

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

Basic Financial Statements

Year Ended December 31, 2006

With

Independent Auditors' Report

## CITY OF THE VILLAGE OF INDIAN HILL, OHIO

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**Clark, Schaefer, Hackett & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and Members of the City Council  
City of the Village of Indian Hill, Ohio:

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, Ohio (the City) as of and for the year ended December 31, 2006, 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, Ohio as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, Income Tax Fund and Rowe Arboretum Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clark, Schaefer, Hachett & Co.*

Cincinnati, Ohio  
June 8, 2007

# CITY OF THE VILLAGE OF INDIAN HILL, OHIO

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2006*

*Unaudited*

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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, 2006. 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 2006 are as follows:

- In total, net assets increased \$2,440,840. Net assets of governmental activities increased \$2,146,747, which represents a 2.2% increase from 2005. Net assets of business-type activities increased \$294,093 from 2005.
- General revenues accounted for \$10,443,246 in revenue or 61% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$6,776,760 or 39% of total revenues of \$17,220,006.
- The City had \$11,224,667 in expenses related to governmental activities; only \$2,996,320 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily shared revenues and income taxes) of \$10,375,054 were adequate to provide for these programs.
- Among major funds, the general fund had \$2,852,605 in revenues and \$8,089,890 in expenditures. The general fund's fund balance increased \$397,124 to \$1,912,040 for 2006. The net decrease of all governmental funds was \$4,017,679.

## **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***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2006***

***Unaudited***

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## **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.
- 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, 2006**

**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

The following table provides a comparison of the City's net assets between December 31, 2006 and 2005.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$17,163,538	\$19,189,608	\$3,161,332	\$3,324,287	\$20,324,870	\$22,513,895
Capital assets, Net	88,647,885	84,641,442	9,849,994	9,711,080	98,497,879	94,352,522
Total assets	105,811,423	103,831,050	13,011,326	13,035,367	118,822,749	116,866,417
Long-term debt outstanding	4,880,435	5,170,236	1,527,483	1,900,757	6,407,918	7,070,993
Other liabilities	1,211,514	1,088,087	644,597	589,457	1,856,111	1,677,544
Total liabilities	6,091,949	6,258,323	2,172,080	2,490,214	8,264,029	8,748,537
Net assets						
Invested in capital assets, net of related debt	85,028,685	82,441,042	8,449,194	8,341,480	93,477,879	90,782,522
Restricted	5,997,578	7,568,805	0	0	5,997,578	7,568,805
Unrestricted	8,693,211	7,562,880	2,390,052	2,293,673	11,083,263	9,766,553
Total net assets	\$99,719,474	\$97,572,727	\$10,839,246	\$10,545,153	\$110,558,720	\$108,117,880

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## CITY OF THE VILLAGE OF INDIAN HILL, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

**Changes in Net Assets** – The following table shows the changes in net assets for the fiscal years 2006 and 2005:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services and Sales	\$623,496	\$391,857	\$3,780,440	\$3,718,561	\$4,403,936	\$4,110,418
Operating Grants and Contributions	314,824	348,223	0	0	314,824	348,223
Capital Grants and Contributions	2,058,000	335,500	0	40,424	2,058,000	375,924
<b>Total Program Revenues</b>	<u>2,996,320</u>	<u>1,075,580</u>	<u>3,780,440</u>	<u>3,758,985</u>	<u>6,776,760</u>	<u>4,834,565</u>
<b>General Revenues:</b>						
Municipal Income Taxes	7,325,187	5,866,931	0	0	7,325,187	5,866,931
Property Taxes	826,432	552,167	0	0	826,432	552,167
Shared Revenues	1,299,552	1,816,660	0	0	1,299,552	1,816,660
Investment Earnings	748,776	551,571	106,142	53,825	854,918	605,396
Miscellaneous	137,157	138,109	0	0	137,157	138,109
<b>Total General Revenues</b>	<u>10,337,104</u>	<u>8,925,438</u>	<u>106,142</u>	<u>53,825</u>	<u>10,443,246</u>	<u>8,979,263</u>
<b>Total Revenues</b>	<u>13,333,424</u>	<u>10,001,018</u>	<u>3,886,582</u>	<u>3,812,810</u>	<u>17,220,006</u>	<u>13,813,828</u>
<b>Program Expenses</b>						
Security of Persons and Property	3,537,089	3,353,879	0	0	3,537,089	3,353,879
Public Health and Welfare Services	130,985	137,023	0	0	130,985	137,023
Leisure Time Activities	854,931	693,752	0	0	854,931	693,752
Community Environment	1,132,591	1,229,145	0	0	1,132,591	1,229,145
Transportation	2,072,031	1,781,969	0	0	2,072,031	1,781,969
General Government	3,379,338	3,073,133	0	0	3,379,338	3,073,133
Interest and Fiscal Charges	117,662	152,638	0	0	117,662	152,638
Water Fund	0	0	3,554,539	3,494,814	3,554,539	3,494,814
<b>Total Expenses</b>	<u>11,224,627</u>	<u>10,421,539</u>	<u>3,554,539</u>	<u>3,494,814</u>	<u>14,779,166</u>	<u>13,916,353</u>
Change in Net Assets before transfers	2,108,797	(420,521)	332,043	317,996	2,440,840	(102,525)
Transfers	37,950	0	(37,950)	0	0	0
<b>Total Change in Net Assets</b>	<u>2,146,747</u>	<u>(420,521)</u>	<u>294,093</u>	<u>317,996</u>	<u>2,440,840</u>	<u>(102,525)</u>
<b>Beginning Net Assets</b>	<u>97,572,727</u>	<u>97,993,248</u>	<u>10,545,153</u>	<u>10,227,157</u>	<u>108,117,880</u>	<u>108,220,405</u>
<b>Ending Net Assets</b>	<u>\$99,719,474</u>	<u>\$97,572,727</u>	<u>\$10,839,246</u>	<u>\$10,545,153</u>	<u>\$110,558,720</u>	<u>\$108,117,880</u>

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## **CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

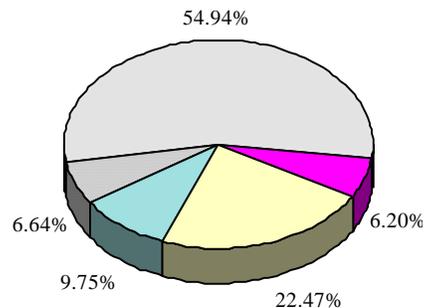
### **Governmental Activities**

Net assets of the City's governmental activities increased by \$2,146,747. This increase was a result of a combination of events, including the donation of approximately \$2 million in green area land and an increase in the income tax rate from 0.3% to 0.4%

The City receives an income tax, which is based on 0.4% of the residents Ohio Adjusted income.

Municipal Income Taxes accounted for 54.94% of revenues for governmental activities for the City in fiscal year 2006.

Revenue Sources	2006	Percent of Total
Municipal Income Taxes	\$7,325,187	54.94%
Property Taxes	826,432	6.20%
Program Revenues	2,996,320	22.47%
Shared Revenues	1,299,552	9.75%
General Other	885,933	6.64%
Total Revenue	<u>\$13,333,424</u>	<u>100.00%</u>



### **Business-Type Activities**

Net assets of the business-type activities increased by \$294,093. This increase was the result of a 4% increase in water rates on June 1, 2006 and an increase in investment earnings.

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## **CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City's governmental funds reported a combined fund balance of \$8,955,224, which is a decrease of \$3,995,384 from last year's balance of \$12,950,608. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2006 and 2005:

	Fund Balance December 31, 2006	Fund Balance December 31, 2005	Increase (Decrease)
General	\$1,912,040	\$1,514,916	\$397,124
Income Tax	860,669	3,344,350	(2,483,681)
Rowe Arboretum	2,199,767	2,034,902	164,865
Capital Improvement Reserve			
Capital Projects	1,936,095	2,577,455	(641,360)
Bond Construction			
Capital Projects	347,944	2,086,132	(1,738,188)
Other Governmental	1,698,709	1,392,853	305,856
<b>Total</b>	<b>\$8,955,224</b>	<b>\$12,950,608</b>	<b>(\$3,995,384)</b>

*General Fund* – The City's General Fund balance increase is a combination of property being reappraised which increased property tax revenue in 2006. Additionally, the transfer from the Income Tax fund to the General Fund was increased to cover the shortfall in inheritance tax revenues. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2006 Revenues	2005 Revenues	Increase (Decrease)
Property and Other Taxes	\$826,435	\$550,901	\$275,534
Intergovernmental Revenues	1,282,837	1,816,023	(533,186)
Charges for Services	358,489	380,044	(21,555)
Licenses and Permits	3,620	21,244	(17,624)
Investment Earnings	298,066	242,518	55,548
Fines and Forfeitures	37,111	36,845	266
All Other Revenue	46,047	29,553	16,494
<b>Total</b>	<b>\$2,852,605</b>	<b>\$3,077,128</b>	<b>(\$224,523)</b>

General Fund revenues in 2006 decreased approximately 7.3% compared to revenues in fiscal year 2005. The most significant factor contributing to this decrease was a decrease in Inheritance Tax revenues, of \$999,349, which is recorded as intergovernmental revenue.

## ***CITY OF THE VILLAGE OF INDIAN HILL, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2006***

***Unaudited***

	2006	2005	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
Security of Persons and Property	\$3,381,749	\$3,252,954	\$128,795
Public Health and Welfare Services	131,074	135,527	(4,453)
Leisure Time Activities	572,277	478,113	94,164
Community Environment	1,070,501	1,163,712	(93,211)
General Government	2,934,289	2,790,698	143,591
Total	<u>\$8,089,890</u>	<u>\$7,821,004</u>	<u>\$268,886</u>

General Fund expenditures increased by \$268,886 over the prior year mostly due to salary and wages, and retirement contributions.

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 2006 the City amended its General Fund budget several times.

For the General Fund, the final budget basis revenue of \$11,716,708 did not change from the original estimate.

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## **CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of fiscal 2006 the City had \$98,497,879 net of accumulated depreciation invested in land, buildings, land improvements, machinery and equipment and infrastructure. Of this total, \$88,647,885 was related to governmental activities and \$9,849,994 to the business-type activities. The following table shows fiscal year 2006 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Land	\$74,409,229	\$72,268,079	\$2,141,150
Construction In Progress	3,742,412	3,064,618	677,794
Buildings	2,939,508	3,124,962	(185,454)
Land Improvements	2,490,047	1,207,868	1,282,179
Infrastructure	9,417,202	9,120,736	296,466
Machinery and Equipment	3,713,436	3,582,528	130,908
Less: Accumulated Depreciation	(8,063,949)	(7,727,349)	(336,600)
Totals	\$88,647,885	\$84,641,442	\$4,006,443

	Business-Type Activities		Increase (Decrease)
	2006	2005	
Land	\$84,087	\$84,087	\$0
Construction in Progress	418,883	238,314	180,569
Buildings	3,838,337	3,712,298	126,039
Land Improvements	9,907,361	9,826,559	80,802
Machinery and Equipment	2,144,356	2,125,600	18,756
Less: Accumulated Depreciation	(6,543,030)	(6,275,778)	(267,252)
Totals	\$9,849,994	\$9,711,080	\$138,914

The primary increase occurred in land and land improvements under Governmental Activities. The increase in land was due to donations to green areas. Land improvements include the completion of Phase I for Grand Valley and a new soccer field facility on Camp Road.

As of December 31, 2006, the City has contractual commitments for the completion of the Public Works Water Works building, the completion of the Remington Rd. Water Line and the completion of the Livingston restrooms. Additional information on the City's capital assets can be found in Note 8.

# **CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

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## **Debt**

At December 31, 2006, the City had \$5,020,000 in general obligation bonds outstanding, \$815,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Governmental Activities:		
General Obligation Bonds	\$3,619,200	\$4,019,400
Compensated Absences	1,261,235	1,150,836
Total Governmental Activities	<u>\$4,880,435</u>	<u>\$5,170,236</u>
Business-Type Activities:		
General Obligation Bonds	\$1,400,800	\$1,795,600
Compensated Absences	126,683	105,157
Total Business-Type Activities	<u>1,527,483</u>	<u>1,900,757</u>
Totals	<u>\$6,407,918</u>	<u>\$7,070,993</u>

Additional information on the City's long-term debt can be found in Note 10.

## **ECONOMIC FACTORS**

The City of the Village of Indian Hill is located in the southwest section of Ohio and is an exclusively residential city with a population of 6,097. The city is a rural area with little more than 3,500 acres of the nearly 20 square miles set aside as green space.

The city's municipal income tax rate increased to 0.4% for 2006 after 3 years at 0.3%.

The city maintains a strong general fund reserve balance of 20% of general fund expenditures. For the fiscal year ending December 31, 2006 there was an increase in the general fund balance reserves from \$1.5 million in 2005 to \$1.9 million in 2006. The 2007 budget projects a general fund surplus.

The city did not issue any new debt in 2006.

## **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, Finance Director 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, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 8,506,031	\$ 2,297,253	\$ 10,803,284
Receivables:			
Taxes	7,948,796	0	7,948,796
Accounts	25,979	811,437	837,416
Intergovernmental	448,936	0	448,936
Internal Balances	(569)	569	0
Inventory of Supplies at Cost	179,669	37,358	217,027
Prepaid Items	54,696	14,715	69,411
Restricted Assets:			
Nondepreciable Capital Assets	78,151,641	502,970	78,654,611
Depreciable Capital Assets, Net	10,496,244	9,347,024	19,843,268
<b>Total Assets</b>	<u>105,811,423</u>	<u>13,011,326</u>	<u>118,822,749</u>
<b>Liabilities:</b>			
Accounts Payable	69,897	25,481	95,378
Accrued Wages and Benefits Payable	112,991	14,454	127,445
Intergovernmental Payable	220,469	601,159	821,628
Deferred Revenue	799,116	0	799,116
Accrued Interest Payable	9,041	3,503	12,544
Noncurrent liabilities:			
Due within one year	700,699	432,995	1,133,694
Due in more than one year	4,179,736	1,094,488	5,274,224
<b>Total Liabilities</b>	<u>6,091,949</u>	<u>2,172,080</u>	<u>8,264,029</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	85,028,685	8,449,194	93,477,879
Restricted For:			
Capital Projects	2,284,839	0	2,284,839
Other Purposes	2,547,844	0	2,547,844
Permanent Funds:			
Expendable	3,110	0	3,110
Nonexpendable	1,161,785	0	1,161,785
Unrestricted	8,693,211	2,390,052	11,083,263
<b>Total Net Assets</b>	<u>\$ 99,719,474</u>	<u>\$ 10,839,246</u>	<u>\$ 110,558,720</u>

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**Statement of Activities**  
**For the Year Ended December 31, 2006**

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	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 3,537,089	\$ 166,831	\$ 0	\$ 0
Public Health and Welfare	130,985	2,720	0	0
Leisure Time Activities	854,931	376,917	0	2,058,000
Community Environment	1,132,591	70,368	0	0
Transportation	2,072,031	0	314,824	0
General Government	3,379,338	6,660	0	0
Interest and Fiscal Charges	117,662	0	0	0
<b>Total Governmental Activities</b>	<u>11,224,627</u>	<u>623,496</u>	<u>314,824</u>	<u>2,058,000</u>
<b>Business-Type Activities:</b>				
Water	3,554,539	3,780,440	0	0
<b>Total Business-Type Activities</b>	<u>3,554,539</u>	<u>3,780,440</u>	<u>0</u>	<u>0</u>
<b>Totals</b>	<u>\$ 14,779,166</u>	<u>\$ 4,403,936</u>	<u>\$ 314,824</u>	<u>\$ 2,058,000</u>

**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**

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Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (3,370,258)	\$ 0	\$ (3,370,258)
(128,265)	0	(128,265)
1,579,986	0	1,579,986
(1,062,223)	0	(1,062,223)
(1,757,207)	0	(1,757,207)
(3,372,678)	0	(3,372,678)
(117,662)	0	(117,662)
<u>(8,228,307)</u>	<u>0</u>	<u>(8,228,307)</u>
0	225,901	225,901
0	225,901	225,901
<u>(8,228,307)</u>	<u>225,901</u>	<u>(8,002,406)</u>
7,325,187	0	7,325,187
826,432	0	826,432
1,299,552	0	1,299,552
748,776	106,142	854,918
137,157	0	137,157
37,950	(37,950)	0
<u>10,375,054</u>	<u>68,192</u>	<u>10,443,246</u>
2,146,747	294,093	2,440,840
<u>97,572,727</u>	<u>10,545,153</u>	<u>108,117,880</u>
<u>\$ 99,719,474</u>	<u>\$ 10,839,246</u>	<u>\$ 110,558,720</u>

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**Balance Sheet**  
**Governmental Funds**  
**December 31, 2006**

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	General	Income Tax	Rowe Arboretum
<b>Assets:</b>			
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 1,792,605	\$ 511,421	\$ 2,202,901
Receivables:			
Taxes	819,190	7,129,606	0
Accounts	25,979	0	0
Intergovernmental	271,906	0	0
Inventory of Supplies, at Cost	178,846	0	0
Prepaid Items	54,556	0	140
<b>Total Assets</b>	<b>\$ 3,143,082</b>	<b>\$ 7,641,027</b>	<b>\$ 2,203,041</b>
<b>Liabilities:</b>			
Accounts Payable	\$ 55,109	\$ 962	\$ 356
Accrued Wages and Benefits Payable	90,131	876	1,139
Intergovernmental Payable	175,550	1,266	1,779
Due to Other Funds	569	0	0
Deferred Revenue	909,683	6,777,254	0
<b>Total Liabilities</b>	<b>1,231,042</b>	<b>6,780,358</b>	<b>3,274</b>
<b>Fund Balances:</b>			
Reserved for Encumbrances	9,841	0	0
Reserved for Prepaid Items	54,556	0	140
Reserved for Supplies Inventory	178,846	0	0
Reserved for Endowments	0	0	0
Undesignated and Unreserved in:			
General Fund	1,668,797	0	0
Special Revenue Funds	0	860,669	2,199,627
Capital Projects Funds	0	0	0
Permanent Fund	0	0	0
<b>Total Fund Balances</b>	<b>1,912,040</b>	<b>860,669</b>	<b>2,199,767</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,143,082</b>	<b>\$ 7,641,027</b>	<b>\$ 2,203,041</b>

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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Capital Improvement Reserve	Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 1,951,235	\$ 353,485	\$ 1,694,384	\$ 8,506,031
0	0	0	7,948,796
0	0	0	25,979
0	0	177,030	448,936
0	0	823	179,669
0	0	0	54,696
<u>\$ 1,951,235</u>	<u>\$ 353,485</u>	<u>\$ 1,872,237</u>	<u>\$ 17,164,107</u>
\$ 2,438	\$ 5,541	\$ 5,491	\$ 69,897
0	0	20,845	112,991
12,702	0	29,172	220,469
0	0	0	569
0	0	118,020	7,804,957
<u>15,140</u>	<u>5,541</u>	<u>173,528</u>	<u>8,208,883</u>
7,130	0	0	16,971
0	0	0	54,696
0	0	823	179,669
0	0	1,161,785	1,161,785
0	0	0	1,668,797
0	0	532,191	3,592,487
1,928,965	347,944	800	2,277,709
0	0	3,110	3,110
<u>1,936,095</u>	<u>347,944</u>	<u>1,698,709</u>	<u>8,955,224</u>
<u>\$ 1,951,235</u>	<u>\$ 353,485</u>	<u>\$ 1,872,237</u>	<u>\$ 17,164,107</u>

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2006***

---

**Total Governmental Fund Balances** \$ 8,955,224

***Amounts reported for governmental activities in the  
statement of net assets are different because:***

Capital Assets used in governmental activities are not  
resources and therefore are not reported in the funds. 88,647,885

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds. 7,005,841

Long-term liabilities, including bonds payable, are not due  
and payable in the current period and therefore are not  
reported in the funds.

General Obligation Bond Payable	(3,619,200)	
Compensated Absences Payable	(1,261,235)	
Accrued Interest Payable	(9,041)	(4,889,476)

***Net Assets of Governmental Funds*** **\$ 99,719,474**

See accompanying notes to the basic financial statements

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**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, 2006**

	General	Income Tax	Rowe Arboretum
<b>Revenues:</b>			
Municipal Income Tax	\$ 0	\$ 5,505,700	\$ 0
Property and Other Taxes	826,435	0	0
Intergovernmental Revenues	1,282,837	0	0
Charges for Services	358,489	0	4,978
Licenses, Permits and Fees	3,620	0	0
Investment Earnings	298,066	0	199,222
Fines and Forfeitures	37,111	0	0
All Other Revenue	46,047	0	7,221
<b>Total Revenue</b>	<b>2,852,605</b>	<b>5,505,700</b>	<b>211,421</b>
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	3,381,749	0	0
Public Health and Welfare Services	131,074	0	0
Leisure Time Activities	572,277	0	82,667
Community Environment	1,070,501	0	0
Transportation	0	0	0
General Government	2,934,289	161,570	0
Capital Outlay	0	0	5,705
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<b>Total Expenditures</b>	<b>8,089,890</b>	<b>161,570</b>	<b>88,372</b>
Excess (Deficiency) of Revenues Over Expenditures	(5,237,285)	5,344,130	123,049
<b>Other Financing Sources (Uses):</b>			
Transfers In	7,827,811	0	41,816
Transfers Out	(2,216,448)	(7,827,811)	0
<b>Total Other Financing Sources (Uses)</b>	<b>5,611,363</b>	<b>(7,827,811)</b>	<b>41,816</b>
Net Change in Fund Balances	374,078	(2,483,681)	164,865
<b>Fund Balances at Beginning of Year</b>	1,514,916	3,344,350	2,034,902
Increase (Decrease) in Inventory Reserve	23,046	0	0
<b>Fund Balances End of Year</b>	<b>\$ 1,912,040</b>	<b>\$ 860,669</b>	<b>\$ 2,199,767</b>

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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Capital Improvement Reserve	Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 0	\$ 0	\$ 5,505,700
0	0	0	826,435
0	0	301,818	1,584,655
0	0	0	363,467
0	0	0	3,620
0	74,835	176,653	748,776
0	0	8,260	45,371
0	0	294,927	348,195
<u>0</u>	<u>74,835</u>	<u>781,658</u>	<u>9,426,219</u>
0	0	2,224	3,383,973
0	0	0	131,074
0	0	42,707	697,651
0	0	0	1,070,501
0	0	1,305,723	1,305,723
11,408	0	623	3,107,890
1,447,612	1,813,023	0	3,266,340
400,200	0	0	400,200
118,496	0	0	118,496
<u>1,977,716</u>	<u>1,813,023</u>	<u>1,351,277</u>	<u>13,481,848</u>
(1,977,716)	(1,738,188)	(569,619)	(4,055,629)
1,336,356	0	876,226	10,082,209
<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,044,259)</u>
<u>1,336,356</u>	<u>0</u>	<u>876,226</u>	<u>37,950</u>
(641,360)	(1,738,188)	306,607	(4,017,679)
2,577,455	2,086,132	1,392,853	12,950,608
<u>0</u>	<u>0</u>	<u>(751)</u>	<u>22,295</u>
<u>\$ 1,936,095</u>	<u>\$ 347,944</u>	<u>\$ 1,698,709</u>	<u>\$ 8,955,224</u>

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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***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, 2006***

---

**Net Change in Fund Balances - Total Governmental Funds** \$ (4,017,679)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays and capital contributions exceeded depreciation. 4,177,056

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (170,613)

Revenues and transfers in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,849,205

The repayment of principal of long-term debt consumes current financial resources of governmental funds, however it does not effect net assets. 400,200

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 834

Some expenses reported in the statement of activities, such as change in inventory and compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (92,256)

***Change in Net Assets of Governmental Activities*** \$ 2,146,747

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)  
General Fund  
For the Year Ended December 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues:</b>				
Property and Other Taxes	\$ 570,892	\$ 570,892	\$ 826,435	\$ 255,543
Intergovernmental Revenue	2,486,950	2,486,950	950,717	(1,536,233)
Charges for Services	351,352	351,352	349,367	(1,985)
Licenses and Permits	17,600	17,600	6,603	(10,997)
Investment Earnings	200,000	200,000	236,711	36,711
Fines and Forfeitures	40,000	40,000	37,111	(2,889)
All Other Revenues	38,600	38,600	42,151	3,551
Total Revenues	<u>3,705,394</u>	<u>3,705,394</u>	<u>2,449,095</u>	<u>(1,256,299)</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	3,390,080	3,417,873	3,343,884	73,989
Public Health and Welfare	136,483	136,585	134,426	2,159
Leisure Time Activities	593,014	594,461	555,036	39,425
Community Environment	1,209,305	1,214,205	1,050,337	163,868
General Government	3,040,091	3,100,589	2,958,738	141,851
Total Expenditures	<u>8,368,973</u>	<u>8,463,713</u>	<u>8,042,421</u>	<u>421,292</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,663,579)	(4,758,319)	(5,593,326)	(835,007)
<b>Other Financing Sources (Uses):</b>				
Proceeds from the Sale of Capital Assets	5,000	5,000	4,747	(253)
Transfers In	8,006,314	8,006,314	7,827,811	(178,503)
Transfers Out	(3,537,977)	(3,541,477)	(2,216,448)	1,325,029
Total Other Financing Sources (Uses):	<u>4,473,337</u>	<u>4,469,837</u>	<u>5,616,110</u>	<u>1,146,273</u>
Net Change in Fund Balance	(190,242)	(288,482)	22,784	311,266
Fund Balance at Beginning of Year	1,757,193	1,757,193	1,757,193	0
Prior Year Encumbrances	555	555	555	0
Fund Balance at End of Year	<u>\$ 1,567,506</u>	<u>\$ 1,469,266</u>	<u>\$ 1,780,532</u>	<u>\$ 311,266</u>

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**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, 2006**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Municipal Income Tax	\$ 5,507,804	\$ 5,507,804	\$ 5,391,603	\$ (116,201)
Total Revenues	5,507,804	5,507,804	5,391,603	(116,201)
<b>Expenditures:</b>				
Current:				
General Government	199,037	200,237	159,311	40,926
Total Expenditures	199,037	200,237	159,311	40,926
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,308,767	5,307,567	5,232,292	(75,275)
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(8,007,401)	(8,007,401)	(7,827,811)	179,590
Total Other Financing Sources (Uses):	(8,007,401)	(8,007,401)	(7,827,811)	179,590
Net Change in Fund Balance	(2,698,634)	(2,699,834)	(2,595,519)	104,315
Fund Balance at Beginning of Year	3,105,611	3,105,611	3,105,611	0
Prior Year Encumbrances	1,329	1,329	1,329	0
Fund Balance at End of Year	\$ 408,306	\$ 407,106	\$ 511,421	\$ 104,315

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**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, 2006**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Charges for Services	\$ 5,500	\$ 5,500	\$ 4,978	\$ (522)
Investment Earnings	40,668	40,668	180,901	140,233
All Other Revenues	6,500	6,500	7,221	721
Total Revenues	52,668	52,668	193,100	140,432
<b>Expenditures:</b>				
Current:				
Leisure Time Activities	91,668	111,648	81,958	29,690
Capital Outlay	6,000	6,000	5,705	295
Total Expenditures	97,668	117,648	87,663	29,985
Excess (Deficiency) of Revenues Over (Under) Expenditures	(45,000)	(64,980)	105,437	170,417
<b>Other Financing Sources (Uses):</b>				
Transfers In	45,000	45,000	41,816	(3,184)
Total Other Financing Sources (Uses):	45,000	45,000	41,816	(3,184)
Net Change in Fund Balance	0	(19,980)	147,253	167,233
Fund Balance at Beginning of Year	1,495,507	1,495,507	1,495,507	0
Fund Balance at End of Year	\$ 1,495,507	\$ 1,475,527	\$ 1,642,760	\$ 167,233

See accompanying notes to the basic financial statements

## **CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2006**

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	<u>Business-Type Activities - Waterworks</u>
<b>Assets:</b>	
Current assets:	
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 2,297,253
Accounts receivable	811,437
Due from Other Funds	569
Inventory of Supplies at Cost	37,358
Prepaid Items	14,715
Total current assets	<u>3,161,332</u>
Noncurrent assets:	
Capital assets:	
Non-Depreciable Capital Assets	502,970
Depreciable Capital Assets, Net	9,347,024
Total noncurrent assets	<u>9,849,994</u>
Total assets	<u>13,011,326</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts Payable	25,481
Accrued Wages and Benefits Payable	14,454
Intergovernmental Payable	601,159
Accrued Interest Payable	3,503
General Obligation Bonds Payable - Current	406,100
Compensated Absences - Current	26,895
Total Current Liabilities	<u>1,077,592</u>
Noncurrent Liabilities:	
General Obligation Bonds Payable	994,700
Compensated Absences Payable	99,788
Total noncurrent liabilities	<u>1,094,488</u>
<b>Total Liabilities</b>	<u>2,172,080</u>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	8,449,194
Unrestricted	2,390,052
Total Net Assets	<u>\$ 10,839,246</u>

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2006**

---

	Business-Type Activities - Waterworks
<b>Operating Revenues:</b>	
Charges for Services	\$ 3,620,915
Other Operating Revenues	129,440
<b>Total Operating Revenues</b>	<u>3,750,355</u>
<b>Operating Expenses:</b>	
Personal Services	899,976
Contractual Services	1,693,144
Materials and Supplies	332,474
Utilities	245,089
Depreciation	336,298
<b>Total Operating Expenses</b>	<u>3,506,981</u>
<b>Operating Income (Loss)</b>	243,374
<b>Non-Operating Revenue (Expenses):</b>	
Other Non-Operating Revenue	30,085
Loss on Disposal of Capital Assets	(1,014)
Interest and Fiscal Charges	(46,544)
Investment Earnings	106,142
<b>Total Non-Operating Revenues (Expenses)</b>	<u>88,669</u>
<b>Income (Loss) Before Transfers</b>	332,043
<b>Transfers:</b>	
Transfers-Out	(37,950)
<b>Total Transfers</b>	<u>(37,950)</u>
<b>Change in Net Assets</b>	294,093
<b>Net Assets Beginning of Year</b>	<u>10,545,153</u>
<b>Net Assets End of Year</b>	<u>\$ 10,839,246</u>

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2006**

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	Business-Type Activities <u>Waterworks</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$3,626,238
Other Operating Cash Receipts	129,440
Cash Payments for Goods and Services	(2,196,990)
Cash Payments to Employees	(866,436)
Net Cash Provided by Operating Activities	<u>692,252</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers Out to Other Funds	<u>(37,950)</u>
Net Cash Used for Noncapital Financing Activities	<u>(37,950)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(476,226)
Principal Paid on General Obligation Bond	(394,800)
Interest Paid on All Debt	(47,297)
Net Cash Used for Capital and Related Financing Activities	<u>(918,323)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	<u>106,142</u>
Net Cash Provided by Investing Activities	<u>106,142</u>
Net Decrease in Cash and Cash Equivalents	(157,879)
Cash and Cash Equivalents at Beginning of Year	<u>2,455,132</u>
Cash and Cash Equivalents at End of Year	<u>\$2,297,253</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$243,374
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	336,298
Miscellaneous Nonoperating Revenues	30,085
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	4,595
Decrease in Due from Other Funds	728
Decrease in Inventory	2,418
Increase in Prepaid Items	(2,665)
Decrease in Accounts Payable	(10,554)
Increase in Accrued Wages and Benefits	1,236
Increase in Intergovernmental Payable	65,211
Increase in Compensated Absences Payable	21,526
Total Adjustments	<u>448,878</u>
Net Cash Provided by Operating Activities	<u>\$692,252</u>

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**Statement of Net Assets**  
**Fiduciary Funds**  
**December 31, 2006**

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	Private Purpose Trust Fund	Agency Fund	Totals
<b>Assets:</b>			
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 100,000	\$ 123,075	\$ 223,075
<b>Total Assets</b>	<u>100,000</u>	<u>123,075</u>	<u>223,075</u>
<b>Liabilities:</b>			
Intergovernmental Payable	0	6,598	6,598
Due to Others	0	116,477	116,477
<b>Total Liabilities</b>	<u>0</u>	<u>123,075</u>	<u>123,075</u>
<b>Net Assets:</b>			
Unrestricted	100,000	0	100,000
<b>Total Net Assets</b>	<u>\$ 100,000</u>	<u>\$ 0</u>	<u>\$ 100,000</u>

See accompanying notes to the basic financial statements

**CITY OF THE VILLAGE OF INDIAN HILL, OHIO**

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**Statement of Changes in Net Assets**  
**Fiduciary Fund**  
**For the Year Ended December 31, 2006**

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	Private Purpose Trust <u>Camp Jim B.</u> <u>Fund</u>
<b>Additions:</b>	
Contributions:	
Donations from City	\$ 2,474
Private Donations	4,526
Total Additions	<u>7,000</u>
<b>Deductions:</b>	
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***

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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### **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, 2006 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*" and GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*," 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***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **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.

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).

Bond Construction Fund – This fund is used to account for financial resources to be used for the construction of the Public Works/Water Works Building.

##### ***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***

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **B. Basis of Presentation - Fund Accounting (Continued)**

##### ***Fiduciary Funds***

Agency Funds - These funds are used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for Mayor's Court, special projects and event funds.

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**

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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### **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. 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***

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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### **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, 2006 but which are not intended to finance 2006 operations and delinquent property taxes (recorded as revenue on full accrual basis), whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

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. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

#### **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***

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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### **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 2006, 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 2006.

# ***CITY OF THE VILLAGE OF INDIAN HILL OHIO***

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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### **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, 2006**

**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:

	Net Change in Fund Balances		
	General Fund	Income Tax Fund	Rowe Arboretum Fund
GAAP Basis (as reported)	\$374,078	(\$2,483,681)	\$164,865
Increase (Decrease):			
Accrued Revenues at December 31, 2006 received during 2007	(207,392)	(352,352)	0
Accrued Revenues at December 31, 2005 received during 2006	72,706	238,255	0
Accrued Expenditures at December 31, 2006 paid during 2007	321,359	3,104	3,274
Accrued Expenditures at December 31, 2005 paid during 2006	(450,427)	(845)	(2,935)
2005 Mark to Market Adjustment	(68,461)	0	541,820
2006 Mark to Market Adjustment	(2,027)	0	(560,141)
2005 Prepays for 2006	47,550	0	510
2006 Prepays for 2007	(54,556)	0	(140)
Outstanding Encumbrances	(10,046)	0	0
Budget Basis	\$22,784	(\$2,595,519)	\$147,253

**F. Cash and Cash Equivalents**

During fiscal year 2006, 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 3, "Equity in Pooled Cash, Cash Equivalents and Investments."

# ***CITY OF THE VILLAGE OF INDIAN HILL OHIO***

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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### **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 3, "Equity in Pooled Cash, Cash Equivalents and Investments."

The City invested funds in STAR Ohio, Fifth Third and the Vanguard Stock Market Index Funds during 2006. 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, 2006.

#### **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 as expenses in the proprietary fund when used.

#### **I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2006, 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***

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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### **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

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**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006***

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**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 Bonds	Capital Improvement Reserve Fund, 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, a liability is reported for those amounts only if they have matured, for example, as a result of an employee resignation or retirement. 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 of 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***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **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.

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**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

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*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

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**NOTE 2 – 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	4,942,000
Depreciation Expense	(764,944)
	<u>\$4,177,056</u>

*Governmental revenues not reported in the funds:*

Increase in Tax Revenue	\$1,819,484
Increase in Grants Receivable	29,721
	<u>\$1,849,205</u>

*Expenses not requiring the use of current financial resources:*

Increase in Compensated Absences Payable	(\$114,551)
Increase in Inventory	22,295
	<u>(\$92,256)</u>

**NOTE 3 – 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.

## ***CITY OF THE VILLAGE OF INDIAN HILL OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 3 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS** (Continued)

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.

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***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 3 – 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.

#### **A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. 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. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**NOTE 3 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS  
(Continued)**

**A. Deposits (Continued)**

At year end the carrying amount of the City's deposits was \$2,483,803 and the bank balance was \$2,755,413. Federal depository insurance covered \$160,492 of the bank balance and \$2,594,921 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	\$2,594,921
Total Balance	\$2,594,921

**B. Investments**

The City's investments at December 31, 2006 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>			
			<u>less than 1</u>	<u>1-3</u>	<u>3-5</u>	<u>more than 5</u>
Fifth Third Money Market	\$20,108	N/A	\$20,108	\$0	\$0	\$0
Vanguard Stock Market Index	1,155,405	N/A	1,155,405	0	0	0
US Treasury Note	2,519,002	N/A	0	2,519,002	0	0
STAR Ohio	144,194	AAAm <sup>1</sup>	144,194	0	0	0
FNMA	640,455	AAA <sup>1</sup>	0	196,126	444,329	0
FHLB	726,352	AAA <sup>1,2</sup>	0	446,501	195,500	84,351
FFCB	395,938	AAA <sup>1,2</sup>	0	395,938	0	0
FHLMC	878,241	AAA <sup>1,2</sup>	0	797,814	80,427	0
Corporate Bonds	104,180	N/A	0	50,383	0	53,797
Common Stock	1,958,681	N/A	0	0	0	0
Total Investments	\$8,542,556		\$1,319,707	\$4,405,764	\$720,256	\$138,148

<sup>1</sup> Standard & Poor's

<sup>2</sup> Moody's Investor Service

**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)**

**B. Investments (Continued)**

*Interest Rate Risk* – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

*Concentration of Credit Risk* – The City places no limit on the amount the City may invest in one issuer. Of the City’s total investments, 1.6% is in STAR Ohio, 29.5% are in US Treasury Notes, 7.5% are FNMA, 8.5% are FHLB, 10.3% are FHLMC, 4.7% are FFCB, 24.1% are in corporate stocks and bonds (all endowment monies) and 13.8% are in money market accounts.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the City’s investments are registered in the City’s name.

**C. Reconciliation of Cash, Cash Equivalents and Investments**

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

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

	Equity in Pooled Cash, Cash Equivalents and Investments	Investments
Per Financial Statements	\$11,026,359	\$0
Investments:		
STAR Ohio	(144,194)	144,194
Fifth Third Money Market	(20,108)	20,108
Vanguard Stock Market Index	(1,155,405)	1,155,405
US Treasury Notes	(2,519,002)	2,519,002
FNMA	(640,455)	640,455
FHLB	(726,352)	726,352
FFCB	(395,938)	395,938
FHLMC	(878,241)	878,241
Corporate Bonds	(104,180)	104,180
Common Stock	(1,958,681)	1,958,681
Per GASB Statement No. 3	\$2,483,803	\$8,542,556

## ***CITY OF THE VILLAGE OF INDIAN HILL OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 4 - 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 2006 were levied after October 1, 2005 on assessed values as of January 1, 2005, 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 2005. Real property taxes are payable annually or semi-annually. The first payment is due January 1, with the remainder payable by June 30.

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, 2006 was \$.96 per \$1,000 of assessed value. The assessed value upon which the 2006 levy was based was \$964,751,582. This amount constitutes \$961,558,590 in real property assessed value, \$2,684,710 in public utility assessed value and \$508,282 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 .4% based upon 2006 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 15 of each year, although the City does receive some monthly and/or quarterly remittances.

For fiscal 2006, income tax collections totaled \$7,325,187.

**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**NOTE 5 - RECEIVABLES**

Receivables at December 31, 2006 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 6 - INTERFUND BALANCES**

Individual interfund balances at December 31, 2006 are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$0	\$569
Enterprise Fund:		
Waterworks Fund	569	0
Totals	<u>\$569</u>	<u>\$569</u>

**NOTE 7 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2006:

Fund	Transfer In	Transfer Out
General Fund	\$7,827,811	\$2,216,448
Income Tax Fund	0	7,827,811
Rowe Arboretum Fund	41,816	0
Capital Improvement Reserve Fund	1,336,356	0
Other Governmental Funds	876,226	0
Total Governmental Funds	10,082,209	10,044,259
Water Fund	0	37,950
Totals	<u>\$10,082,209</u>	<u>\$10,082,209</u>

The transfers out of the General Fund into the Rowe Arboretum and other funds were subsidies for operating expenditures. The transfer out of the Income Tax Fund and into the General Fund was for general operating expenditures. The transfer into the Capital Improvement Reserve Fund is a transfer of surplus general fund revenues to maintain the capital reserve.

**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

**NOTE 8 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2006:

**Historical Cost:**

Class	December 31, 2005	Additions	Deletions	December 31, 2006
<b>Non-Depreciable Capital Assets:</b>				
Land	\$72,268,079	\$2,141,150	\$0	\$74,409,229
Construction in Progress	3,064,618	1,683,440	(1,005,646)	3,742,412
Total Non-Depreciable Capital Assets	<u>75,332,697</u>	<u>3,824,590</u>	<u>(1,005,646)</u>	<u>78,151,641</u>
<b>Depreciable Capital Assets:</b>				
Buildings	3,124,962	0	(185,454)	2,939,508
Improvements Other than Buildings	1,207,868	1,282,179	0	2,490,047
Infrastructure	9,120,736	375,951	(79,485)	9,417,202
Machinery and Equipment	3,582,528	464,926	(334,018)	3,713,436
Total Depreciable Capital Assets	<u>17,036,094</u>	<u>2,123,056</u>	<u>(598,957)</u>	<u>18,560,193</u>
Total Cost	<u>\$92,368,791</u>	<u>\$5,947,646</u>	<u>(\$1,604,603)</u>	<u>\$96,711,834</u>

**Accumulated Depreciation:**

Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings	(\$654,801)	(\$53,477)	\$68,062	(\$640,216)
Improvements Other than Buildings	(419,329)	(71,768)	0	(491,097)
Infrastructure	(4,849,614)	(245,815)	67,062	(5,028,367)
Machinery and Equipment	(1,803,605)	(393,884)	293,220	(1,904,269)
Total Depreciation	<u>(\$7,727,349)</u>	<u>(\$764,944) *</u>	<u>\$428,344</u>	<u>(\$8,063,949)</u>
<b>Net Value:</b>	<u>\$84,641,442</u>			<u>\$88,647,885</u>

\* Depreciation expenses were charged to governmental functions as follows:

General Government	(\$90,765)
Security of Persons and Property	(87,048)
Transportation	(396,233)
Leisure Time Activities	(104,088)
Community Environment	(86,132)
Public Health and Welfare	(678)
Total Depreciation Expense	<u>(\$764,944)</u>

**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**NOTE 8 - CAPITAL ASSETS (Continued)**

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2006:

**Historical Cost:**

Class	December 31, 2005	Additions	Deletions	December 31, 2006
<b>Non-Depreciable Capital Assets:</b>				
Land	\$84,087	\$0	\$0	\$84,087
Construction in Progress	238,314	194,488	(13,919)	418,883
Total Non-Depreciable Capital Assets	<u>322,401</u>	<u>194,488</u>	<u>(13,919)</u>	<u>502,970</u>
<b>Depreciable Capital Assets:</b>				
Buildings	3,712,298	126,039	0	3,838,337
Improvements Other than Buildings	9,826,559	80,802	0	9,907,361
Machinery and Equipment	2,125,600	88,816	(70,060)	2,144,356
Total Depreciable Capital Assets	<u>15,664,457</u>	<u>295,657</u>	<u>(70,060)</u>	<u>15,890,054</u>
Total Cost	<u>\$15,986,858</u>	<u>\$490,145</u>	<u>(\$83,979)</u>	<u>\$16,393,024</u>

**Accumulated Depreciation:**

Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings	(\$695,639)	(\$63,680)	\$0	(\$759,319)
Improvements Other than Buildings	(4,903,255)	(161,461)	0	(5,064,716)
Machinery and Equipment	(676,884)	(111,157)	69,046	(718,995)
Total Depreciation	<u>(\$6,275,778)</u>	<u>(\$336,298)</u>	<u>\$69,046</u>	<u>(\$6,543,030)</u>
<b>Net Value:</b>	<u>\$9,711,080</u>			<u>\$9,849,994</u>

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## ***CITY OF THE VILLAGE OF INDIAN HILL OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 9 – 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 and full-time firefighters, 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 that has elements of both a defined benefit and defined contribution 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 postemployment health care benefits. 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) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 9.0%. The 2006 employer contribution rate for local government employer units was 13.70%, of covered payroll, 9.20% to fund the pension and 4.5% 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, 2006, 2005, and 2004 were \$530,183, \$500,284 and \$458,010, respectively, which were equal to the required contributions for each year.

## ***CITY OF THE VILLAGE OF INDIAN HILL OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 9 – 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 under the TP and CO plans 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 Ohio PERS 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 2006 employer contribution rate (identified above) that was used to fund health care for the year 2006 was 4.5% of covered payroll which amounted to \$176,076.

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, 2005. The individual entry age 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 annually, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.5%. 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 plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 358,804. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2005 is \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan

## ***CITY OF THE VILLAGE OF INDIAN HILL OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 9 – 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, 2006, 2005, and 2004 were \$308,999, \$296,485 and \$274,249 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 2006 covered payroll that was used to fund postemployment health care benefits was \$122,807 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, 2005, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,922 for police and 10,537 for firefighters. 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, 2005 were \$108,039,449, which was net of member contributions of \$55,271,881.

**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

**NOTE 10 - LONG-TERM OBLIGATIONS**

Detail of the changes in the bonds and compensated absences of the City for the year ended December 31, 2006 is as follows:

		Balance December 31, 2005	Issued	(Retired)	Balance December 31, 2006	Amount Due Within One Year
<b>Governmental Activities:</b>						
General Obligation Bond:						
2.25-3.50%						
2005 Service Building	2014	\$4,019,400	\$0	\$ (400,200)	\$3,619,200	\$408,900
		1,150,836	1,261,235	(1,150,836)	1,261,235	291,799
<b>Total Governmental Activities</b>		<u>\$5,170,236</u>	<u>\$1,261,235</u>	<u>(\$1,551,036)</u>	<u>\$4,880,435</u>	<u>\$700,699</u>
<b>Business-Type Activities:</b>						
General Obligation Bonds:						
2.00-3.45%						
2004 Water Works Systems Refunding	2009	\$1,195,000	\$0	\$ (335,000)	\$860,000	\$345,000
2.25-3.50%						
2005 Water Works Building	2014	600,600	0	(59,800)	540,800	61,100
<b>Total General Obligation Bonds</b>		<u>1,795,600</u>	<u>0</u>	<u>(394,800)</u>	<u>1,400,800</u>	<u>406,100</u>
Compensated Absences		105,157	126,683	(105,157)	126,683	26,895
<b>Total Business-Type Activities</b>		<u>\$1,900,757</u>	<u>\$126,683</u>	<u>(\$499,957)</u>	<u>\$1,527,483</u>	<u>\$432,995</u>

**A. Principal and Interest Requirements**

Principal and interest requirements to retire long-term debt outstanding at December 31, 2006 are as follows:

Years	General Obligation Bonds	
	Principal	Interest
2007	\$815,000	\$150,524
2008	845,000	129,459
2009	650,000	106,176
2010	510,000	87,216
2011	525,000	71,915
2012-2014	1,675,000	115,175
Totals	<u>\$5,020,000</u>	<u>\$660,465</u>

**CITY OF THE VILLAGE OF INDIAN HILL OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006***

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**NOTE 10 - LONG-TERM OBLIGATIONS (Continued)**

**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, 2006, \$840,000 of the 1988 and 1989 series bonds is still outstanding.

**NOTE 11 – GREEN AREAS LAND OWNERSHIP**

The City accounts for land donated for use as green areas valued at \$48,542,236 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 12 - CONSTRUCTION COMMITMENTS**

As of December 31, 2006, the City had the following commitments with respect to capital projects:

<u>Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Public Works/Water Works Building	\$150,000	July 2007
Remington Road Water Line	125,000	April 2007
Livingston Restrooms	60,000	May 2007
Total	<u><u>\$335,000</u></u>	

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## **CITY OF THE VILLAGE OF INDIAN HILL OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 13 - 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, 2006, the pool has twenty 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 twenty 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 twenty participating cities and their respective pool contribution factors for the loss year ended December 31, 2006 are:

<u>Entity</u>	<u>Percentage</u>	<u>Entity</u>	<u>Percentage</u>
Beavercreek	6.97 %	Montgomery	3.49 %
Bellbrook	0.64 %	Piqua	3.96 %
Blue Ash	7.12 %	Sidney	7.84 %
Centerville	1.78 %	Springdale	4.89 %
Englewood	0.99 %	Tipp City	2.38 %
Indian Hill	2.96 %	Troy	7.81 %
Kettering	14.22 %	Vandalia	5.30 %
Madeira	1.90 %	West Carrollton	3.98 %
Mason	6.50 %	Wilmington	5.5 %
Miamisburg	9.25 %	Wyoming	2.52 %
Subtotal	<u>52.33 %</u>	Subtotal	<u>47.67 %</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***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 13 - RISK MANAGEMENT (Continued)**

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

Property	\$350,000,000	per occurrence
Crime / Employee Theft	1,000,000	per occurrence
Liability	10,000,000	per occurrence
Flood	20,000,000	Aggregate
Flood (Zones A &V)	20,000,000	Aggregate
Earthquake (Property)	25,000,000	Aggregate
Extra Expense	5,000,000	per occurrence

The deductible per occurrence is \$2,500. During 2006, MVRMA's self insured retention (SIR) limit for property was \$200,000 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, 2006.

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.

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.

#### **NOTE 14 – 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 OF THE VILLAGE OF INDIAN HILL OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 14 – CONDUIT DEBT (Continued)**

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, 2006 is \$4,545,000. 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, payments are provided for under a Loan Agreement with the Cincinnati Country Day School, payments are made 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 15 - 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, 2006.

#### **NOTE 16 – RESTRICTED ENDOWMENTS**

The City administers two endowment funds, for designated purposes. The Green Areas Endowment Fund is restricted for maintenance and preservation of green areas within the City. The Camp Jim B fund is restricted for the purpose of preserving the Camp Jim B Boy Scout Camp.

Restricted endowments are reported at fair value. The amount of net appreciation on investments of restricted endowments that is available for authorization for expenditure by the City is \$371,539 for the Green Area Maintenance/Green Area Land Acquisition Fund and \$4,526 for Camp Jim B.

Only the amount equal to net appreciation on the endowment capital is available for expenditure. The endowment principal is non-expendable.

The City authorizes expenditures from investment proceeds of the restricted endowments in compliance with the wishes expressed by the donor, the City's Charter and related legislation, which varies among the funds.



**Clark, Schaefer, Hackett & Co.**

CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and Members of the City Council  
City of the Village of Indian Hill, Ohio:

We have audited the 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, Ohio (City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting and is labeled as finding 2006-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

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 agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of the Village of Indian Hill, Ohio in a separate letter dated June 8, 2007.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and accordingly, we express no opinion on it.

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

*Clark, Schaefer, Hachett & Co.*

Cincinnati, Ohio  
June 8, 2007

## CITY OF THE VILLAGE OF INDIAN HILL, OHIO

### Schedule of Findings and Responses

Year Ended December 31, 2006

#### **Finding 2006-1 – Revenue Recognition**

An audit adjustment was necessary to correct a revenue recognition error in the governmental fund financial statements made during the conversion of the City's internal cash-basis records to generally accepted accounting principles. The tax revenue in the Income Tax Fund was overstated in the amount of \$144,550 due to the City's accrual of revenues collected outside the available period. In accordance with generally accepted accounting principles, governmental funds, such as the Income Tax Fund, should recognize revenue for derived tax revenues only when they are both measurable and available. The City has defined its available period as sixty days after year-end. However, the City recognized revenue for its March 2007 income tax collections when those items should have been reported as deferred revenue. This entry had no net effect on the City's entity-wide financial statements.

***Management response:** An incorrect balance was utilized to formulate the modified accrual journal entry. The correcting audit adjustment simply reduced the amount of income recognized at 12/31/06 and placed the amount into deferred revenue, leaving the total receivable amount unchanged. The full accrual amount (entity wide financial statements) of income tax revenue did not change as a result of the audit adjustment. The source document that is used to prepare the modified accrual entry has been corrected to eliminate an error of this type in the future.*