

**CITY OF THE VILLAGE OF INDIAN HILL
HAMILTON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

**CITY OF THE VILLAGE OF INDIAN HILL
HAMILTON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of the Village of Indian Hill
Hamilton County
6525 Drake Road
Cincinnati, Ohio 45243

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of the Village of Indian Hill, Hamilton County, Ohio (the City) as of and for the fiscal year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of the Village of Indian Hill, Hamilton County, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General, Street Construction, Maintenance and Repair, Income Tax, and Rowe Arboretum Major Funds, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the fiscal year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. The City also adopted Governmental Accounting Standards Board Statements 37, 38 and Interpretation 6.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2004 on our consideration of the City'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 and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

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

Betty Montgomery
Auditor of State

June 10, 2004

CITY OF THE VILLAGE OF INDIAN HILL OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

The discussion and analysis of the City of the Village of Indian Hill's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

- ❑ In total, net assets increased \$9,879,727. Net assets of governmental activities increased \$10,359,764, which represents a 12.24% increase from 2002. Net assets of business-type activities decreased \$480,037 from 2002.
- ❑ General revenues accounted for \$13,597,265 in revenue or 63.7% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,732,532 or 36.3% of total revenues of \$21,329,797.
- ❑ The City had \$8,513,897 in expenses related to governmental activities; only \$4,682,972 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily shared revenues) of \$14,190,689 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$9,586,128 in revenues and \$6,885,901 in expenditures. The general fund's fund balance decreased \$145,218 to \$2,466,634.
- ❑ Net assets for enterprise funds decreased slightly. This decrease resulted from a combination of events, including a transfer to the Land Acquisition Fund for the purpose of purchasing land to protect the water system aquifer and a high consumption of 961,244 HCF (hundred cubic feet) of water used in 2002 followed by a very low consumption year in 2003 where only 743,823 HCF of water was used.

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 City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City'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.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government'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 City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water fund is reported as a business activity.

Fund Financial Statements

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

Governmental Funds – Most of the City'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 City'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 the City's 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.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Current and other assets	\$16,255,579	\$3,075,138	\$19,330,717
Capital assets, Net	80,514,807	9,681,131	90,195,938
Total assets	96,770,386	12,756,269	109,526,655
Long-term debt outstanding	984,542	2,394,185	3,378,727
Other liabilities	793,384	562,408	1,355,792
Total liabilities	1,777,926	2,956,593	4,734,519
Net assets			
Invested in capital assets, net of related debt	80,514,807	7,418,300	87,933,107
Restricted	11,522,873	0	11,522,873
Unrestricted	2,954,780	2,381,376	5,336,156
Total net assets	\$94,992,460	\$9,799,676	\$104,792,136

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

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

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Revenues			
Program revenues:			
Charges for Services and Sales	\$217,653	\$3,049,560	\$3,267,213
Operating Grants and Contributions	208,710	0	208,710
Capital Grants and Contributions	4,256,609	0	4,256,609
General revenues:			
Municipal Income Taxes	3,646,974	0	3,646,974
Property Taxes	526,971	0	526,971
Shared Revenues	8,596,154	0	8,596,154
Investment Earnings	694,976	31,576	726,552
Miscellaneous	105,867	0	105,867
Transfers	619,747	(625,000)	(5,253)
Total revenues	<u>18,873,661</u>	<u>2,456,136</u>	<u>21,329,797</u>
Program Expenses			
Security of Persons and Property	2,873,523	0	2,873,523
Public Health and Welfare	93,907	0	93,907
Leisure Time Activities	567,607	0	567,607
Community Environment	1,138,318	0	1,138,318
Transportation	867,687	0	867,687
General Government	2,926,660	0	2,926,660
Debt Service:			
Interest and Fiscal Charges	46,195	0	46,195
Water Fund	<u>0</u>	<u>2,936,173</u>	<u>2,936,173</u>
Total expenses	<u>8,513,897</u>	<u>2,936,173</u>	<u>11,450,070</u>
Total Change in Net Assets	10,359,764	(480,037)	9,879,727
Beginning Net Assets	<u>84,632,696</u>	<u>10,279,713</u>	<u>94,912,409</u>
Ending Net Assets	<u><u>\$94,992,460</u></u>	<u><u>\$9,799,676</u></u>	<u><u>\$104,792,136</u></u>

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

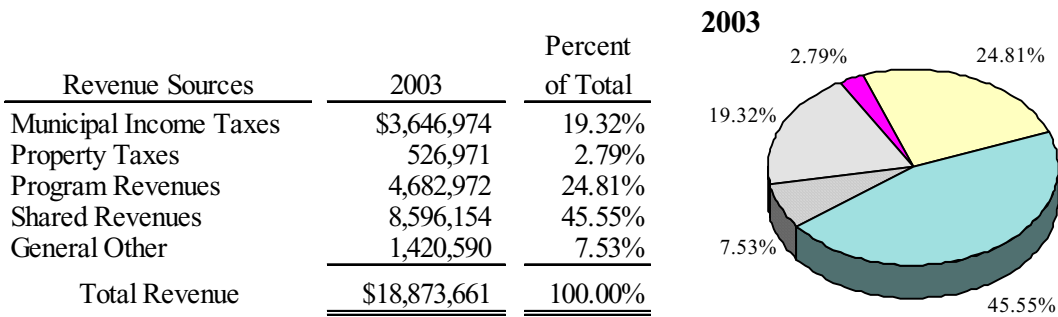
Unaudited

Governmental Activities

Net assets of the City's governmental activities increased by \$10,359,764. This was due to a combination of factors including an unusually large receipt of inheritance tax revenues in 2003

The City also receives an income tax, which is based on 0.3% of the residents Ohio Adjusted income.

Shared revenues (including Local Government Assistance, Motor Vehicle and Gas Tax Revenues and Inheritance Taxes) accounted for 45.55% of revenues for governmental activities for the City in fiscal year 2003.



Business-Type Activities

Net assets of the business-type activities decreased by \$480,037. This decrease was the result of a combination of events, including a transfer to the Land Acquisition Fund for the purpose of purchasing land to protect the water system aquifer and a high consumption of 961,244 HCF (hundred cubic feet) of water used in 2002 followed by a very low consumption year in 2003 where only 743,823 HCF of water was used.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$12,381,795, which is an increase from last year's balance of \$7,618,465. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2003 and 2002:

	Fund Balance December 31, 2003	Fund Balance December 31, 2002	Increase (Decrease)
General	\$2,466,634	\$2,611,852	(\$145,218)
Street Construction, Maintenance and Repair	11,647	15,220	(3,573)
Income Tax	2,484,783	4,388,620	(1,903,837)
Rowe Arboretum	1,765,274	1,494,276	270,998
Capital Improvement Reserve Capital Projects	4,483,528	4,621,881	(138,353)
Other Governmental	1,169,929	(5,513,384)	6,683,313
Total	\$12,381,795	\$7,618,465	\$4,763,330

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

	2003 Revenues	2002 Revenues	Increase (Decrease)
Property and Other Taxes	\$526,122	\$456,777	\$69,345
Intergovernmental Revenues	8,592,830	7,422,261	1,170,569
Charges for Services	221,865	284,411	(62,546)
Licenses and Permits	24,327	11,596	12,731
Investment Earnings	175,970	126,941	49,029
Fines and Forfeitures	14,099	16,795	(2,696)
All Other Revenue	30,915	26,710	4,205
Total	\$9,586,128	\$8,345,491	\$1,240,637

General Fund revenues in 2003 increased approximately 14.86% compared to revenues in fiscal year 2002. The most significant factor contributing to this increase was an increase in Inheritance Tax revenues, which is recorded as an intergovernmental revenue. Additionally, tax revenue increased by 15.2% in 2003.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

	<u>2003</u> <u>Expenditures</u>	<u>2002</u> <u>Expenditures</u>	<u>Increase</u> <u>(Decrease)</u>
Security of Persons and Property	\$2,957,309	\$2,752,492	\$204,817
Public Health and Welfare Services	85,701	81,040	4,661
Leisure Time Activities	370,061	348,557	21,504
Community Environment	1,110,003	882,684	227,319
General Government	<u>2,362,827</u>	<u>2,270,889</u>	<u>91,938</u>
Total	<u>\$6,885,901</u>	<u>\$6,335,662</u>	<u>\$550,239</u>

General Fund expenditures increased by \$550,239 over the prior year mostly due to salary and wages, retirement contributions, and health insurance premiums for the City's employees.

The City'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 2003 the City amended its General Fund budget several times.

For the General Fund, the final budget basis revenue of \$9,912,320 changed significantly over the original budget estimates of \$4,312,320. The change was due primarily to unusually high and unexpected receipts of inheritance tax revenues.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2003 the City had \$90,195,938 net of accumulated depreciation invested in land, buildings, land improvements, machinery and equipment and infrastructure. Of this total, \$80,514,807 was related to governmental activities and \$9,681,131 to the business-type activities. The following table shows fiscal year 2003 and 2002 balances:

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2003</u>	<u>2002</u>	
Land	\$71,808,479	\$67,072,463	\$4,736,016
Land Improvements	1,170,281	834,749	335,532
Buildings	2,569,888	2,267,672	302,216
Machinery and Equipment	3,001,833	2,910,167	91,666
Infrastructure	8,776,504	8,265,641	510,863
Construction In Progress	18,471	90,093	(71,622)
Less: Accumulated Depreciation	<u>(6,830,649)</u>	<u>(6,383,027)</u>	<u>(447,622)</u>
Totals	<u>\$80,514,807</u>	<u>\$75,057,758</u>	<u>\$5,457,049</u>

	<u>Business-Type Activities</u>		<u>Increase (Decrease)</u>
	<u>2003</u>	<u>2002</u>	
Land	\$84,087	\$84,087	\$0
Land Improvements	9,699,137	9,688,878	10,259
Buildings	2,949,237	2,919,542	29,695
Machinery and Equipment	1,993,999	1,919,338	74,661
Construction in Progress	676,590	50,899	625,691
Less: Accumulated Depreciation	<u>(5,721,919)</u>	<u>(5,411,314)</u>	<u>(310,605)</u>
Totals	<u>\$9,681,131</u>	<u>\$9,251,430</u>	<u>\$429,701</u>

The primary increase occurred in machinery and equipment and construction in progress. The increase in construction in progress during 2003 resulted from work on the water tower and the water systems pressure zone modifications.

As of December 31, 2003, the City has contractual commitments for the completion of the Water Tower and the pressure zone modifications. \$100,000 is committed to the development planning of 300 acres of land purchased in 2002 for a park. Additional information on the City's capital assets can be found in Note 9.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

Debt

At December 31, 2003, the City had \$984,542 in compensated absences liability, \$224,077 due within one year. The following table summarizes the City's compensated absences liability outstanding as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Governmental Activities:		
Compensated Absences	<u>\$984,542</u>	<u>\$914,202</u>
Total Governmental Activities	<u><u>\$984,542</u></u>	<u><u>\$914,202</u></u>

Additional information on the City's long-term debt can be found in Note 12.

ECONOMIC FACTORS

The City of the Village of Indian Hill is an exclusively residential city with an affluent population of 6,077. The city is relatively developed with only 200, new 5 acre lot home sites left.

The city's municipal income tax increased in 2003 from .2% to .3% after 5 consecutive years of rate reductions. The income tax rate remained at .3% for 2004.

The city maintains a strong general fund reserve balance of 20% of general fund expenditures. For the fiscal year ending December 31, 2003 there was a slight drop in the general fund balance reserves from \$2.5 million in 2002 to \$2.3 million in 2003. The 2004 budget projects a small general fund surplus.

The city was able to pay its \$6.5 million-land acquisition debt from unanticipated inheritance tax revenues in 2003. The city's remaining outstanding debt consists of 1992 and 1993 water works bonds with outstanding principal of \$2.2 million. The 1992 and 1993 bonds were refinanced in 2004 to take advantage of the low interest rates.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Nadine Weber, Accounting Manager of the City of Village of Indian Hill.

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CITY OF THE VILLAGE OF INDIAN HILL OHIO

Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 11,883,662	\$ 2,308,753	\$ 14,192,415
Receivables:			
Taxes	3,598,747	0	3,598,747
Accounts	38,996	692,980	731,976
Intergovernmental	542,926	0	542,926
Internal Balances	(531)	531	0
Inventory of Supplies at Cost	138,171	36,419	174,590
Prepaid Items	53,608	14,286	67,894
Unamortized Bond Issuance Costs	0	22,169	22,169
Non-Depreciable Capital Assets	71,826,950	760,677	72,587,627
Depreciable Capital Assets, Net	8,687,857	8,920,454	17,608,311
Total Assets	96,770,386	12,756,269	109,526,655
Liabilities:			
Accounts Payable	94,726	48,027	142,753
Accrued Wages and Benefits Payable	56,122	7,664	63,786
Intergovernmental Payable	127,113	496,746	623,859
Deferred Revenue	515,423	0	515,423
Accrued Interest Payable	0	9,971	9,971
Noncurrent liabilities:			
Due within one year	224,077	349,449	573,526
Due in more than one year	760,465	2,044,736	2,805,201
Total Liabilities	1,777,926	2,956,593	4,734,519
Net Assets:			
Invested in Capital Assets, Net of Related Debt	80,514,807	7,418,300	87,933,107
Restricted For:			
Capital Projects	4,484,028	0	4,484,028
Other Purposes	7,038,845	0	7,038,845
Unrestricted	2,954,780	2,381,376	5,336,156
Total Net Assets	\$ 94,992,460	\$ 9,799,676	\$ 104,792,136

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Statement of Activities

For the Year Ended December 31, 2003

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 2,873,523	\$ 14,706	\$ 0	\$ 0
Public Health and Welfare	93,907	3,115	0	0
Leisure Time Activities	567,607	102,949	0	4,139,375
Community Environment	1,138,318	96,883	0	0
Transportation	867,687	0	208,710	0
General Government	2,926,660	0	0	117,234
Interest and Fiscal Charges	46,195	0	0	0
Total Governmental Activities	8,513,897	217,653	208,710	4,256,609
Business-Type Activities:				
Water	2,936,173	3,049,560	0	0
Total Business-Type Activities	2,936,173	3,049,560	0	0
Totals	\$ 11,450,070	\$ 3,267,213	\$ 208,710	\$ 4,256,609

General Revenues
Municipal Income Taxes
Property Taxes
Shared Revenues
Investment Earnings
Miscellaneous
Transfers

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (2,858,817)	\$ 0	\$ (2,858,817)
(90,792)	0	(90,792)
3,674,717	0	3,674,717
(1,041,435)	0	(1,041,435)
(658,977)	0	(658,977)
(2,809,426)	0	(2,809,426)
(46,195)	0	(46,195)
<u>(3,830,925)</u>	<u>0</u>	<u>(3,830,925)</u>
<u>0</u>	<u>113,387</u>	<u>113,387</u>
<u>0</u>	<u>113,387</u>	<u>113,387</u>
<u>\$ (3,830,925)</u>	<u>\$ 113,387</u>	<u>\$ (3,717,538)</u>
\$ 3,646,974	\$ 0	\$ 3,646,974
526,971	0	526,971
8,596,154	0	8,596,154
694,976	31,576	726,552
105,867	0	105,867
619,747	(625,000)	(5,253)
<u>14,190,689</u>	<u>(593,424)</u>	<u>13,597,265</u>
10,359,764	(480,037)	9,879,727
<u>84,632,696</u>	<u>10,279,713</u>	<u>94,912,409</u>
<u>\$ 94,992,460</u>	<u>\$ 9,799,676</u>	<u>\$ 104,792,136</u>

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Balance Sheet
Governmental Funds
December 31, 2003**

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Income Tax</u>	<u>Rowe Arboretum</u>	<u>Capital Improvement Reserve</u>
Assets:					
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 2,161,602	\$ 0	\$ 2,302,509	\$ 1,767,098	\$ 4,484,983
Receivables:					
Taxes	531,476	0	3,067,271	0	0
Accounts	19,574	0	0	0	19,422
Intergovernmental	444,583	90,966	0	0	0
Inventory of Supplies, at Cost	133,681	4,490	0	0	0
Prepaid Items	52,524	669	0	415	0
Total Assets	<u>\$ 3,343,440</u>	<u>\$ 96,125</u>	<u>\$ 5,369,780</u>	<u>\$ 1,767,513</u>	<u>\$ 4,504,405</u>
Liabilities:					
Accounts Payable	\$ 76,910	\$ 10,757	\$ 0	\$ 1,639	\$ 5,420
Accrued Wages and Benefits Payable	41,996	13,077	449	600	0
Intergovernmental Payable	111,656	0	0	0	15,457
Due to Other Funds	531	0	0	0	0
Deferred Revenue	601,962	60,644	2,884,548	0	0
Compensated Absences Payable	43,751	0	0	0	0
Total Liabilities	<u>876,806</u>	<u>84,478</u>	<u>2,884,997</u>	<u>2,239</u>	<u>20,877</u>
Fund Balances:					
Reserved for Encumbrances	14,487	0	726	0	136,203
Reserved for Prepaid Items	52,524	669	0	415	0
Reserved for Supplies Inventory	133,681	4,430	0	0	0
Reserved for Endowments	0	0	0	0	0
Undesignated and Unreserved in:					
General Fund	2,265,942	0	0	0	0
Special Revenue Funds	0	6,548	2,484,057	1,764,859	0
Capital Projects Funds	0	0	0	0	4,347,325
Permanent Fund	0	0	0	0	0
Total Fund Balances	<u>2,466,634</u>	<u>11,647</u>	<u>2,484,783</u>	<u>1,765,274</u>	<u>4,483,528</u>
Total Liabilities and Fund Balances	<u>\$ 3,343,440</u>	<u>\$ 96,125</u>	<u>\$ 5,369,780</u>	<u>\$ 1,767,513</u>	<u>\$ 4,504,405</u>

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Other Governmental Funds	Total Governmental Funds	<i>Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities December 31, 2003</i>	
		Total Governmental Fund Balances	\$ 12,381,795
\$ 1,167,470	\$ 11,883,662	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
0	3,598,747		
0	38,996	Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	80,514,807
7,377	542,926		
0	138,171		
0	53,608	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	3,036,649
<u>\$ 1,174,847</u>	<u>\$ 16,256,110</u>		
		Long-term liabilities, compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(940,791)</u>
\$ 0	\$ 94,726	<i>Net Assets of Governmental Funds</i>	<u>\$ 94,992,460</u>
0	56,122		
0	127,113		
0	531		
4,918	3,552,072		
0	43,751		
<u>4,918</u>	<u>3,874,315</u>		
0	151,416		
0	53,608		
0	138,111		
363,008	363,008		
0	2,265,942		
279,322	4,534,786		
500	4,347,825		
<u>527,099</u>	<u>527,099</u>		
<u>1,169,929</u>	<u>12,381,795</u>		
<u>\$ 1,174,847</u>	<u>\$ 16,256,110</u>		

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2003

	General	Street Construction, Maintenance and Repair	Income Tax	Rowe Arboretum	Capital Improvement Reserve
Revenues:					
Municipal Income Tax	\$ 0	\$ 0	\$ 3,485,123	\$ 0	\$ 0
Property and Other Taxes	526,122	0	0	0	0
Intergovernmental Revenues	8,592,830	193,102	0	0	0
Charges for Services	221,865	0	0	4,664	0
Licenses, Permits and Fees	24,327	0	0	0	0
Investment Earnings	175,970	0	0	304,594	0
Fines and Forfeitures	14,099	0	0	0	0
All Other Revenue	30,915	0	0	6,655	0
Total Revenue	9,586,128	193,102	3,485,123	315,913	0
Expenditures:					
Current:					
Security of Persons and Property	2,957,309	0	0	0	0
Public Health and Welfare Services	85,701	0	0	0	0
Leisure Time Activities	370,061	0	0	84,981	0
Community Environment	1,110,003	0	0	0	0
Transportation	0	1,032,291	0	0	0
General Government	2,362,827	0	81,658	0	30,607
Capital Outlay	0	0	0	10,993	1,615,553
Debt Service:					
Interest & Fiscal Charges	0	0	0	0	0
Total Expenditures	6,885,901	1,032,291	81,658	95,974	1,646,160
Excess (Deficiency) of Revenues					
Over Expenditures	2,700,227	(839,189)	3,403,465	219,939	(1,646,160)
Other Financing Sources (Uses):					
Transfers In	2,307,302	832,258	0	51,059	1,507,807
Transfers Out	(5,182,627)	0	(5,307,302)	0	0
Total Other Financing Sources (Uses)	(2,875,325)	832,258	(5,307,302)	51,059	1,507,807
Net Change in Fund Balances	(175,098)	(6,931)	(1,903,837)	270,998	(138,353)
Fund Balances at Beginning of Year	2,611,852	15,220	4,388,620	1,494,276	4,621,881
Increase in Inventory Reserve	29,880	3,358	0	0	0
Fund Balances End of Year	\$ 2,466,634	\$ 11,647	\$ 2,484,783	\$ 1,765,274	\$ 4,483,528

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>		
		<i>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 December 31, 2003</i>	
		Net Change in Fund Balances - Total Governmental Funds	\$ 4,730,092
\$ 0	\$ 3,485,123		
0	526,122	<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
132,892	8,918,824		
10	226,539		
0	24,327	Governmental funds report capital outlays as expenditures. However,	
214,158	694,722	in the statement of activities, the cost of those assets is allocated over	
505	14,604	their estimated useful lives as depreciation expense. This is the amount	
20,734	58,304	by which capital outlays and capital contributions exceeded depreciation.	5,534,033
<u>368,299</u>	<u>13,948,565</u>		
0	2,957,309	Governmental funds only report the disposal of assets to the extent	
0	85,701	proceeds are received from the sale. In the statement of activities, a	
46,540	501,582	gain or loss is reported for each disposal. This is the amount of the loss	
0	1,110,003	on the disposal of fixed assets net of proceeds received.	(76,984)
3,501	1,035,792	Revenues and transfers in the statement of activities that do not provide	
0	2,475,092	current financial resources are not reported as revenues in the funds.	165,974
0	1,626,546	Some expenses reported in the statement of activities, such as change in	
46,195	46,195	inventory and compensated absences, do not require the use of current	
96,236	9,838,220	financial resources and therefore are not reported as expenditures in the	
		governmental funds.	<u>6,649</u>
		<i>Change in Net Assets of Governmental Activities</i>	<u>\$ 10,359,764</u>
272,063	4,110,345		
6,648,456	11,346,882		
<u>(237,206)</u>	<u>(10,727,135)</u>		
<u>6,411,250</u>	<u>619,747</u>		
6,683,313	4,730,092		
(5,513,384)	7,618,465		
<u>0</u>	<u>33,238</u>		
<u>\$ 1,169,929</u>	<u>\$ 12,381,795</u>		

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property and Other Taxes	\$ 477,000	\$ 477,000	\$ 526,122	\$ 49,122
Intergovernmental Revenue	3,375,920	8,975,920	9,512,393	536,473
Charges for Services	167,800	167,800	218,032	50,232
Licenses and Permits	15,400	15,400	24,327	8,927
Investment Earnings	240,000	240,000	175,294	(64,706)
Fines and Forfeitures	19,000	19,000	14,149	(4,851)
All Other Revenues	17,200	17,200	20,434	3,234
Total Revenues	4,312,320	9,912,320	10,490,751	578,431
Expenditures:				
Current:				
Security of Persons and Property	2,943,375	2,966,830	2,917,882	48,948
Public Health and Welfare	87,300	87,500	83,934	3,566
Leisure Time Activities	394,890	402,690	367,223	35,467
Community Environment	969,605	1,189,602	1,132,912	56,690
General Government	2,353,980	2,571,415	2,417,175	154,240
Total Expenditures	6,749,150	7,218,037	6,919,126	298,911
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,436,830)	2,694,283	3,571,625	877,342
Other Financing Sources (Uses):				
Proceeds from the Sale of Fixed Assets	5,000	5,000	10,481	5,481
Transfers In	3,449,613	3,449,613	2,307,302	(1,142,311)
Transfers Out	(977,585)	(5,508,901)	(5,182,627)	326,274
Total Other Financing Sources (Uses):	2,477,028	(2,054,288)	(2,864,844)	(810,556)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	40,198	639,995	706,781	66,786
Fund Balance at Beginning of Year	1,413,916	1,413,916	1,413,916	0
Prior Year Encumbrances	18,660	18,660	18,660	0
Fund Balance at End of Year	\$ 1,472,774	\$ 2,072,571	\$ 2,139,357	\$ 66,786

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Street Construction, Maintenance and Repair Fund
For the Year Ended December 31, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental Revenue	\$ 167,000	\$ 167,000	\$ 193,126	\$ 26,126
Total Revenues	167,000	167,000	193,126	26,126
Expenditures:				
Current:				
Transportation	1,060,835	1,083,635	1,025,384	58,251
Total Expenditures	1,060,835	1,083,635	1,025,384	58,251
Excess (Deficiency) of Revenues Over (Under) Expenditures	(893,835)	(916,635)	(832,258)	84,377
Other Financing Sources (Uses):				
Transfers In	893,835	916,635	832,258	(84,377)
Total Other Financing Sources (Uses):	893,835	916,635	832,258	(84,377)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	0	0	0	0
Fund Balance at Beginning of Year	0	0	0	0
Fund Balance at End of Year	\$ 0	\$ 0	\$ 0	\$ 0

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Income Tax Fund
For the Year Ended December 31, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Municipal Income Tax	\$ 3,493,123	\$ 3,493,123	\$ 3,450,985	\$ (42,138)
Total Revenues	3,493,123	3,493,123	3,450,985	(42,138)
Expenditures:				
Current:				
General Government	183,800	184,800	82,212	102,588
Total Expenditures	183,800	184,800	82,212	102,588
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,309,323	3,308,323	3,368,773	60,450
Other Financing Sources (Uses):				
Transfers Out	0	(5,500,000)	(5,307,302)	192,698
Total Other Financing Sources (Uses):	0	(5,500,000)	(5,307,302)	192,698
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	3,309,323	(2,191,677)	(1,938,529)	253,148
Fund Balance at Beginning of Year	4,240,312	4,240,312	4,240,312	0
Fund Balance at End of Year	\$ 7,549,635	\$ 2,048,635	\$ 2,301,783	\$ 253,148

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Rowe Arboretum Fund
For the Year Ended December 31, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Charges for Services	\$ 4,000	\$ 4,000	\$ 4,664	\$ 664
Investment Earnings	19,700	19,700	115,282	95,582
All Other Revenues	4,500	4,500	6,655	2,155
Total Revenues	<u>28,200</u>	<u>28,200</u>	<u>126,601</u>	<u>98,401</u>
Expenditures:				
Current:				
Leisure Time Activities	74,157	115,740	86,452	29,288
Capital Outlay	11,243	11,243	10,993	250
Total Expenditures	<u>85,400</u>	<u>126,983</u>	<u>97,445</u>	<u>29,538</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(57,200)	(98,783)	29,156	127,939
Other Financing Sources (Uses):				
Transfers In	55,000	55,000	51,059	(3,941)
Total Other Financing Sources (Uses):	<u>55,000</u>	<u>55,000</u>	<u>51,059</u>	<u>(3,941)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,200)	(43,783)	80,215	123,998
Fund Balance at Beginning of Year	1,129,538	1,129,538	1,129,538	0
Prior Year Encumbrances	1,383	1,383	1,383	0
Fund Balance at End of Year	<u>\$ 1,128,721</u>	<u>\$ 1,087,138</u>	<u>\$ 1,211,136</u>	<u>\$ 123,998</u>

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Statement of Net Assets
Proprietary Funds
December 31, 2003

	<u>Business-Type Activities - Waterworks</u>
Assets:	
Current assets:	
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 2,308,753
Accounts receivable	692,980
Due from Other Funds	531
Inventory of Supplies at Cost	36,419
Prepaid Items	<u>14,286</u>
Total current assets	<u>3,052,969</u>
Noncurrent assets:	
Unamortized Bond Issuance Cost	22,169
Non-Depreciable Capital Assets	760,677
Depreciable Capital Assets, Net	<u>8,920,454</u>
Total noncurrent assets	<u>9,703,300</u>
Total assets	<u>12,756,269</u>
Liabilities:	
Current liabilities:	
Accounts Payable	48,027
Accrued Wages and Benefits Payable	7,664
Intergovernmental Payable	496,746
Accrued Interest Payable	9,971
General Obligation Bonds Payable - Current	50,000
Revenue Bond Payable - Current	285,000
Compensated Absences - Current	<u>14,449</u>
Total Current Liabilities	<u>911,857</u>
Noncurrent Liabilities:	
General Obligation Bonds Payable	525,000
Revenue Bonds Payable	1,425,000
Compensated Absences Payable	<u>94,736</u>
Total noncurrent liabilities	<u>2,044,736</u>
Total Liabilities	<u>2,956,593</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	7,418,300
Unrestricted	<u>2,381,376</u>
Total Net Assets	<u>\$ 9,799,676</u>

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003**

	Business-Type Activities - Waterworks
Operating Revenues:	
Charges for Services	\$ 3,008,640
Other Operating Revenues	31,680
Total Operating Revenues	<u>3,040,320</u>
Operating Expenses:	
Personal Services	770,682
Contractual Services	1,380,097
Materials and Supplies	164,573
Utilities	172,433
Depreciation	313,753
Other Operating Expenses	2,168
Total Operating Expenses	<u>2,803,706</u>
Operating Income	<u>236,614</u>
Non-Operating Revenue (Expenses):	
Other Non-Operating Revenue	9,240
Loss on Disposal of Fixed Assets	(141)
Interest and Fiscal Charges	(132,326)
Investment Earnings	31,576
Total Non-Operating Revenues (Expenses)	<u>(91,651)</u>
Income Before Transfers	144,963
Transfers:	
Transfers-Out	(625,000)
Total Transfers	<u>(625,000)</u>
Change in Net Assets	(480,037)
Net Assets Beginning of Year	<u>10,279,713</u>
Net Assets End of Year	<u><u>\$ 9,799,676</u></u>

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2003

	Business-Type Activities Waterworks
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$2,894,316
Other Operating Cash Receipts	31,680
Cash Payments for Goods and Services	(1,643,575)
Cash Payments to Employees	(751,376)
Net Cash Provided by Operating Activities	531,045
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers Out to Other Funds	(625,000)
Net Cash Used for Noncapital Financing Activities	(625,000)
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(735,790)
Principal Paid on Mortgage Revenue Bond	(275,000)
Principal Paid on General Obligation Bond	(50,000)
Interest Paid on All Debt	(128,678)
Net Cash Used for Capital and Related Financing Activities	(1,189,468)
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	31,576
Net Cash Provided by Investing Activities	31,576
Net Decrease in Cash and Cash Equivalents	(1,251,847)
Cash and Cash Equivalents at Beginning of Year	3,560,600
Cash and Cash Equivalents at End of Year	\$2,308,753
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$236,614
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	313,753
Miscellaneous Nonoperating Revenues	9,240
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(114,436)
Decrease in Due from Other Funds	112
Decrease in Inventory	1,168
Increase in Prepaid Items	(8,544)
Increase in Accounts Payable	3,799
Increase in Accrued Wages and Benefits	3,233
Increase in Intergovernmental Payable	72,297
Increase in Compensated Absences Payable	13,809
Total Adjustments	294,431
Net Cash Provided by Operating Activities	\$531,045

Schedule of Noncash Investing, Capital and Financing Activities:

At December 31, 2003, the Waterworks Fund had an outstanding liability of \$16,726 for the purchase of certain capital assets.

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

***Statement of Net Assets
Fiduciary Funds
December 31, 2003***

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>	<u>Totals</u>
Assets:			
Equity in Pooled Cash, Cash Equivalents and Investments	<u>\$ 100,000</u>	<u>\$ 4,195</u>	<u>\$ 104,195</u>
Total Assets	<u>100,000</u>	<u>4,195</u>	<u>104,195</u>
Liabilities:			
Intergovernmental Payable	<u>0</u>	<u>4,195</u>	<u>4,195</u>
Total Liabilities	<u>0</u>	<u>4,195</u>	<u>4,195</u>
Net Assets:			
Unrestricted	<u>100,000</u>	<u>0</u>	<u>100,000</u>
Total Net Assets	<u><u>\$ 100,000</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 100,000</u></u>

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Statement of Changes in Net Assets
Fiduciary Fund
For the Year Ended December 31, 2003

	<u>Private Purpose Trust</u>
	<u>Camp Jim B. Fund</u>
Additions:	
Contributions:	
Transfers from Other Funds	\$ 5,253
Private Donations	<u>1,747</u>
Total Contributions	<u>7,000</u>
Total Additions	<u>7,000</u>
Deductions:	
Community Gifts, Awards and Scholarships	<u>7,000</u>
Total Deductions	<u>7,000</u>
Change in Net Assets	0
Net Assets at Beginning of Year	<u>100,000</u>
Net Assets End of Year	<u><u>\$ 100,000</u></u>

See accompanying notes to the basic financial statements

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of the Village of Indian Hill, Ohio (the City), is a home-rule corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council/Manager form of government, was adopted in 1941 and has subsequently been amended.

The financial statements are presented as of December 31, 2003 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which includes the following services: police and fire protection, street maintenance and repairs, building inspection, parks and recreation, wastewater, and other governmental services.

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 summarized by type in the basic financial statements. The following fund types are used by the City:

Governmental Funds - Those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary fund) 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 City's major governmental funds:

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

Street Construction, Maintenance and Repair Fund – This fund is used to account for state levied and controlled gasoline tax and motor vehicle registration fees designated for street maintenance and repair.

Income Tax Fund – This fund is used to account for the collections of the municipal income tax as required by City Ordinance.

Rowe Arboretum Fund – This fund is used to account for the preservation of an array of plant specimens for horticulture study and public enjoyment.

Capital Improvement Reserve Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund

The proprietary fund is accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund is charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's major enterprise fund is the Water Fund which accounts for the operation of the City's water service.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Agency Fund - This fund is used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units, and/or other funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Private Purpose Trust Fund – This fund is used to account for other trust arrangements which benefit individuals, private organizations or other governments.

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

Interfund receivables and payables between governmental and business-type activities have been eliminated in the government-wide Statement of Net Assets. These eliminations minimize the duplicating effect on assets and liabilities within the governmental and business-type activities total column.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City'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 City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental and proprietary 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.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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 in the accounts and reported in the financial statements and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Measurable means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is considered to be 60 days after 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.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

Revenue considered susceptible to accrual at year end includes income taxes, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services and miscellaneous revenue, is recorded as revenue when received in cash because it is generally not measurable until actually received.

Property taxes measurable as of December 31, 2003 but which are not intended to finance 2003 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund and the private purpose trust fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds, as included in business-type activities and proprietary fund statements, and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

E. Budgetary Process

The annual budgetary process is prescribed by Charter and 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 ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only the general fund and major special revenue funds are required to be reported. The legal level of budgetary control is by fund at the major object level (personal services, materials and supplies, contractual services, capital outlay, and transfers) by department. Budgetary control is maintained by not permitting expenditures to exceed appropriations at the major object level for each department within each fund without the approval of City Council. Administrative control is maintained through the establishment of more detailed line-item budgets. Budgetary modifications above the major object level by fund may only be made by ordinance of the City Council. During 2003, all appropriations were approved as required and all funds and departments completed the year within their legally authorized appropriations.

1. Tax Budget

During the first council meeting in July, the City Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Budget Commission then certifies its actions to the City by September 1st of each year. By October 1st of each year, the City accepts, by resolution, the tax rate as determined by the Budget Commission. As part of the certification process, the City receives an official certificate of estimated resources which states the projected receipts by fund. Prior to December 31, the City 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 January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed or fall short of current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1st of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1st of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level, and may only be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the object level. During the year, supplemental appropriations were necessary to budget contingency funds and intergovernmental grants. 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 (Non-GAAP Budgetary Basis)" for the General Fund and Major Special Revenue Funds are provided on the budgetary basis to provide a comparison of actual results with 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 City'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. Also under the budgetary basis, encumbrances are recognized as expenditures and note proceeds are recognized as another financing source. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

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 and Major Special Revenue Funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Street Construction, Maintenance and Repair Fund	Income Tax Fund	Rowe Arboretum Fund
GAAP Basis (as reported)	(\$175,098)	(\$6,931)	(\$1,903,837)	\$270,998
Increase (Decrease):				
Accrued Revenues at December 31, 2003 received during 2004	(393,521)	(30,322)	(182,723)	(555,962)
Accrued Revenues at December 31, 2002 received during 2003	1,308,625	30,346	148,585	366,650
Accrued Expenditures at December 31, 2003 paid during 2004	274,844	23,834	449	2,239
Accrued Expenditures at December 31, 2002 paid during 2003	(242,093)	(16,656)	(277)	(3,330)
2002 Prepays for 2003	8,943	398	0	35
2003 Prepays for 2004	(52,524)	(669)	0	(415)
Outstanding Encumbrances	(22,395)	0	(726)	0
Budget Basis	\$706,781	\$0	(\$1,938,529)	\$80,215

F. Cash and Cash Equivalents

During fiscal year 2003, cash and cash equivalents included amounts in demand deposits and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the basic financial statements.

The City pools its cash for investment and resource management purposes. Each fund's equity in cash and cash equivalents represents the balance on hand as if each had maintained its own cash and cash investment account. For purposes of the statement of cash flows, the proprietary fund considers its share of equity in pooled cash and investments to be cash equivalents. See Note 4, "Equity in Pooled Cash, Cash Equivalents and Investments."

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution, the Ohio Revised Code, and the City Charter. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value. The City allocates interest among the various funds based upon applicable legal and administrative requirements. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices. See Note 4, "Equity in Pooled Cash, Cash Equivalents and Investments."

The City invested funds in STAR Ohio, Fifth Third and the Vanguard Stock Market Index Fund during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Fifth Third funds are invested in US Government Securities, stocks and bonds. According to the City's investment policy for the Rowe Arboretum Fund and the Green Areas Endowment Fund, permitted investments include stocks, corporate bonds, AA Mortgage securities, commercial paper rated A1/P1, mutual funds and restricted futures. All investments are valued at share market prices, which are the prices the investments could be sold for on December 31, 2003.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds, and at the lower of cost (first-in, first-out) or market in the proprietary fund. The costs of inventory items are recorded as expenditures in governmental funds and when purchased and expenses in the proprietary fund when used.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, 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.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life threshold of five or more years.

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. Capital assets include land, improvements to land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when 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.

2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land and construction in progress. Depreciation on newly acquired/constructed streets begins in the year following acquisition. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Buildings	40 - 60
Improvements other than Buildings	20 - 50
Infrastructure	10 - 50
Machinery, Equipment, Furniture and Fixtures	5 - 20

CITY OF THE VILLAGE OF INDIAN HILL OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
General Obligation Bond	Waterworks Fund
Mortgage Revenue Bond	Waterworks Fund
Compensated Absences	General Fund Waterworks Fund

L. Compensated Absences

Employees of the City earn vacation leave at varying rates within limits specified under statute. At termination or retirement employees are paid at their full rate for 100% of their unused vacation leave.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined. 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. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

M. 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 City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Pensions

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

O. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Transfers In" by the recipient fund, and "Transfers Out" by the disbursing fund.

Transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are similarly treated when involving other funds of the City.

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 inventories of supplies and materials, prepaid items and encumbered amounts that have not been accrued at year end.

Q. Estimates

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2003.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. Prior Period Adjustments

The balances reported at December 31, 2002 were restated from amounts previously reported to reclassify funds from one fund type to another.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE (Continued)

B. Changes in Accounting Principles

For fiscal year 2003, the City has implemented GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”; GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”; GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”; and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement.*” At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37 and 38, or Interpretation No. 6.

GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City’s programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

C. Restatement of Fund Balance

The changes to the beginning fund balance, as well as the transition from fund balance to net assets of the governmental activities are as follows:

	Governmental Activities	Business-Type Activities
Fund Balance December 31, 2002	\$5,378,910	\$10,348,880
Adjustments:		
Reclassified from Non-Expendable Trust to Permanent Fund	689,429	0
Reclassified from Expendable Trust to Special Revenue Fund	1,550,126	0
Total Prior Period Adjustments	2,239,555	0
GASB 34 Adjustments:		
Capital Assets	75,057,758	(69,167)
Long-Term Liabilities	(914,202)	0
Long-Term (Deferred) Assets	2,870,675	0
Net Assets, December 31, 2002	\$84,632,696	\$10,279,713

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government – wide statement of activities. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Amount by which capital additions exceeded depreciation in the current period:

Capital Additions	\$6,290,544
Depreciation Expense	<u>(756,511)</u>
	\$5,534,033

Amount of loss on disposal of capital assets net of proceeds received:

Loss on Disposal of Capital Asset	<u>(\$76,984)</u>
	(\$76,984)

Governmental revenues not reported in the funds:

Increase in Tax Revenue	\$162,700
Increase in Grants Receivable	<u>3,274</u>
	\$165,974

Expenses not requiring the use of current financial resources:

Increase in Compensated Absences Payable	(\$26,589)
Increase in Inventory	<u>33,238</u>
	\$6,649

NOTE 4 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of a majority of individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash, Cash Equivalents and Investments." Ohio law requires the classification of funds held by the City into three categories.

The investment and deposit of City monies is governed by the provisions of the Charter and Codified Ordinances of the City as well as the Ohio Revised Code. Accordingly, only financial institutions approved by City Council are eligible to hold the City's cash deposits. In addition, investments may only be purchased, after competitive quotations are obtained, through financial institutions located within Ohio or through "primary securities dealers" as designated by the Federal Reserve Bank.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 4 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

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

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

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

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 4 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The City has a separate investment policy and guidelines for its two endowment funds known as the Rowe Arboretum Fund and the Green Areas Endowment Fund. Under this policy the City's managers are permitted to invest in the following:

- Mortgage – or asset-backed securities rated no lower than AA;
- Commercial paper rated A1/P1 (S&P/Moody's); certificates of deposit or banker's acceptance (of domestic banks with net worth in excess of \$500 MM); bank deposits or short-term investment accounts maintained by the Fund's custodian; and, repurchase agreements (with Federal Reserve reporting dealers, fully collateralized by otherwise eligible cash equivalents, marked to market daily, held in a segregated custody account, and otherwise maintained in accordance with Federal Reserve guidelines.)
- U.S. common, convertible and preferred stocks and American Depository Receipts or Shares (ADRs or ADSs) which trade in the U.S.;
- U.S. Government, Agency and Corporate Bonds rated BBB/Baa or better, and Canadian Yankees rated at least A;
- U.S. registered mutual funds.
- Futures only in the case where the dollar value of the market exposure does not exceed the value of uninvested cash in the investment account, and where the purpose of the futures contract is to achieve market exposure for that cash in the asset class of the benchmark of the portfolio.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City 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 any state, county, municipal corporation or other legally constituted authority of any other state or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,*" collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 4 – EQUITY IN POOLED 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 City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

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

A. Deposits

At year end the carrying amount of the City's deposits was \$800,771 and the bank balance was \$243,439. Federal depository insurance covered \$100,000 of the bank balance, and all remaining deposits were classified as Category 3.

B. Investments

The City's investments at December 31, 2003 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Fair Value</u>
U.S. Government Securities	\$3,982,731	\$0	\$3,982,731
Corporate Stocks	0	1,554,617	1,554,617
Total Categorized Investments	3,982,731	1,554,617	5,537,348
 <u>Non-Categorized Investments</u>			
STAR Ohio	N/A	N/A	4,704,648
Stock Mutual Fund	N/A	N/A	880,874
Money Market Mutual Funds	N/A	N/A	2,372,969
Total Investments	\$3,982,731	\$1,554,617	\$13,495,839

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 4 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS
(Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio is treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$14,296,610	\$0
U.S. Government Securities	(3,982,731)	3,982,731
Corporate Stocks	(1,554,617)	1,554,617
Stock Mutual Fund	(880,874)	880,874
Money Market Mutual Funds	(2,372,969)	2,372,969
STAR Ohio	<u>(4,704,648)</u>	<u>4,704,648</u>
Per GASB Statement No. 3	<u>\$800,771</u>	<u>\$13,495,839</u>

* Includes Cash with Fiscal Agent.

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property which is used in business, located in the City. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002, 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 are made in the third year following reappraisal. The last reappraisal was completed in 1999, with an equalization adjustment in 2002. Real property taxes are payable annually or semi-annually. The first payment is due January 1, with the remainder payable by June 30.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 5 - TAXES (Continued)

A. Property Taxes (Continued)

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.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of the Village of Indian Hill. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2003 was \$.96 per \$1,000 of assessed value. The assessed value upon which the 2003 levy was based was \$643,627,990. This amount constitutes \$638,803,070 in real property assessed value, \$3,222,540 in public utility assessed value and \$1,602,380 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .096% (.96 mills) of assessed value.

B. Income Tax

The City levies a resident income tax of .3% based upon 2002 Ohio Adjusted Gross Income. No reciprocal credit is recognized for residents who may be employed in other municipalities. The majority of returns are filed annually, on April 30 of each year, although the City does receive some monthly and/or quarterly remittances.

For fiscal 2003, income tax collections totaled \$3,646,974.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 6 - RECEIVABLES

Receivables at December 31, 2003 consisted primarily of property, inheritance and income taxes, accounts receivable, interfund receivables and intergovernmental receivables arising from entitlement or shared revenues and grants. All receivables are considered collectible in full. Those receivables that relate to amounts not intended to finance the current fiscal year are offset by deferred revenue.

NOTE 7 - INTERFUND BALANCES

Individual interfund balances at December 31, 2003 are as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$0	\$531
Enterprise Fund:		
Waterworks Fund	531	0
Totals	<u>\$531</u>	<u>\$531</u>

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CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 8 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 2003:

Fund	Transfer In	Transfer Out
General Fund	\$2,307,302	\$5,182,627
Special Revenue Funds:		
Street Construction, Maintenance and Repair Fund	832,258	0
Income Tax Fund	0	5,307,302
Bridle Trail Fund	15,440	0
Rowe Arboretum Fund	51,059	0
Total Special Revenue Funds	<u>898,757</u>	<u>5,307,302</u>
Capital Projects Fund:		
Capital Improvement Reserve Fund	1,507,807	0
FEMA Grant Fund	0	237,206
Land Acquisition Fund	6,633,016	0
Total Capital Projects Funds	<u>8,140,823</u>	<u>237,206</u>
Enterprise Fund:		
Water Fund	0	625,000
Private Purpose Trust Fund:		
Camp Jim B. Fund	5,253	0
Total All Funds	<u>\$11,352,135</u>	<u>\$11,352,135</u>

The transfer from the FEMA Grant Fund of \$237,206 to the Capital Improvement Fund was to reimburse the fund where the original payments were made. The \$625,000 transfer from the Water Fund to the Land Acquisition Fund was for the purchase of land to protect the water aquifer system.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 9 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2003:

Historical Cost:

Class	Restated December 31, 2002	Additions	Deletions	December 31, 2003
Non-Depreciable Capital Assets:				
Land	\$67,072,463	\$4,736,016	\$0	\$71,808,479
Construction in Progress	90,093	0	(71,622)	18,471
Total Non-Depreciable Capital Assets	<u>67,162,556</u>	<u>4,736,016</u>	<u>(71,622)</u>	<u>71,826,950</u>
Depreciable Capital Assets:				
Buildings	2,267,672	302,216	0	2,569,888
Improvements Other than Buildings	834,749	335,532	0	1,170,281
Infrastructure	8,265,641	599,169	(88,306)	8,776,504
Machinery and Equipment	2,910,167	389,233	(297,567)	3,001,833
Total Depreciable Capital Assets	<u>14,278,229</u>	<u>1,626,150</u>	<u>(385,873)</u>	<u>15,518,506</u>
Total Cost	<u>\$81,440,785</u>	<u>\$6,362,166</u>	<u>(\$457,495)</u>	<u>\$87,345,456</u>

Accumulated Depreciation:

Class	Restated December 31, 2002	Additions	Deletions	December 31, 2003
Buildings	(\$535,409)	(\$46,828)	\$0	(\$582,237)
Improvements Other than Buildings	(272,725)	(46,767)	0	(319,492)
Infrastructure	(4,233,809)	(327,371)	88,306	(4,472,874)
Machinery and Equipment	(1,341,084)	(335,545)	220,583	(1,456,046)
Total Depreciation	<u>(\$6,383,027)</u>	<u>(\$756,511) *</u>	<u>\$308,889</u>	<u>(\$6,830,649)</u>
Net Value:	<u>\$75,057,758</u>			<u>\$80,514,807</u>

* Depreciation expenses were charged to governmental functions as follows:

General Government	(\$62,894)
Security of Persons and Property	(90,974)
Transportation	(431,987)
Leisure Time Activities	(77,186)
Community Environment	(87,721)
Public Health and Welfare	(5,749)
Total Depreciation Expense	<u>(\$756,511)</u>

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 9 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at June 30, 2003:

Historical Cost:

Class	December 31, 2002	Additions	Deletions	December 31, 2003
Non-Depreciable Capital Assets:				
Land	\$84,087	\$0	\$0	\$84,087
Construction in Progress	50,898	625,692	0	676,590
Total Non-Depreciable Capital Assets	<u>134,985</u>	<u>625,692</u>	<u>0</u>	<u>760,677</u>
Depreciable Capital Assets:				
Buildings	2,919,542	29,695	0	2,949,237
Improvements Other than Buildings	9,688,878	10,259	0	9,699,137
Machinery and Equipment	1,919,338	94,883	(20,222)	1,993,999
Total Depreciable Capital Assets	<u>14,527,758</u>	<u>134,837</u>	<u>(20,222)</u>	<u>14,642,373</u>
Total Cost	<u>\$14,662,743</u>	<u>\$760,529</u>	<u>(\$20,222)</u>	<u>\$15,403,050</u>
Accumulated Depreciation:				
Class	December 31, 2002	Additions	Deletions	December 31, 2003
Buildings	(\$530,831)	(\$48,862)	\$0	(\$579,693)
Improvements Other than Buildings	(4,407,142)	(169,202)	0	(4,576,344)
Machinery and Equipment	(473,341)	(112,622)	20,081	(565,882)
Total Depreciation	<u>(\$5,411,314)</u>	<u>(\$330,686)</u>	<u>\$20,081</u>	<u>(\$5,721,919)</u>
Net Value:	<u>\$9,251,429</u>			<u>\$9,681,131</u>

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS

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

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "*Accounting for Pensions by State and Local Government Employers.*"

All employees of the City, except full-time uniformed police officers, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2003 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2003, 2002 and 2001 were \$429,976, \$399,438 and \$371,165, respectively, which were equal to the required contributions for each year.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plan is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2003 employer contribution rate (identified above) that was used to fund health care for the year 2003 was 5.0% of covered payroll which amounted to \$158,663.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2002 is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care “Choices” Plan. The Choices plan will be offered to all persons hired in an OPERS covered position after January 1, 2003, with not prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year “cliff” eligibility standard for the present Plan.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2003, 2002 and 2001 were \$256,708, \$241,376 and \$231,173 for police, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2003 covered payroll that was used to fund postemployment health care benefits was \$102,025 representing 7.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2002, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,527 for police. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2002 were \$141,028,006, which was net of member contributions of \$12,623,875.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 11 - NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources. The note was backed by the full faith and credit of the City and matured within one year. The note was issued to purchase 304 acres in the Camp Dennison area to preserve and protect the area's aquifer and to maintain the area as open space.

General Obligation Note:	Balance December 31, 2002	Issued	(Retired)	Balance December 31, 2003
Capital Projects Fund:				
2.15% Land Acquisition	\$6,500,000	\$0	(\$6,500,000)	\$0

NOTE 12 - LONG-TERM OBLIGATIONS

Detail of the changes in the bonds and compensated absences of the City for the year ended December 31, 2003 is as follows:

	Balance December 31, 2002			Balance December 31, 2003		Amount Due Within One Year
	Issued	(Retired)	2003	2003	2003	2003
Governmental Activities:						
Compensated Absences	\$914,202	\$70,340	\$0	\$984,542		\$224,077
Total Governmental Activities	\$914,202	\$70,340	\$0	\$984,542		\$224,077

	Balance December 31, 2002			Balance December 31, 2003		Amount Due Within One Year
	Issued	(Retired)	2003	2003	2003	2003
Business-Type Activities:						
Mortgage Revenue Bond:						
2.80-5.25%						
1993 Water Works Revenue Refunding	2009	\$1,985,000	\$0	\$(275,000)	\$1,710,000	\$285,000
General Obligation Bond:						
3.00-6.00%						
1992 Water Works Improvement	2012	625,000	0	(50,000)	575,000	50,000
Compensated Absences		95,376	109,185	(95,376)	109,185	14,449
Total Business-Type Activities		\$2,705,376	\$109,185	(\$420,376)	\$2,394,185	\$349,449

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

A. Principal and Interest Requirements

Principal and interest requirements to retire long-term debt outstanding at December 31, 2003 are as follows:

Years	Mortgage Revenue Bond		General Obligation Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$285,000	\$79,043	\$50,000	\$32,491	\$335,000	\$111,534
2005	295,000	65,118	55,000	29,484	350,000	94,602
2006	310,000	50,140	55,000	26,307	365,000	76,447
2007	325,000	34,103	60,000	22,957	385,000	57,060
2008	345,000	16,846	65,000	19,285	410,000	36,131
2009-2013	150,000	3,938	290,000	36,284	440,000	40,222
Totals	<u>\$1,710,000</u>	<u>\$249,188</u>	<u>\$575,000</u>	<u>\$166,808</u>	<u>\$2,285,000</u>	<u>\$415,996</u>

B. Defeased Debt

In 1993, the City defeased a portion of its 1988 and 1989 Series Waterworks Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of December 31, 2003, \$1,685,000 of the 1988 and 1989 series bonds are still outstanding.

NOTE 13 – GREEN AREAS LAND OWNERSHIP

The City accounts for land donated for use as green areas valued at \$46,484,236 within the Governmental Activities. The property is held in trust with various deed restrictions. In accordance with the terms of the trust agreement, this property cannot be sold or developed.

NOTE 14 - CONSTRUCTION COMMITMENTS

As of December 31, 2003, the City had the following commitments with respect to capital projects:

Project	Commitment	Completion
2003 Street Resurfacing	\$16,753	January 2004
Grand Valley Development	91,950	January 2004
Replace Emergency Warning Sirens	27,000	January 2004
Pressure Zone Modification	35,932	January 2004
Water Tower Maintenance	38,759	January 2004
Total	<u>\$210,394</u>	

CITY OF THE VILLAGE OF INDIAN HILL OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 15 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. In 1992 the City entered into a joint insurance pool, Miami Valley Risk Management Association, Inc. (MVRMA, Inc.) with other local cities. As of December 31, 2003, the pool has seventeen members. The pool has been operational since December of 1988 and was formed in accordance with Section 2744 of the Ohio Revised Code. This jointly governed organization provides real and personal property, crime, surety, general liability, boiler and machinery, employment practices liability, police professional and public official liability coverage up to the limits stated below. Membership in MVRMA is intended to provide broad based coverage up to the limits stated below, with increased emphasis on safety and loss prevention and to create an opportunity for other local governments to participate. MVRMA is a non-profit corporation governed by a seventeen member board of trustees, consisting of a representative appointed by each of the member cities. The board of trustees elects the officers of the corporation, with each trustee having a single vote. Management is provided by an Executive Director, who is assisted by a Claims Manager, a full-time Loss Control Manager and office staff. The board is responsible for its own financial matters and the corporation maintains its own books of account. Budgeting and financing of MVRMA is subject to the approval of the board, and the organization is covered by policies, procedures, and formally adopted bylaws.

The seventeen participating cities and their respective pool contribution factors for the loss year ended December 31, 2003 are:

<u>Entity</u>	<u>Percentage</u>	<u>Entity</u>	<u>Percentage</u>
Beavercreek	8.14 %	Sidney	7.35 %
Blue Ash	7.96 %	Springdale	4.69 %
Indian Hill	2.54 %	Tipp City	2.49 %
Kettering	16.13 %	Troy	7.46 %
Madeira	1.22 %	Vandalia	4.63 %
Mason	8.20 %	West Carrollton	3.77 %
Miamisburg	8.19 %	Wilmington	5.95 %
Montgomery	2.82 %	Wyoming	2.51 %
Piqua	5.95 %	Subtotal	<u>38.85 %</u>
Subtotal	<u>61.15 %</u>	Total	<u><u>100.00 %</u></u>

The individual MVRMA, Inc. members are not considered "participants having equity interest" as defined by GASB Statement No. 14 since members have no rights to any assets of MVRMA, Inc. other than possible residual claims upon dissolution. The risk of loss is transferred from the City to the pool. Therefore, MVRMA, Inc. is a multi-jurisdictional arrangement that has the characteristics of a joint venture but has additional features that distinguish it, for financial reporting purposes, from the traditional joint venture defined in GASB Statement No. 14.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 15 - RISK MANAGEMENT (Continued)

The following is a summary of insurance coverages at year end:

Property	\$100,000,000	per occurrence
Crime / Employee Theft	1,000,000	per occurrence
Liability	12,000,000	per occurrence
Flood (Property in Zone C)	25,000,000	Aggregate
Flood (Property in Zone B)	1,000,000	Aggregate
Earthquake (Property)	25,000,000	Aggregate
Extra Expense	5,000,000	per occurrence

The deductible per occurrence is \$2,500. During 2003, MVRMA's self insured retention (SIR) limit for property was \$250,000 except boiler and machinery, which was \$5,000. The SIR for liability was \$1,000,000. The City pays an annual premium to MVRMA which is intended to cover administrative expenses and any claims covered by the pool. The MVRMA Board of Trustees has the ability to require the member cities to make supplemental payments in the event reserves are not adequate to cover claims in a particular loss year. The City was not required to make any supplemental payments as of December 31, 2003.

MVRMA issues a stand-alone financial report that includes financial statements and required supplementary information for MVRMA, Inc. Interested parties may obtain a copy by making a written request to 4625 Presidential Way, Kettering, Ohio 45429-5706.

With the exceptions of employee group health insurance and workers' compensation, all insurance is held with MVRMA. The City pays all elected officials bonds by statute.

The City participates in the Ohio Municipal League public entity insurance purchasing pool for workers' compensation. The Group Rating Plan is administered by Gates McDonald who was paid an annual fee of \$5,487 in 2003. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

There were no significant reductions in insurance coverages from the prior year in any category of risk. Settled claims have not exceeded commercial insurance coverages in any of the past three fiscal years.

CITY OF THE VILLAGE OF INDIAN HILL OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 16 – CONDUIT DEBT

The City of the Village of Indian Hill, Ohio (the “Issuer”), made a loan to assist in the financing of the acquisition, construction, equipping, and installation of certain school facilities to be used by Cincinnati Country Day School (the “Borrower”), a non-profit corporation. City Council approved this loan on April 19, 1999, after determining that the City, by virtue of the laws of the State of Ohio, including Article VIII, Section 13 of the Constitution of Ohio, Chapter 165 of the Ohio Revised Code is authorized and empowered among other things (a) to make a loan as previously described to the Cincinnati Country Day School which has received a determination from the Internal Revenue Service that it is an entity described in Section 501 (c) (3) of the Internal Revenue Code, within the boundaries of the Issuer, (b) to issue and sell its revenue bonds to provide moneys for such loans and (c) to enact bond legislation and execute and deliver the agreements.

City Council has determined that the acquisition, construction, installation and equipping of the project will promote the economic welfare of the people of the Issuer and the State of Ohio and create or preserve jobs and employment opportunities. Council therefore assisted with the financing of the project through the issuance of revenue bonds in the aggregate principal amount of \$17,600,000, which were closed on May 6, 1999. The principal amount still outstanding on these bond issuances at December 31, 2003 is \$11,095,000. The Adjustable Rate Demand, Economic Development Revenue Bonds, series 1999, are special obligations of the City and do not represent or constitute an indebtedness of the Issuer within the meaning of the Constitution of the State of Ohio or a pledge of faith and credit or the taxing power of the Issuer, the State of Ohio or any political subdivision, municipality or other local agency. The Series 1999 Bonds, from payments provided for under a Loan Agreement with the Cincinnati Country Day School, from funds drawn under an irrevocable Letter of Credit issued by Fifth Third Bank. No covenant or agreement of any member of the City Council of the City of the Village of Indian Hill, Ohio or of any officer, agent attorney or employee of the Issuer in his or her individual capacity, nor shall any officer or employee of the Issuer executing the Bonds be liable personally on the bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds.

NOTE 17 - CONTINGENCIES

The City receives financial assistance from various state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires the compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2003.

NOTE 18 – SUBSEQUENT EVENT

On June 1, 2004 the City issued \$1,525,000 in General Obligation Bonds. The proceeds of the bonds will be used to refinance the 1992 Water Works Mortgage Revenue Bond and the 1993 Water Works Improvement General Obligation Bond.

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Auditor of State Betty Montgomery

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

City of the Village of Indian Hill
Hamilton County
6525 Drake Road
Cincinnati, Ohio 45243

To the City Council:

We have audited the accompanying financial statements of the City of the Village of Indian Hill, Hamilton County, Ohio (the City), as of and for the fiscal year ended December 31, 2003, and have issued our report thereon dated June 10, 2004, which we noted the City adopted Governmental Accounting Standards Board Statement No. 34, 37, 38, and Governmental Standards Board Interpretation 6. 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 City'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 immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 10, 2004.

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the audit committee, management and the City Council, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

June 10, 2004



**Auditor of State
Betty Montgomery**

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CITY OF THE VILLAGE OF INDIAN HILL

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 10, 2004**