,590	1,967,467
Totals	\$21,299,048	\$21,252,467

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2004, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 13.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Unaudited

ECONOMIC FACTORS

The City of Tipp City is located eight miles north of the I75/I70 interchange, along the I75 corridor. There is also railway access as well; the Dayton International Airport is located within 15 miles of the City. With all these factors the school has an excellent commercial base and has experienced very good growth in residential base over the last few years.

Tipp City Exempted Village Schools are dependent on Real Estate Taxes as well as the State Foundation. The mix in receipts is around 60% Local and 40% State. This is a reversal from 10 years ago, thus drawing further attention to State funding.

In November 2001 the voters approved a \$22,600,000 Bond Issue for the purpose of constructing a new high school. Twenty Million Dollars was sold as bonds with a 25-year maturity and \$2,600,000 was sold in 1-Year Notes. Both are being serviced from proceeds of the Bond Levy. As of June 30, 2003 there was \$18,940,000 outstanding in bonds and \$2,335,000 outstanding in notes. Voters approved millage of 4.7 mills with an amortization of 28 years. However due to the lower interest rates at the time the bonds were sold the district was able to shorten the amortization by 3 years and only collect 4.1 mills to service the debt.

The new high school has been completed and is operational as of 2004. In past years Tipp City Exempted Village Schools has not participated in open enrollment as far as students coming into the district. The past high school was an 800 student high school and the new school is a 1000 student facility. With the larger high school, additional students can be accommodated thus increasing state funding to the district.

Residents approved the renewal of a 7.9 mill operating levy in May 2002 for a 5-year period by a 61% margin. The current 2 mill Permanent Improvement Levy was renewed in the November 2003 elections.

In conclusion, the Tipp City Exempted Village School District has committed itself to financial excellence for many years.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Joseph E. Smith, Treasurer of Tipp City Exempted Village School District.

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TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

Statement of Net Assets June 30, 2004

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 3,862,993
Receivables:	
Taxes	10,892,009
Intergovernmental	162,280
Interest	3,125
Inventory of Supplies at Cost	15,226
Prepaid Items	76,626
Restricted Assets:	
Cash and Cash Equivalents	59,281
Cash with Fiscal Agent	7,422
Capital Assets, Net	26,969,819
Total Assets	42,048,781
Liabilities:	
Accounts Payable	162,066
Accrued Wages and Benefits	1,501,466
Intergovernmental Payable	550,085
Contracts Payable	730,603
Matured Bonds & Interest Payable	66,703
Deferred Revenue - Taxes	9,989,925
Accrued Interest Payable	231,825
General Obligation Notes Payable	2,335,000
Long Term Liabilities:	
Due Within One Year	531,829
Due in More Than One Year	20,767,219
Total Liabilities	36,866,721
Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,331,361
Restricted For:	
Debt Service	210,010
Other Purposes	295,541
Unrestricted (Deficit)	(654,852)
Total Net Assets	\$ 5,182,060

See accompanying notes to the basic financial statements

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

Statement of Activities For the Fiscal Year Ended June 30, 2004

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 11,180,721	\$ 107,179	\$ 295,217	\$ 215,000	\$ (10,563,325)
Support Services:					
Pupils	835,423	0	176,962	0	(658,461)
Instructional Staff	767,044	0	2,295	0	(764,749)
Board of Education	36,932	0	0	0	(36,932)
Administration	1,243,313	0	0	0	(1,243,313)
Fiscal Services	487,380	0	0	0	(487,380)
Business	40,696	0	0	0	(40,696)
Operation and Maintenance of Plant	1,308,893	0	0	0	(1,308,893)
Pupil Transportation	737,968	0	12,540	0	(725,428)
Central	330,404	0	28,607	0	(301,797)
Operation of Non-Instructional Services	401,487	470,838	130,474	0	199,825
Extracurricular Activities	827,178	537,426	0	0	(289,752)
Debt Service:					
Interest and Fiscal Charges	1,005,836	0	0	0	(1,005,836)
Totals	\$ 19,203,275	\$ 1,115,443	\$ 646,095	\$ 215,000	\$ (17,226,737)
General Revenues					
Property Taxes Levied for:					
General Purposes					8,342,568
Debt Service					1,348,065
Capital Outlay					618,675
Grants and Entitlements not Restricted to Specific Programs					7,525,220
Investment Earnings					125,877
Miscellaneous					98,838
Total General Revenues					18,059,243
Change in Net Assets					832,506
Net Assets Beginning of Year					4,349,554
Net Assets End of Year					\$ 5,182,060

See accompanying notes to the basic financial statements

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

Balance Sheet Governmental Funds June 30, 2004

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 1,896,798	\$ 312,103	\$ 730,685	\$ 923,407	\$ 3,862,993
Receivables:					
Taxes	8,901,813	1,366,801	0	623,395	10,892,009
Intergovernmental	0	0	0	162,280	162,280
Interest	3,016	0	0	109	3,125
Interfund Loan Receivable	1,278	0	0	0	1,278
Inventory Held for Resale	0	0	0	15,226	15,226
Prepaid Items	68,619	0	0	8,007	76,626
Restricted Assets:					
Cash and Cash Equivalents	0	59,281	0	0	59,281
Cash with Fiscal Agent	0	7,422	0	0	7,422
Total Assets	\$ 10,871,524	\$ 1,745,607	\$ 730,685	\$ 1,732,424	\$ 15,080,240
Liabilities:					
Accounts Payable	\$ 58,493	\$ 0	\$ 80	\$ 103,493	\$ 162,066
Accrued Wages and Benefits	1,464,009	0	0	37,457	1,501,466
Intergovernmental Payable	382,721	0	0	15,002	397,723
Contracts Payable	0	0	730,603	0	730,603
Matured Bonds and Interest Payable	0	66,703	0	0	66,703
Interfund Loans Payable	0	0	0	1,278	1,278
Deferred Revenue - Taxes	8,397,242	1,300,851	0	592,459	10,290,552
Deferred Revenue	0	0	0	56,541	56,541
Accrued Interest Payable	0	0	31,912	0	31,912
General Obligation Notes Payable	0	0	2,335,000	0	2,335,000
Total Liabilities	10,302,465	1,367,554	3,097,595	806,230	15,573,844
Fund Balance:					
Reserved for Encumbrances	3,659	0	678,189	297,203	979,051
Reserved for Prepaid Items	68,619	0	0	8,007	76,626
Reserved for Supplies Inventory	0	0	0	15,226	15,226
Reserved for Debt Service	0	314,829	0	0	314,829
Reserved for Property Taxes	490,793	63,224	0	29,690	583,707
Reserved for Endowments	0	0	0	17,736	17,736
Unreserved, Undesignated in:					
General Fund	5,988	0	0	0	5,988
Special Revenue Funds	0	0	0	354,956	354,956
Capital Projects Funds	0	0	(3,045,099)	203,376	(2,841,723)
Total Fund Balances	569,059	378,053	(2,366,910)	926,194	(493,604)
Total Liabilities and Fund Balance	\$ 10,871,524	\$ 1,745,607	\$ 730,685	\$ 1,732,424	\$ 15,080,240

See accompanying notes to the basic financial statements

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Total Governmental Fund Balances	\$ (493,604)
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	26,969,819
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	357,168
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(21,651,323)</u>
<i>Net Assets of Governmental Funds</i>	<u><u>\$ 5,182,060</u></u>

See accompanying notes to the basic financial statements

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 8,280,457	\$ 1,338,325	\$ 0	\$ 614,292	\$ 10,233,074
Tuition and Fees	23,548	0	0	83,631	107,179
Investment Earnings	35,273	0	88,934	1,615	125,822
Extracurricular Activities	0	0	0	537,426	537,426
Food Services	0	0	0	470,838	470,838
Intergovernmental - State	7,163,330	147,770	0	173,777	7,484,877
Intergovernmental - Federal	8,343	0	0	702,621	710,964
All Other Revenue	73,632	0	215,000	25,261	313,893
Total Revenue	15,584,583	1,486,095	303,934	2,609,461	19,984,073
Expenditures:					
Current:					
Instruction	10,098,271	0	0	589,173	10,687,444
Supporting Services:					
Pupils	649,039	0	0	179,994	829,033
Instructional Staff	760,377	0	0	13,507	773,884
Board of Education	36,932	0	0	0	36,932
Administration	1,202,820	0	0	0	1,202,820
Fiscal Services	458,472	0	0	75	458,547
Business	59,499	0	0	0	59,499
Operation & Maintenance of Plant	1,331,262	0	0	0	1,331,262
Pupil Transportation	668,709	0	0	29,507	698,216
Central	387,984	0	0	121,535	509,519
Operation of Non-Instructional Services	0	0	0	677,365	677,365
Extracurricular Activities	375,577	0	0	514,136	889,713
Capital Outlay	0	0	8,650,795	994,839	9,645,634
Debt Service:					
Principal Retirement	0	345,000	0	0	345,000
Interest & Fiscal Charges	0	966,024	42,928	0	1,008,952
Total Expenditures	16,028,942	1,311,024	8,693,723	3,120,131	29,153,820
Excess (Deficiency) of Revenues Over Expenditures	(444,359)	175,071	(8,389,789)	(510,670)	(9,169,747)
Other Financing Sources (Uses):					
Proceeds from the Sale of Capital Assets	1,600	0	0	0	1,600
Other Financing Sources - Capital Lease	0	0	0	430,966	430,966
Transfers In	0	0	212,377	0	212,377
Transfers Out	0	(212,377)	0	0	(212,377)
Total Other Financing Sources (Uses)	1,600	(212,377)	212,377	430,966	432,566
Net Change in Fund Balance	(442,759)	(37,306)	(8,177,412)	(79,704)	(8,737,181)
Fund Balance at Beginning of Year	1,011,818	415,359	5,810,502	1,005,898	8,243,577
Fund Balance End of Year	\$ 569,059	\$ 378,053	\$ (2,366,910)	\$ 926,194	\$ (493,604)

See accompanying notes to the basic financial statements

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

Net Change in Fund Balances - Total Governmental Funds \$ (8,737,181)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 9,546,170

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 51,708

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. (18,458)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 3,116

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (12,849)

Change in Net Assets of Governmental Activities \$ 832,506

See accompanying notes to the basic financial statements

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 8,026,100	\$ 8,190,788	\$ 8,190,788	\$ 0
Tuition	21,200	23,548	23,548	0
Investment Earnings	65,000	32,476	32,476	0
Intergovernmental - State	7,087,178	7,163,330	7,163,330	0
Intergovernmental - Federal	0	8,343	8,343	0
All Other Revenues	24,000	73,717	73,632	(85)
Total Revenues	15,223,478	15,492,202	15,492,117	(85)
Expenditures:				
Current:				
Instruction	10,261,400	10,304,315	10,122,471	181,844
Support Services:				
Pupils	680,377	669,410	623,779	45,631
Instructional Staff	763,810	785,571	775,977	9,594
Board of Education	43,570	34,577	33,489	1,088
Administration	1,225,220	1,206,985	1,185,825	21,160
Fiscal Services	490,830	473,370	459,154	14,216
Business	41,703	60,938	60,057	881
Operation and Maintenance of Plant	1,259,850	1,381,578	1,366,906	14,672
Pupil Transportation	744,460	705,549	691,579	13,970
Central	386,035	365,477	358,420	7,057
Extracurricular Activities	405,450	394,830	374,833	19,997
Total Expenditures	16,302,705	16,382,600	16,052,490	330,110
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,079,227)	(890,398)	(560,373)	330,025
Other Financing Sources (Uses):				
Proceeds from the Sale of Fixed Assets	0	1,600	1,600	0
Transfers Out	(5,000)	(5,000)	0	5,000
Advances In	0	9,835	9,835	0
Advances Out	(10,000)	(10,000)	(1,278)	8,722
Total Other Financing Sources (Uses):	(15,000)	(3,565)	10,157	13,722
Net Change in Fund Balance	(1,094,227)	(893,963)	(550,216)	343,747
Fund Balance at Beginning of Year	2,265,094	2,265,094	2,265,094	0
Prior Year Encumbrances	79,896	79,896	79,896	0
Fund Balance at End of Year	\$ 1,250,763	\$ 1,451,027	\$ 1,794,774	\$ 343,747

See accompanying notes to the basic financial statements

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

Statement of Net Assets
Fiduciary Fund
June 30, 2004

	Student Activity Fund
Assets:	
Cash and Cash Equivalents	\$ 47,953
Total Assets	<u>47,953</u>
Liabilities:	
Due to Students	47,953
Total Liabilities	<u>47,953</u>
Net Assets:	
Unrestricted	<u>0</u>
Total Net Assets	<u><u>\$ 0</u></u>

See accompanying notes to the basic financial statements

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Tipp City Exempted Village School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is governed by a locally elected five member Board of Education (the Board) which provides educational services.

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

The District is associated with organizations which are defined as an insurance purchasing pool, jointly governed organizations, and a related organization. These organizations are presented in Notes 15, 17 and 18 to the basic financial statements.

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

B. Basis of Presentation - Fund Accounting

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

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

Debt Service Fund - This fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Building Fund - The building fund (capital projects) accounts for financial resources to be used for the construction of a new high school.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and therefore not available to support the District's own programs. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation and Measurement Focus - Financial Statements

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation and Measurement Focus – Financial Statements (Continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

Revenue considered susceptible to accrual at fiscal year end includes property taxes, tuition, grants and entitlements, student fees, and interest on investments.

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

E. Budgetary Process

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

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

1. Tax Budget

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

2. Estimated Resources

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

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

4. Lapsing of Appropriations

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

5. Budgetary Basis of Accounting

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting (Continued)

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

<u>Net Change in Fund Balance</u>	<u>General Fund</u>
GAAP Basis (as reported)	(\$442,759)
Increase (Decrease):	
Accrued Revenues at June 30, 2004, received during FY 2005	(508,865)
Accrued Revenues at June 30, 2003, received during FY 2004	424,956
Accrued Expenditures at June 30, 2004, paid during FY 2005	1,905,223
Accrued Expenditures at June 30, 2003, paid during FY 2004	(1,816,554)
FY 2003 Prepays for FY 2004	58,426
FY 2004 Prepays for FY 2005	(68,619)
Encumbrances Outstanding	<u>(102,024)</u>
Budget Basis	<u><u>(\$550,216)</u></u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of three months or less.

The District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each had maintained its own cash and investment account. See Note 4, "Cash, Cash Equivalents and Investments."

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District reports its repurchase agreements and money market funds at cost. See Note 4, "Cash, Cash Equivalents and Investments."

H. Inventory

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

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

I. Capital Assets and Depreciation

Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,500.

1. Property, Plant and Equipment - Governmental Activities

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

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Estimated historical costs for governmental activities capital asset values were initially determined in 1993 by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

2. Depreciation

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

Description	Governmental Activities Estimated Lives (in years)
Land Improvements	20
Building and Improvements	20 – 50
Machinery, Equipment, Furniture and Fixtures	5 - 20
Vehicles	8

J. Long-Term Obligations

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

Obligation	Fund
Compensated Absences	General Fund, Food Services Fund, Title I Fund
Intergovernmental Payable	General Fund, Food Services Fund, Title VI-B Fund
G.O. Bond	Debt Service Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, “*Accounting for Compensated Absences*”, vacation benefits are accrued as a liability when an employee’s right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. Sick leave benefits are accrued as a liability using the vesting method. Employees may earn 15 days of sick leave per year up to a cumulative maximum of 210 days. Upon retirement, employees can receive a portion of the sick leave, between 27% to 39%, depending on the type of employment contract. In addition, Merit Service Retirement Award may be paid for sick leave balances in excess of the 210 days depending upon the type of employment contract. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account “Compensated Absences Payable.” In the government wide statement of net assets, “Compensated Absences Payable” is recorded within the “Due within one year” account and the long-term portion of the liability is recorded within the “Due in more than one year” account.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

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

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

M. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

N. Interfund Activity

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

O. Restricted Assets

Restricted assets in the debt service fund represent cash and cash equivalents restricted in use for debt service payments.

P. Reservations of Fund Balance

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

Q. Estimates

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

S. Extraordinary and Special Items

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

NOTE 2 – RESTATEMENT OF NET ASSETS

During fiscal year 2004 the District completed a reappraisal of its capital assets, which required a restatement of net assets. As part of this reappraisal, the District increased its capitalization threshold to \$1,500. As a result of the restatement, the District's net assets at June 30, 2003 decreased \$817,310, to a restated amount of \$4,349,554.

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2004 of \$1,668 in the Career Development Fund, \$449 in the Summer Intervention Fund and \$152 in the Limited English Proficiency Fund (special revenue) arose from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The fund deficit of \$2,366,910 in the Building Fund (capital project) arises from the recognition of notes payable on the modified accrual basis which are not recorded on the budgetary basis. A deficit does not exist under the budgetary basis of accounting.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

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

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

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

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

Deposits:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Uncollateralized. (This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the District's name.)

Investments:

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

A. Deposits

At fiscal year end the carrying amount of the District's deposits was \$3,909,116 and the bank balance was \$4,126,303. The Federal Deposit Insurance Corporation (FDIC) covered \$304,666 of the bank balance. All remaining deposits were classified as Category 3.

B. Cash with Fiscal Agents

In addition to deposits, the District had cash with fiscal agents in the amount of \$66,703, the entire amount was insured by the FDIC.

C. Cash on Hand

At fiscal year end, the District had \$1,830 in undeposited cash on hand, which is included as part of "Equity in Pooled Cash and Cash Equivalents."

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 5 – STATUTORY RESERVES

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

	Textbook Reserve	Capital Acquisition Reserve	Total
Set-aside Cash Balance as of June 30, 2003	(\$198,021)	\$0	(\$198,021)
Current Year Set-Aside Requirement	359,804	359,804	719,608
Current Year Off-Set	0	(612,109)	(612,109)
Qualifying Disbursements	(311,863)	(131,278)	(443,141)
Total	<u>(\$150,080)</u>	<u>(\$383,583)</u>	<u>(\$533,663)</u>
Cash Balance Carried Forward to FY 2005	<u>(\$150,080)</u>	<u>\$0</u>	<u>(\$150,080)</u>
Amount Restricted for Budget Stabilization			<u>0</u>
Total Restricted Assets			<u>\$0</u>

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

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last reappraisal was completed in 2001. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 6 - PROPERTY TAXES (Continued)

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

	2003 Second Half Collections	2004 First Half Collections
Agricultural/Residential and Other Real Estate	\$286,835,240	\$291,764,180
Public Utility Personal	9,074,350	8,874,980
Tangible Personal Property	58,160,110	59,289,130
Total Assessed Value	\$354,069,700	\$359,928,290
Tax rate per \$1,000 of assessed valuation	\$47.30	\$47.30

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, interest, and intergovernmental receivables.

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds for the fiscal year 2004:

Fund	Transfer In	Transfer Out
Debt Service Fund:	\$0	\$212,377
Capital Projects Fund:		
Building Fund	212,377	0
Total All Funds	\$212,377	\$212,377

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Following is a summary of interfund receivables and payables for all funds at June 30, 2004:

Fund	Interfund Loan Receivables	Interfund Loan Payables
General Fund	\$1,278	\$0
Other Governmental Funds	0	1,278
Totals	\$1,278	\$1,278

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 10 - CAPITAL ASSETS

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

Historical Cost:

Class	June 30, 2003	Additions	Deletions	June 30, 2004
Capital assets not being depreciated:				
Land	\$1,928,313	\$0	\$0	\$1,928,313
Capital assets being depreciated:				
Land Improvements	546,188	2,800,451	0	3,346,639
Buildings and Improvement	6,397,541	19,985,570	0	26,383,111
Machinery and Equipment	1,471,000	1,250,517	(30,245)	2,691,272
Vehicles	1,321,301	0	(80,103)	1,241,198
Construction in Progress	13,870,597	0	(13,870,597)	0
Total Cost	<u>\$25,534,940</u>	<u>\$24,036,538</u>	<u>(\$13,980,945)</u>	<u>\$35,590,533</u>

Accumulated Depreciation:

Class	June 30, 2003	Additions	Deletions	June 30, 2004
Land Improvements	(\$535,508)	(\$128,088)	\$0	(\$663,596)
Buildings and Improvement	(5,567,527)	(264,927)	0	(5,832,454)
Machinery and Equipment	(1,059,118)	(226,756)	30,245	(1,255,629)
Vehicles	(949,138)	0	80,103	(869,035)
Total Depreciation	<u>(\$8,111,291)</u>	<u>(\$619,771) *</u>	<u>\$110,348</u>	<u>(\$8,620,714)</u>
Net Value:	<u>\$17,423,649</u>			<u>\$26,969,819</u>

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$428,437
Support Services:	
Instructional Staff	1,986
Administration	21,331
Fiscal Services	109
Operations & Maintenance of Plant	4,346
Pupil Transportation	96,585
Central	38,247
Operation of Non-Instructional Services	22,004
Extracurricular Activities	6,726
Total Depreciation Expense	<u>\$619,771</u>

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

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

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

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

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2004, 9.09% was allocated to fund the pension benefit and 4.91% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$350,280, \$365,184, and \$343,104, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. The portion of the 2004 employer contribution rate that was used to fund health care for the year 2004 was 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$169,296.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 62,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. Net assets available for payment of benefits at June 30, 2004 was \$300.8 million.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2004, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$1,339,128, \$1,190,928, and \$1,172,328, respectively, which were equal to the required contributions for each year.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2004, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$95,652 for the District. The balance of the Health Care Reserve Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, the net health care costs paid by STRS were \$268,739,000. There were 111,853 eligible benefit recipients.

NOTE 12 - NOTES PAYABLE

Notes Payable activity of the District for the year ended June 30, 2004, was as follows:

Note Payable		Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Bond Anticipation Note	1.25%	\$2,522,000	\$0	(\$2,522,000)	\$0
Bond Anticipation Note	1.65%	0	2,335,000	0	2,335,000
		<u>\$2,522,000</u>	<u>\$2,335,000</u>	<u>(\$2,522,000)</u>	<u>\$2,335,000</u>

NOTE 13 - LONG-TERM OBLIGATIONS

Detail of the changes in the general obligation bond and compensated absences of the District for the year ended June 30, 2004, is as follows:

		Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004	Amount Due Within One Year
Governmental Activities:						
General Obligation Bond:						
School Building	5.08%	\$19,285,000	\$0	(\$345,000)	\$18,940,000	\$365,000
Capital Leases Payable		0	430,966	(67,508)	363,458	67,508
Compensated Absences		1,967,467	0	28,123	1,995,590	99,321
Total Other						
Long-Term Obligations		<u>\$21,252,467</u>	<u>\$430,966</u>	<u>(\$384,385)</u>	<u>\$21,299,048</u>	<u>\$531,829</u>

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

A. Principal and Interest Requirements

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

Years	General Obligation Bond	
	Principal	Interest
2005	\$365,000	\$910,995
2006	460,000	894,495
2007	475,000	875,795
2008	500,000	856,295
2009	640,000	833,495
2010-2014	3,300,000	4,304,599
2015-2019	5,020,000	2,708,124
2020-2024	6,605,000	1,269,625
2025	1,575,000	39,375
Totals	<u>\$18,940,000</u>	<u>\$12,692,798</u>

NOTE 14 - CAPITALIZED LEASE

The District is obligated under a lease accounted for as a capital lease. The cost of the leased asset is accounted for in the Governmental Activities Capital Assets and the related liability in the Governmental Activities Long-Term Obligations. The original cost of the assets under capital lease was \$430,966.

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

Year Ending June 30,	Capital Lease
2005	\$67,508
2006	67,508
2007	67,508
2008	67,508
2009	67,508
2010	67,508
Minimum Lease Payments	405,048
Less: Amount representing interest at the District's incremental borrowing rate of interest	<u>(41,590)</u>
Present Value of minimum lease payments	<u>\$363,458</u>

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2004 the District contracted with several different insurance providers for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Indiana Insurance Company	Fleet Insurance	\$500
Indiana Insurance Company	Buildings & Contents	\$500
Indiana Insurance Company	School District Liability	\$0
Cincinnati Insurance Company	Employee Bond	\$0
Indiana Insurance Company	Builder's Risk	\$5,000

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

The District participates in the Southwestern Ohio Educational Purchasing Cooperative Group Rating Program (the GRP), an insurance purchasing pool. The group rating plan for workers' compensation was established under Section 4123.29 of the Ohio Revised Code. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 16 - GRANTS

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claim will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

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

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2004, the School District paid \$1,073 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association at 150 East Sixth Street, Franklin, Ohio 45005.

Southwestern Ohio Educational Purchasing Council (SOEPC) - SOEPC is a purchasing council made up of nearly one hundred school districts in twelve counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment and supplies purchased by the SOEPC is held in trust for the member district. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2004, the school district paid \$2,189 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, 1831 Harshman Road, Dayton, Ohio 45424.

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city and/or exempted village school districts: Carlisle, Miamisburg, Milton-Union, Northmont, Vandalia, Versailles, Huber Heights, Eaton, Trotwood, Tipp City, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center, one is appointed from the Miami County Educational Service Center, one from the Darke County Educational Service Center, and one from the Preble County Educational Service Center. During fiscal year 2004, the School District paid \$200 to this organization. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Gossett, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 18 - RELATED ORGANIZATION

Tipp City Public Library (Library) - The Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Tipp City Exempted Village School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. During fiscal year 2004, District paid \$1,000 to this organization. Financial information can be obtained from the Tipp City Public Library, Clerk/Treasurer, 11 East Main Street, Tipp City, Ohio 45371.

NOTE 19 – CONSTRUCTION COMMITMENTS

As of June 30, 2004, the District had entered into a contract for construction of a new Tippecanoe High School. Details of the project at June 30, 2004, are as follows:

<u>Vendor</u>	<u>Amount Remaining to be Spent for Completion</u>
Carey Electric	\$6,366
Miter Masonry Contractors, Inc	2,129
Fred DeBra Company	7,247
Humble Construction Co.	15,392
Custom Fabricators, Inc.	11,084
Dalmation Fire Inc.	4,296
JMD Inc.	25,833
Securcom, Inc.	9,659
Elements IV Interior	114,737
Deitering, Landscape	4,325
Tom Sexton & Assoc	26,901

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

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

NOTE 20 - CONTINGENCIES

A. Litigation

The District is currently a participant in a lawsuit involving a former teacher who feels her employment was unfairly terminated. The claim is not against the District, but against the District's insurance company. The insurance company is defending the actions. Liability, if any, is unknown at this time.

B. State School Funding

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision 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 School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

NOTE 21- SUBSEQUENT EVENTS

On December 27, 2004, the District Board authorized the issuance of notes in amount of \$2,135,000 in anticipation of the issuance of bonds. The issuance of bonds was for the purpose of constructing, furnishing, and equipping a new high school building. The note was for one year at a rate that shall not exceed 5.5%.

**TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$44,996		\$44,996
National School Lunch Program	LL-P4-2003 LL-P4-2004 VGS1-2003	10.555	\$23,993 58,799 <u>24,104</u>		\$23,993 58,799 <u>24,104</u>	
Total National School Lunch Program			<u>106,896</u>		<u>106,896</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>106,896</u>	<u>44,996</u>	<u>106,896</u>	<u>44,996</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Education Agencies (ESEA Title II)	C1-S1 2003 C1-S1 2004	84.010	10,880 <u>144,183</u>		8,290 <u>135,424</u>	
Total Grants to Local Education Agencies (ESEA Title II)			<u>155,063</u>		<u>143,714</u>	
Special Education Grants to States (IDEA Part B)	6B-SF 2003 6B-SF 2004	84.027	74,489 <u>168,562</u>		79,335 <u>165,526</u>	
Total Special Education Grants to States (IDEA Part B)			<u>243,051</u>		<u>244,861</u>	
Drug-Free Schools Grant	DR-S1 2002 DR-S1 2003 DR-S1 2004	84.186			3,124 3,235 <u>7,674</u>	
Total Drug-Free Schools Grant			<u>14,252</u>		<u>14,033</u>	
Innovative Educational Program Strategies	C2-S1 2003 C2-S1 2004	84.298	6,715 <u>8,051</u>		5,000 <u>6,845</u>	
Total Innovative Educational Program Strategies			<u>14,766</u>		<u>11,845</u>	
Technology Literacy Challenge Grant	TJS1 2003 TJS1 2004	84.318			36 <u>3,363</u>	
Total Technology Literacy Challenge Grant			<u>3,363</u>		<u>3,399</u>	
Assistive Technology Grant	ATS3 2002	84.352A			758	
Improving Teacher Quality Grant	TRS1 2003 TRS1 2004	84.367	24,723 <u>24,507</u>		30,049 <u>21,168</u>	
Total Improving Teacher Quality Grant			<u>49,230</u>		<u>51,217</u>	
<i>Passed through Tecumseh Local School District</i>						
English Language Acquisition Grants (LEP III Grant)	N/A	84.365	5,046 <u>9,706</u>		5,046 <u>9,706</u>	
Total English Language Acquisition Grants (LEP III Grant)			<u>14,752</u>		<u>14,752</u>	
Total Department of Education			<u>494,477</u>		<u>484,579</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Mental Retardation and Development Disabilities</i>						
Medicaid	N/A	93.778	2,701		2,701	
Total Department of Health and Human Services			<u>2,701</u>		<u>2,701</u>	
Total Federal Assistance			<u>\$604,074</u>	<u>\$44,996</u>	<u>\$594,176</u>	<u>\$44,996</u>

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

**TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

NOTE C – MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

Tipp City Exempted Village School District
Miami County
90 South Tippecanoe Drive
Tipp City, Ohio 45371

To the Board of Education:

We have audited the financial statements of Tipp City Exempted Village School District, Miami County, (the District), as of and for the year ended June 30, 2004, and have issued our report dated March 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated March 10, 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2004-001.

**Internal Control Over Financial Reporting
(Continued)**

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition listed above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 10, 2005.

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



Betty Montgomery
Auditor of State

March 10, 2005



Auditor of State Betty Montgomery

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

Tipp City Exempted Village School District
Miami County
90 South Tippecanoe Drive
Tipp City, Ohio 45371

To the Board of Education:

Compliance

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

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

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

**Internal Control Over Compliance
(Continued)**

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

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



Betty Montgomery
Auditor of State

March 10, 2005

**TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under 133 § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Grants (CFDA #84.027)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

MATERIAL WEAKNESS:

Capital Assets Historical Cost

The District utilizes an appraisal firm to maintain computerized capital asset records for all items meeting the capitalization threshold established by the District. The District utilized a new appraisal firm during 2004 to conduct an appraisal of the District's assets and determine their values as of June 30, 2004.

Examination of the capital asset records indicated the following:

- In some instances the appraisal firm did not utilize the historical costs previously established for the capital assets. The changing of the historical costs recorded for the District's assets is unacceptable since generally accepted accounting principles (GAAP) requires recording capital assets at cost. The failure to request the appraisal firm to incorporate the prior audit changes and use the established capital asset values resulted in a \$1,978,353 misstatement of the beginning asset balances presented by the appraisal company.
- The District's capital asset threshold is \$1,500. The appraisal company reported assets such as televisions, video cassette recorders, digital video disc players, camcorders, computers, and printers that did not meet the District established capitalization threshold.
- The District does not have a formal Board approved policy stating the useful lives for each category of assets and relied upon the appraisal company's useful life suggestions which in some instances were not consistent with prior practices of the District.
- The appraisal company did not report all capital assets at historical cost in accordance with Generally Accepted Accounting Principles (historical cost – invoices or accurate records maintained by the District at the time of purchase). The appraisal firm valued the new high school building at \$27,111,038 when the actual building cost was \$19,877,922, and valued the land improvements for the new building at \$1,064,330 when the actual cost was \$2,367,308, resulting in a significant misstatement of the projects historical cost.

The District should review the appraisal company's reports annually to determine whether adjustments were made from the previous audit and that assets that do not meet the District's capital asset criteria were not included. In addition, the District should develop their own policy for determining the useful life of capital assets based upon their experience. The District should either establish their own system to conduct annual physical inventories to determine capital asset values, or require appraisal firms to follow the District's GAAP policies when appraising capital assets.

The accompanying basic financial statements include the required adjustments to properly state the capital asset values for the misstatements listed above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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

TIPP CITY EXEMPTED VILLAGE SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**