



Dave Yost • Auditor of State



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

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HAMILTON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

City of the Village of Indian Hill  
Hamilton County  
6525 Drake Road  
Cincinnati, Ohio 45242

To the City Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of the Village of Indian Hill, Hamilton County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of the Village of Indian Hill, Hamilton County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and the Street Construction, Maintenance and Repair Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

**Dave Yost**  
Auditor of State

Columbus, Ohio

June 30, 2017

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

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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, 2016. 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 2016 are as follows:

- ❑ In total, net position increased \$2,614,883. Net position of governmental activities increased \$2,324,696, which represents a 1.8% increase from 2015. Net position of business-type activities increased \$290,187 from 2015.
- ❑ General revenues accounted for \$14,081,423 in revenue or 68% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$6,639,533 or 32% of total revenues of \$20,720,956.
- ❑ The City had \$12,852,259 in expenses related to governmental activities; only \$1,130,953 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily income taxes) of \$14,046,002 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$15,425,564 in revenues and other financing sources and \$12,700,731 in expenditures and other financing uses. The general fund's fund balance increased \$2,827,916 to \$17,652,987 for 2016. As a whole, all governmental funds increased by \$3,300,213.

### **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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### **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 position includes all of the government's assets, liabilities and deferred inflows/outflows of resources. 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 position and how they have changed. Net position (the difference between the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position is 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 waterworks 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 Position 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**

**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 Position and Changes in Fiduciary Net Position.

### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The following table provides a comparison of the City’s net position between December 31, 2016 and 2015.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$36,095,686	\$34,587,274	\$4,587,012	\$5,016,391	\$40,682,698	\$39,603,665
Capital assets, Net	103,185,001	102,061,825	14,207,268	13,567,141	117,392,269	115,628,966
Total assets	<u>139,280,687</u>	<u>136,649,099</u>	<u>18,794,280</u>	<u>18,583,532</u>	<u>158,074,967</u>	<u>155,232,631</u>
Deferred outflows of resources	<u>2,945,691</u>	<u>1,090,827</u>	<u>391,634</u>	<u>124,987</u>	<u>3,337,325</u>	<u>1,215,814</u>
Net Pension Liability	9,758,822	7,366,337	1,022,260	709,522	10,781,082	8,075,859
Long-term debt outstanding	2,196,553	2,477,438	2,904,194	3,050,791	5,100,747	5,528,229
Other liabilities	213,244	203,907	670,210	656,443	883,454	860,350
Total liabilities	<u>12,168,619</u>	<u>10,047,682</u>	<u>4,596,664</u>	<u>4,416,756</u>	<u>16,765,283</u>	<u>14,464,438</u>
Deferred inflows of resources	<u>809,105</u>	<u>768,286</u>	<u>19,752</u>	<u>12,452</u>	<u>828,857</u>	<u>780,738</u>
Net position						
Net investment in Capital Assets	102,750,001	101,421,825	11,587,268	10,772,141	114,337,269	112,193,966
Restricted	1,967,912	1,731,190	0	0	1,967,912	1,731,190
Unrestricted	<u>24,530,741</u>	<u>23,770,943</u>	<u>2,982,230</u>	<u>3,507,170</u>	<u>27,512,971</u>	<u>27,278,113</u>
Total net position	<u>\$129,248,654</u>	<u>\$126,923,958</u>	<u>\$14,569,498</u>	<u>\$14,279,311</u>	<u>\$143,818,152</u>	<u>\$141,203,269</u>

The adoption of GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27,” significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

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

**Changes in Net Position** – The following table shows the changes in net position for the fiscal years 2016 and 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services and Sales	\$460,117	\$485,958	\$5,508,580	\$5,216,330	\$5,968,697	\$5,702,288
Operating Grants and Contributions	327,766	320,207	0	0	327,766	320,207
Capital Grants and Contributions	343,070	140,420	0	23,951	343,070	164,371
Total Program Revenues	<u>1,130,953</u>	<u>946,585</u>	<u>5,508,580</u>	<u>5,240,281</u>	<u>6,639,533</u>	<u>6,186,866</u>
General Revenues:						
Municipal Income Taxes	11,987,598	12,326,436	0	0	11,987,598	12,326,436
Property Taxes	727,509	716,129	0	0	727,509	716,129
Shared Revenues	270,888	186,246	0	0	270,888	186,246
Investment Earnings	748,488	172,060	35,421	20,512	783,909	192,572
Miscellaneous	311,519	190,447	0	0	311,519	190,447
Total General Revenues	<u>14,046,002</u>	<u>13,591,318</u>	<u>35,421</u>	<u>20,512</u>	<u>14,081,423</u>	<u>13,611,830</u>
Total Revenues	<u>15,176,955</u>	<u>14,537,903</u>	<u>5,544,001</u>	<u>5,260,793</u>	<u>20,720,956</u>	<u>19,798,696</u>
Program Expenses						
Security of Persons and Property	5,245,957	4,763,020	0	0	5,245,957	4,763,020
Public Health and Welfare Services	92,448	83,237	0	0	92,448	83,237
Leisure Time Activities	1,230,057	1,204,986	0	0	1,230,057	1,204,986
Community Environment	1,413,246	1,571,363	0	0	1,413,246	1,571,363
Transportation	2,496,716	2,171,779	0	0	2,496,716	2,171,779
General Government	2,355,616	2,172,409	0	0	2,355,616	2,172,409
Interest and Fiscal Charges	18,219	23,271	0	0	18,219	23,271
Waterworks Fund	0	0	5,253,814	5,197,910	5,253,814	5,197,910
Total Expenses	<u>12,852,259</u>	<u>11,990,065</u>	<u>5,253,814</u>	<u>5,197,910</u>	<u>18,106,073</u>	<u>17,187,975</u>
Total Change in Net Position	<u>2,324,696</u>	<u>2,547,838</u>	<u>290,187</u>	<u>62,883</u>	<u>2,614,883</u>	<u>2,610,721</u>
Beginning Net Position	<u>126,923,958</u>	<u>124,376,120</u>	<u>14,279,311</u>	<u>14,216,428</u>	<u>141,203,269</u>	<u>138,592,548</u>
Ending Net Position	<u>\$129,248,654</u>	<u>\$126,923,958</u>	<u>\$14,569,498</u>	<u>\$14,279,311</u>	<u>\$143,818,152</u>	<u>\$141,203,269</u>

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

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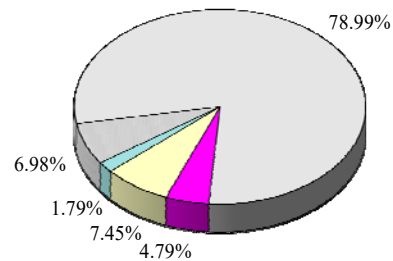
### ***Governmental Activities***

Net position of the City's governmental activities increased by \$2,324,696. This increase was primarily a result of the City's continued practice of keeping budgeted expenditures well within estimated resources.

The City receives an income tax, which is based on 0.55% of the residents' Ohio Adjusted Gross income.

Income taxes and property taxes made up 78.99% and 4.79% respectively of revenues for governmental activities for the City in fiscal year 2016. The City's reliance upon tax revenues is demonstrated by the following graph indicating 83.78% of total revenues from general tax revenues:

Revenue Sources	2016	Percent of Total
Municipal Income Taxes	\$11,987,598	78.99%
Property Taxes	727,509	4.79%
Program Revenues	1,130,953	7.45%
Shared Revenues	270,888	1.79%
General Other	1,060,007	6.98%
Total Revenue	<u>\$15,176,955</u>	<u>100.00%</u>



### ***Business-Type Activities***

Net position of the business-type activities increased by \$290,187. This positive change in net position was due to revenues outpacing expenses.

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

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

The City's governmental funds reported a combined fund balance of \$26,563,627, which is an increase of \$3,300,213 from last year's balance of \$23,263,414. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2016 and 2015:

	Fund Balance December 31, 2016	Fund Balance December 31, 2015	Increase (Decrease)
General	\$17,652,987	\$14,825,071	\$2,827,916
Street Construction, Maintenance and Repair	26,697	19,356	7,341
Capital Improvement Reserve			
Capital Projects	2,788,760	2,839,448	(50,688)
Other Governmental	6,095,183	5,579,539	515,644
<b>Total</b>	<b>\$26,563,627</b>	<b>\$23,263,414</b>	<b>\$3,300,213</b>

*General Fund* – The City's General Fund balance increase is predominately the result of the increased income tax collections. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2016 Revenues	2015 Revenues	Increase (Decrease)
Municipal Income Tax	\$13,777,458	\$10,867,034	\$2,910,424
Property and Other Taxes	727,317	712,426	14,891
Intergovernmental Revenues	280,373	176,733	103,640
Charges for Services	314,922	384,137	(69,215)
Licenses and Permits	1,020	22,002	(20,982)
Investment Earnings	139,796	92,047	47,749
Fines and Forfeitures	25,723	24,365	1,358
All Other Revenue	117,260	107,952	9,308
<b>Total</b>	<b>\$15,383,869</b>	<b>\$12,386,696</b>	<b>\$2,997,173</b>

General Fund revenues in 2016 increased approximately 24.2% compared to revenues in fiscal year 2015. The most significant factor contributing to this was an increase in income tax collections.

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

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	2016	2015	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
Security of Persons and Property	\$4,742,744	\$4,567,886	\$174,858
Public Health and Welfare Services	87,028	83,639	3,389
Leisure Time Activities	767,937	729,647	38,290
Community Environment	1,315,414	1,476,290	(160,876)
General Government	2,122,515	1,979,547	142,968
Total	<u>\$9,035,638</u>	<u>\$8,837,009</u>	<u>\$198,629</u>

General Fund expenditures increased 2.2% when compared to the prior year. General government and security of persons and property expenditures accounted for the increase.

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 2016 the City amended its General Fund budget several times.

The Street Construction, Maintenance and Repair Fund final budget basis revenues and expenditures did not change compared to original budget estimates.

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

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

#### ***Capital Assets***

At the end of fiscal 2016 the City had \$117,392,269 net of accumulated depreciation invested in land, buildings, land improvements, machinery and equipment and infrastructure. Of this total, \$103,185,001 was related to governmental activities and \$14,207,268 to business-type activities. The following table shows fiscal year 2016 and 2015 balances:

	Governmental Activities		Increase (Decrease)
	2016	2015	
Land:			
Green Areas Land (1)	\$56,102,256	\$55,759,186	\$343,070
Land, All Other	27,312,023	27,312,023	0
Total Land	<u>83,414,279</u>	<u>83,071,209</u>	<u>343,070</u>
Construction In Progress	321,761	62,045	259,716
Buildings	11,595,206	11,564,718	30,488
Land Improvements	3,711,499	3,285,999	425,500
Infrastructure	13,103,777	12,738,830	364,947
Machinery and Equipment	5,664,836	5,359,699	305,137
Less: Accumulated Depreciation	<u>(14,626,357)</u>	<u>(14,020,675)</u>	<u>(605,682)</u>
Totals	<u>\$103,185,001</u>	<u>\$102,061,825</u>	<u>\$1,123,176</u>

	Business-Type Activities		Increase (Decrease)
	2016	2015	
Land	\$84,087	\$84,087	\$0
Construction in Progress	150,648	64,115	86,533
Buildings	5,272,090	5,272,090	0
Land Improvements	15,478,975	14,619,069	859,906
Machinery and Equipment	2,480,227	2,387,440	92,787
Less: Accumulated Depreciation	<u>(9,258,759)</u>	<u>(8,859,660)</u>	<u>(399,099)</u>
Totals	<u>\$14,207,268</u>	<u>\$13,567,141</u>	<u>\$640,127</u>

- (1) Green Area Land includes parcels that were donated or, purchased and transferred into the Green Area Trust and Recreational Fund (the Fund). Land held in the Fund has restrictions on selling or developing. The purpose of the Fund is to preserve green space, forest preserves, bridle trails, bird sanctuaries, shooting ranges, recreational and public areas within or without the Village. The value of the donated land in the Fund is the County Auditor's assessed value, which approximates fair market value at the time of the gift. The value of the purchased land in the Fund is the City's actual purchase cost. The total acreage of land in the Fund is approximately 2,836 as of December 31, 2016.

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

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The primary increases occurred in land improvements and infrastructure under Governmental Activities. The increase in infrastructure was due to 2016 street resurfacing projects. Overall, Business Type activities capital assets increased due to additions to land improvements (primarily water main replacements).

Additional information on the City's capital assets can be found in Note 9.

### ***Debt***

At December 31, 2016, the City had \$3,055,000 in general obligation bonds outstanding, \$395,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Governmental Activities:		
General Obligation Bonds	\$435,000	\$640,000
Net Pension Liability	9,758,822	7,366,337
Compensated Absences	1,761,553	1,837,438
Total Governmental Activities	<u>\$11,955,375</u>	<u>\$9,843,775</u>
Business-Type Activities:		
General Obligation Bonds	\$2,620,000	\$2,795,000
Net Pension Liability	1,022,260	709,522
Compensated Absences	284,194	255,791
Total Business-Type Activities	<u>3,926,454</u>	<u>3,760,313</u>
Totals	<u>\$15,881,829</u>	<u>\$13,604,088</u>

The Net Pension Liability increase in 2016 represents the City's proportionate share of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OPF) unfunded benefits. Changes in pension benefits, contribution rates and return on investments affect the balance of the liability annually.

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

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

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### **ECONOMIC FACTORS**

The City of the Village of Indian Hill is located in Hamilton County in the southwest section of Ohio and approximately 10 miles northeast of Cincinnati. The City is exclusively residential with an estimated population in 2016 of 5,800. Commercial properties are restricted to entities such as churches and schools. The city is a rural area covering nearly 20 square miles with more than 3,000 acres set aside in green space.

The city maintains a strong general fund reserve balance of 20% of general fund expenditures and retains revenue flexibility as it is taxing below the maximum discretionary income tax rate of 1%. For the fiscal year ending December 31, 2016 the general fund balance increased \$2.7 million. Due to higher than expected tax receipts, the City reduced the 2016 income tax rate from 0.575% to 0.55%.

No new debt was issued by the city in 2016, and currently there is no plan to issue any additional debt.

### **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 Scott Gully, Finance Director of the City of The Village of Indian Hill.

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

**Statement of Net Position  
December 31, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 25,018,810	\$ 3,281,879	\$ 28,300,689
Receivables:			
Taxes	10,458,018	0	10,458,018
Accounts	22,725	1,187,148	1,209,873
Intergovernmental	295,792	42	295,834
Internal Balances	(1,492)	1,492	0
Inventory of Supplies at Cost	297,668	108,914	406,582
Prepaid Items	4,165	7,537	11,702
Nondepreciable Capital Assets	83,736,040	234,735	83,970,775
Depreciable Capital Assets, Net	19,448,961	13,972,533	33,421,494
<b>Total Assets</b>	<u>139,280,687</u>	<u>18,794,280</u>	<u>158,074,967</u>
<b>Deferred Outflows of Resources:</b>			
Pension	2,945,691	391,634	3,337,325
<b>Liabilities:</b>			
Accounts Payable	49,608	18,079	67,687
Accrued Wages and Benefits Payable	135,571	16,808	152,379
Intergovernmental Payable	26,977	627,409	654,386
Accrued Interest Payable	1,088	7,914	9,002
Noncurrent liabilities:			
Due within one year	655,766	245,673	901,439
Due in more than one year:			
Net Pension Liability	9,758,822	1,022,260	10,781,082
Other Amounts Due in More Than One Year	1,540,787	2,658,521	4,199,308
<b>Total Liabilities</b>	<u>12,168,619</u>	<u>4,596,664</u>	<u>16,765,283</u>
<b>Deferred Inflows of Resources:</b>			
Property Tax Levy for Next Year	706,889	0	706,889
Pension	102,216	19,752	121,968
<b>Total Deferred Inflows of Resources</b>	<u>809,105</u>	<u>19,752</u>	<u>828,857</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	102,750,001	11,587,268	114,337,269
Restricted For:			
Other Purposes	57,412	0	57,412
Permanent Funds:			
Expendable	3,413	0	3,413
Nonexpendable	1,907,087	0	1,907,087
Unrestricted	24,530,741	2,982,230	27,512,971
<b>Total Net Position</b>	<u>\$ 129,248,654</u>	<u>\$ 14,569,498</u>	<u>\$ 143,818,152</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, 2016**

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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	\$ 5,245,957	\$ 156,717	\$ 0	\$ 0
Public Health and Welfare	92,448	0	0	0
Leisure Time Activities	1,230,057	215,540	0	343,070
Community Environment	1,413,246	84,200	0	0
Transportation	2,496,716	0	327,766	0
General Government	2,355,616	3,660	0	0
Interest and Fiscal Charges	18,219	0	0	0
<b>Total Governmental Activities</b>	<b>12,852,259</b>	<b>460,117</b>	<b>327,766</b>	<b>343,070</b>
<b>Business-Type Activities:</b>				
Water	5,253,814	5,508,580	0	0
<b>Total Business-Type Activities</b>	<b>5,253,814</b>	<b>5,508,580</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 18,106,073</b>	<b>\$ 5,968,697</b>	<b>\$ 327,766</b>	<b>\$ 343,070</b>

**General Revenues:**

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

Change in Net Position

Net Position Beginning of Year

Net Position 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 Position

Governmental Activities	Business-Type Activities	Total
\$ (5,089,240)	\$ 0	\$ (5,089,240)
(92,448)	0	(92,448)
(671,447)	0	(671,447)
(1,329,046)	0	(1,329,046)
(2,168,950)	0	(2,168,950)
(2,351,956)	0	(2,351,956)
(18,219)	0	(18,219)
<u>(11,721,306)</u>	<u>0</u>	<u>(11,721,306)</u>
0	254,766	254,766
<u>0</u>	<u>254,766</u>	<u>254,766</u>
<u>(11,721,306)</u>	<u>254,766</u>	<u>(11,466,540)</u>
11,987,598	0	11,987,598
727,509	0	727,509
270,888	0	270,888
748,488	35,421	783,909
311,519	0	311,519
<u>14,046,002</u>	<u>35,421</u>	<u>14,081,423</u>
2,324,696	290,187	2,614,883
<u>126,923,958</u>	<u>14,279,311</u>	<u>141,203,269</u>
<u>\$ 129,248,654</u>	<u>\$ 14,569,498</u>	<u>\$ 143,818,152</u>

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

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2016**

	General	Street Construction, Maintenance and Repair	Capital Improvement Reserve
	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Capital Improvement Reserve</u>
<b>Assets:</b>			
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 16,096,961	\$ 0	\$ 2,826,942
Receivables:			
Taxes	10,458,018	0	0
Accounts	22,525	0	0
Intergovernmental	135,788	148,004	0
Inventory of Supplies, at Cost	294,969	2,699	0
Prepaid Items	3,939	147	0
<b>Total Assets</b>	<u>\$ 27,012,200</u>	<u>\$ 150,850</u>	<u>\$ 2,826,942</u>
<b>Liabilities:</b>			
Accounts Payable	\$ 33,475	\$ 3,603	\$ 11,295
Accrued Wages and Benefits Payable	110,922	21,881	0
Intergovernmental Payable	90	0	26,887
Due to Other Funds	1,492	0	0
<b>Total Liabilities</b>	<u>145,979</u>	<u>25,484</u>	<u>38,182</u>
<b>Deferred Inflows of Resources:</b>			
Unavailable Amounts	8,506,345	98,669	0
Property Tax Levy for Next Fiscal Year	706,889	0	0
<b>Total Deferred Inflows of Resources</b>	<u>9,213,234</u>	<u>98,669</u>	<u>0</u>
<b>Fund Balances:</b>			
Nonspendable	298,908	2,846	0
Restricted	0	23,851	0
Committed	1,442,859	0	2,788,760
Assigned	5,497	0	0
Unassigned	15,905,723	0	0
<b>Total Fund Balances</b>	<u>17,652,987</u>	<u>26,697</u>	<u>2,788,760</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 27,012,200</u>	<u>\$ 150,850</u>	<u>\$ 2,826,942</u>

See accompanying notes to the basic financial statements

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

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Other Governmental Funds	Total Governmental Funds
\$ 6,094,907	\$ 25,018,810
0	10,458,018
200	22,725
12,000	295,792
0	297,668
79	4,165
<u>\$ 6,107,186</u>	<u>\$ 36,097,178</u>
\$ 1,235	\$ 49,608
2,768	135,571
0	26,977
0	1,492
<u>4,003</u>	<u>213,648</u>
8,000	8,613,014
0	706,889
<u>8,000</u>	<u>9,319,903</u>
1,907,166	2,208,920
252,888	276,739
3,935,129	8,166,748
0	5,497
0	15,905,723
<u>6,095,183</u>	<u>26,563,627</u>
<u>\$ 6,107,186</u>	<u>\$ 36,097,178</u>

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

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***Reconciliation Of Total Governmental Fund Balances  
To Net Position Of Governmental Activities  
December 31, 2016***

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<b>Total Governmental Fund Balances</b>	\$	26,563,627
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		103,185,001
Other long-term assets are not available to pay for current- period expenditures and therefore are reported as deferred inflows of resources in the funds.		8,613,014
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.		(6,915,347)
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	(435,000)	
Compensated Absences Payable	(1,761,553)	
Accrued Interest Payable	(1,088)	
	<u>                    </u>	<u>(2,197,641)</u>
<b><i>Net Position of Governmental Activities</i></b>	<b>\$</b>	<b><u>129,248,654</u></b>

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, 2016**

	General	Street Construction, Maintenance and Repair	Capital Improvement Reserve
<b>Revenues:</b>			
Municipal Income Tax	\$ 13,777,458	\$ 0	\$ 0
Property and Other Taxes	727,317	0	0
Intergovernmental Revenues	280,373	301,004	0
Charges for Services	314,922	0	0
Licenses, Permits and Fees	1,020	0	0
Investment Earnings	139,796	0	0
Fines and Forfeitures	25,723	0	0
All Other Revenue	117,260	0	91,093
<b>Total Revenue</b>	<u>15,383,869</u>	<u>301,004</u>	<u>91,093</u>
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	4,742,744	0	0
Public Health and Welfare Services	87,028	0	0
Leisure Time Activities	767,937	0	0
Community Environment	1,315,414	0	0
Transportation	0	1,610,467	0
General Government	2,122,515	0	41,136
Capital Outlay	0	0	2,226,957
Debt Service:			
Principal Retirement	0	0	205,000
Interest and Fiscal Charges	0	0	18,688
<b>Total Expenditures</b>	<u>9,035,638</u>	<u>1,610,467</u>	<u>2,491,781</u>
Excess (Deficiency) of Revenues Over Expenditures	6,348,231	(1,309,463)	(2,400,688)
<b>Other Financing Sources (Uses):</b>			
Sale of Capital Assets	41,695	0	0
Transfers In	0	1,315,093	2,350,000
Transfers Out	(3,665,093)	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>(3,623,398)</u>	<u>1,315,093</u>	<u>2,350,000</u>
Net Change in Fund Balances	2,724,833	5,630	(50,688)
<b>Fund Balances at Beginning of Year</b>	14,825,071	19,356	2,839,448
Change in Inventory Reserve	103,083	1,711	0
<b>Fund Balances End of Year</b>	<u>\$ 17,652,987</u>	<u>\$ 26,697</u>	<u>\$ 2,788,760</u>

See accompanying notes to the basic financial statements

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

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Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 13,777,458
0	727,317
24,405	605,782
141,688	456,610
0	1,020
608,692	748,488
5,493	31,216
32,742	241,095
<u>813,020</u>	<u>16,588,986</u>
5,030	4,747,774
0	87,028
277,949	1,045,886
0	1,315,414
4,679	1,615,146
5,040	2,168,691
4,678	2,231,635
0	205,000
0	18,688
<u>297,376</u>	<u>13,435,262</u>
515,644	3,153,724
0	41,695
0	3,665,093
0	(3,665,093)
<u>0</u>	<u>41,695</u>
515,644	3,195,419
5,579,539	23,263,414
0	104,794
<u>\$ 6,095,183</u>	<u>\$ 26,563,627</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, 2016***

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Net Change in Fund Balances - Total Governmental Funds \$ 3,195,419

***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. 1,164,576

Governmental funds only report the disposal of capital 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 capital assets net of proceeds received. (41,400)

Revenues and transfers in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (1,796,796)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 763,059

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,346,310)

The repayment of principal of long-term debt consumes current financial resources of governmental funds, however it does not have any effect on net position. 205,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 469

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. 180,679

***Change in Net Position of Governmental Activities*** \$ 2,324,696

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, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property and Other Taxes	\$ 719,300	\$ 719,300	\$ 727,317	\$ 8,017
Intergovernmental Revenue	247,000	247,000	281,131	34,131
Charges for Services	327,000	327,000	332,092	5,092
Licenses and Permits	1,000	1,000	1,020	20
Investment Earnings	75,000	75,000	173,947	98,947
Fines and Forfeitures	30,000	30,000	25,723	(4,277)
All Other Revenues	40,000	40,000	95,034	55,034
Total Revenues	<u>1,439,300</u>	<u>1,439,300</u>	<u>1,636,264</u>	<u>196,964</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	4,885,759	4,885,759	4,746,872	138,887
Public Health and Welfare	86,720	86,720	87,013	(293)
Leisure Time Activities	824,235	824,235	743,654	80,581
Community Environment	1,502,785	1,502,785	1,317,699	185,086
General Government	2,171,291	2,171,291	2,136,422	34,869
Total Expenditures	<u>9,470,790</u>	<u>9,470,790</u>	<u>9,031,660</u>	<u>439,130</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,031,490)	(8,031,490)	(7,395,396)	636,094
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	25,000	25,000	41,695	16,695
Transfers In	10,240,000	10,240,000	8,681,085	(1,558,915)
Transfers Out	(1,469,345)	(1,469,345)	(1,321,580)	147,765
Total Other Financing Sources (Uses):	<u>8,795,655</u>	<u>8,795,655</u>	<u>7,401,200</u>	<u>(1,394,455)</u>
Net Change in Fund Balance	764,165	764,165	5,804	(758,361)
Fund Balance at Beginning of Year	3,449,082	3,449,082	3,449,082	0
Prior Year Encumbrances	20,141	20,141	20,141	0
Fund Balance at End of Year	<u>\$ 4,233,388</u>	<u>\$ 4,233,388</u>	<u>\$ 3,475,027</u>	<u>\$ (758,361)</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 – Street Construction, Maintenance and Repair Fund  
For the Year Ended December 31, 2016**

---

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Intergovernmental Revenue	\$ 280,000	\$ 280,000	\$ 299,914	\$ 19,914
Total Revenues	280,000	280,000	299,914	19,914
<b>Expenditures:</b>				
Current:				
Transportation	1,722,220	1,722,220	1,615,007	107,213
Total Expenditures	1,722,220	1,722,220	1,615,007	107,213
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,442,220)	(1,442,220)	(1,315,093)	127,127
<b>Other Financing Sources (Uses):</b>				
Transfers In	1,442,220	1,442,220	1,315,093	(127,127)
Total Other Financing Sources (Uses):	1,442,220	1,442,220	1,315,093	(127,127)
Net Change in Fund Balance	0	0	0	0
Fund Balance at Beginning of Year	0	0	0	0
Fund Balance at End of Year	\$ 0	\$ 0	\$ 0	\$ 0

See accompanying notes to the basic financial statements

# CITY OF THE VILLAGE OF INDIAN HILL, OHIO

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## *Statement of Net Position Proprietary Fund December 31, 2016*

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	Business-Type Activities - Waterworks
<b>Assets:</b>	
Current assets:	
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 3,281,879
Accounts receivable	1,187,148
Intergovernmental receivable	42
Due from Other Funds	1,492
Inventory of Supplies at Cost	108,914
Prepaid Items	7,537
Total current assets	<u>4,587,012</u>
Noncurrent assets:	
Capital assets:	
Non-Depreciable Capital Assets	234,735
Depreciable Capital Assets, Net	13,972,533
Total noncurrent assets	<u>14,207,268</u>
Total assets	<u>18,794,280</u>
<b>Deferred Outflows of Resources:</b>	
Pension	<u>391,634</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts Payable	18,079
Accrued Wages and Benefits Payable	16,808
Intergovernmental Payable	627,409
Accrued Interest Payable	7,914
General Obligation Bonds Payable - Current	180,000
Compensated Absences - Current	65,673
Total Current Liabilities	<u>915,883</u>
Noncurrent Liabilities:	
General Obligation Bonds Payable	2,440,000
Compensated Absences Payable	218,521
Net Pension Liability	1,022,260
Total noncurrent liabilities	<u>3,680,781</u>
<b>Total Liabilities</b>	<u>4,596,664</u>
<b>Deferred Inflows of Resources:</b>	
Pension	<u>19,752</u>
<b>Net Position:</b>	
Net Investment in Capital Assets	11,587,268
Unrestricted	2,982,230
Total Net Position	<u>\$ 14,569,498</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 Position**  
**Proprietary Fund**  
**For the Year Ended December 31, 2016**

---

	Business-Type Activities - Waterworks
<b>Operating Revenues:</b>	
Charges for Services	\$ 5,357,268
Other Operating Revenues	141,000
<b>Total Operating Revenues</b>	<u>5,498,268</u>
<b>Operating Expenses:</b>	
Personal Services	1,087,927
Contractual Services	2,953,086
Materials and Supplies	366,646
Utilities	237,636
Depreciation	509,138
<b>Total Operating Expenses</b>	<u>5,154,433</u>
<b>Operating Income (Loss)</b>	343,835
<b>Non-Operating Revenue (Expenses):</b>	
Other Non-Operating Revenue	10,312
Interest and Fiscal Charges	(99,381)
Investment Earnings	35,421
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(53,648)</u>
<b>Change in Net Position</b>	290,187
<b>Net Position Beginning of Year</b>	<u>14,279,311</u>
<b>Net Position End of Year</b>	<u>\$ 14,569,498</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 Fund For the Year Ended December 31, 2016***

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	Business-Type Activities Waterworks
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$5,237,503
Other Operating Cash Receipts	141,000
Cash Payments for Goods and Services	(3,505,141)
Cash Payments to Employees	(1,010,813)
Net Cash Provided by Operating Activities	<u>862,549</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(1,149,265)
Principal Paid on General Obligation Bond	(175,000)
Interest Paid on All Debt	(99,782)
Net Cash Used for Capital and Related Financing Activities	<u>(1,424,047)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	35,421
Net Cash Provided by Investing Activities	<u>35,421</u>
Net Decrease in Cash and Cash Equivalents	(526,077)
Cash and Cash Equivalents at Beginning of Year	<u>3,807,956</u>
Cash and Cash Equivalents at End of Year	<u>\$3,281,879</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$343,835
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	509,138
Miscellaneous Nonoperating Revenues	10,710
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(119,324)
Increase in Due from Other Funds	(441)
Decrease in Inventory	21,936
Decrease in Prepaid Items	733
Increase in Deferred Outflows - Pension	(266,647)
Decrease in Accounts Payable	(6,752)
Increase in Accrued Wages and Benefits	2,918
Increase in Intergovernmental Payable	18,002
Increase in Compensated Absences Payable	28,403
Increase in Deferred Inflows - Pension	7,300
Increase in Net Pension Liability	312,738
Total Adjustments	<u>518,714</u>
Net Cash Provided by Operating Activities	<u>\$862,549</u>

See accompanying notes to the basic financial statements

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

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**Statement of Net Position  
Fiduciary Funds  
December 31, 2016**

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	Private Purpose Trust Fund	Agency Funds
<b>Assets:</b>		
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 100,000	\$ 2,794,473
<b>Total Assets</b>	<u>100,000</u>	<u>2,794,473</u>
<b>Liabilities:</b>		
Intergovernmental Payable	0	2,788,900
Due to Others	0	5,573
<b>Total Liabilities</b>	<u>0</u>	<u>\$ 2,794,473</u>
<b>Net Position:</b>		
Unrestricted	<u>100,000</u>	
<b>Total Net Position</b>	<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 Position**  
**Fiduciary Fund**  
**For the Year Ended December 31, 2016**

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	Private Purpose
	Trust
	Camp Jim B.
	Fund
<b>Additions:</b>	
Contributions:	
Donations from City	\$ 6,487
Private Donations	513
Total Additions	<u>7,000</u>
<b>Deductions:</b>	
Community Gifts, Awards and Scholarships	7,000
Total Deductions	<u>7,000</u>
Change in Net Position	0
Net Position at Beginning of Year	<u>100,000</u>
Net Position End of Year	<u>\$ 100,000</u>

See accompanying notes to the basic financial statements

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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, 2016***

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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, 2016 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, 2016***

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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.

Street Construction, Maintenance and Repair Fund – This fund is used to account for that portion of the state gasoline tax and motor vehicle registration fees designated for maintenance and repair of designated streets within the City.

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

##### ***Proprietary Fund***

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

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 Waterworks 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, 2016***

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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 employee insurance HRA/FSA monies, for special events and as an agent for the construction of the Madeira Township firehouse.

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 position 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 Position. 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, 2016***

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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, current liabilities, deferred inflows of resources, 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 funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities and all deferred outflows/inflows associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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, 2016***

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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, 2016 but which are not intended to finance 2016 operations and delinquent property taxes (recorded as revenue on full accrual basis), whose availability is indeterminate, are recorded as deferred inflows of resources.

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.

##### **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, 2016***

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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 2016, 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 June, 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 2016.

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

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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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 Fund 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, 2016**

**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 Fund:

	Net Change in Fund Balances	
	General Fund	Street Construction, Maintenance and Repair Fund
GAAP Basis (as reported)	\$2,724,833	\$5,630
Increase (Decrease):		
Accrued Revenues at December 31, 2016 received during 2017	(1,403,097)	(49,335)
Accrued Revenues at December 31, 2015 received during 2016	670,719	48,245
Accrued Expenditures at December 31, 2016 paid during 2017	145,979	25,484
Accrued Expenditures at December 31, 2015 paid during 2016	(163,143)	(30,006)
2016 Mark to Market Adjustment	17,994	0
2015 Mark to Market Adjustment	16,157	0
2016 Prepays for 2017	(3,939)	(147)
2015 Prepays for 2016	4,247	129
Perspective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(1,998,449)	0
Outstanding Encumbrances	(5,497)	0
Budget Basis	\$5,804	\$0

**F. Cash and Cash Equivalents**

During fiscal year 2016, 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 5, "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, 2016***

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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 5, "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 2016. State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the City. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value. For fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

#### **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, 2016, 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, 2016***

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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 Position, 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 Position and in the respective funds.

##### **3. Depreciation**

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

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

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

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016***

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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, Street Construction, Maintenance and Repair Fund, Income Tax Fund, Rowe Arboretum 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 position, "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 Position**

Net position represents the difference between assets and liabilities plus deferred outflows/inflows of resources. Net position - net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Any unspent capital debt proceeds at December 31, 2016 do not reduce net investment in capital assets. Net position is 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 resources 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, 2016***

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

#### **N. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

#### **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. Fund Balance**

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

*Nonspendable* – Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

*Restricted* – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.



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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

##### **P. Fund Balance** (Continued)

*Committed* – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision making authority. For the City, these constraints consist of ordinances and resolutions passed by City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (ordinance, resolution) it employed previously to commit those amounts.

*Assigned* – Assigned fund balance consists of amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

*Unassigned* – Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes within the General Fund as well as negative fund balances in all other governmental funds.

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. When an expenditure is incurred for purposes for which amounts in any unrestricted fund balance classification could be used it is the City’s policy to use assigned resources first, committed resources second and then unassigned amounts as they are needed.

##### **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 these estimates.

##### **R. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. For the City, deferred outflows of resources are reported for pension amounts (See Note 10). The amounts are reported in the government-wide and proprietary statements of net position.

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

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

#### **R. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position. See Note 10.

#### **S. Fair Market Value**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

### **NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE**

For 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” and GASB Statement No. 77 “Tax Abatement Disclosures.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes, for applying fair value to certain investments, and disclosures related to all fair value measurements. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance. The City does not have any tax abatements.

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

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

**NOTE 3 – FUND BALANCE CLASSIFICATION**

Fund balance is classified as nonspendable, restricted, committed and unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Street Construction, Maintenance and Repair	Capital Improvement Reserve	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepaid Items	\$3,939	\$147	\$0	\$79	\$4,165
Supplies Inventory	294,969	2,699	0	0	297,668
Endowment	0	0	0	1,907,087	1,907,087
Total Nonspendable	<u>298,908</u>	<u>2,846</u>	<u>0</u>	<u>1,907,166</u>	<u>2,208,920</u>
Restricted:					
Transportation Projects	0	23,851	0	238,540	262,391
Court Projects	0	0	0	7,058	7,058
Law Enforcement	0	0	0	3,877	3,877
Law & Fire Department Awards	0	0	0	3,413	3,413
Total Restricted	<u>0</u>	<u>23,851</u>	<u>0</u>	<u>252,888</u>	<u>276,739</u>
Committed:					
Maintenance of Green Areas	0	0	0	461,274	461,274
Arboretum Operations	0	0	0	3,316,988	3,316,988
Shooting Club Operations	0	0	0	156,867	156,867
Retirement Payments	1,442,859	0	0	0	1,442,859
Capital Improvements	0	0	2,788,760	0	2,788,760
Total Committed	<u>1,442,859</u>	<u>0</u>	<u>2,788,760</u>	<u>3,935,129</u>	<u>8,166,748</u>
Assigned:					
Goods and Services	5,497	0	0	0	5,497
Unassigned	15,905,723	0	0	0	15,905,723
Total Fund Balances	<u>\$17,652,987</u>	<u>\$26,697</u>	<u>\$2,788,760</u>	<u>\$6,095,183</u>	<u>\$26,563,627</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, 2016**

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**NOTE 4 – 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 position 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	\$2,519,939
Depreciation Expense	(1,355,363)
	<u>\$1,164,576</u>

*Governmental revenues not reported in the funds:*

Decrease in Tax Revenue	(\$1,789,668)
Decrease in Grants Receivable	(7,128)
	<u>(\$1,796,796)</u>

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

Decrease in Compensated Absences Payable	\$75,885
Increase in Inventory	104,794
	<u>\$180,679</u>

**NOTE 5 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 5 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

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

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

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

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

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 5 – 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**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

**NOTE 5 – EQUITY IN POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS  
(Continued)**

**A. Deposits (Continued)**

At year end the carrying amount of the City’s deposits was \$9,896,527 and the bank balance was \$11,164,637. Federal depository insurance covered \$250,000 of the bank balance and \$10,914,637 was uninsured. Of the remaining uninsured bank balance, the City 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	<u>\$10,914,637</u>
Total Balance	<u><u>\$10,914,637</u></u>

**B. Investments**

The City’s investments at December 31, 2016 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Concentration of Credit Risk</u>	<u>Investment Maturities (in Years)</u>	
				<u>less than 1</u>	<u>1-3</u>
Fifth Third Money Market	\$32,161	N/A	0.15%	\$32,161	\$0
US Bank Money Market	99,335	N/A	0.47%	99,335	0
Vanguard Money Market	6,380	N/A	0.03%	6,380	0
Vanguard Stock Market Index	1,900,707	N/A	8.92%	1,900,707	0
US Treasury Notes	10,368,439	P-1 <sup>1</sup> - A-1+ <sup>2</sup>	48.68%	0	10,368,439
Star Ohio	3,811	AAA <sup>m</sup> <sup>1</sup>	0.02%	3,811	0
Negotiable C/D's	773,085	N/A	3.63%	375,331	397,754
FNMA	1,196,664	AAA <sup>1</sup>	5.62%	0	1,196,664
FHLB	2,249,040	AAA <sup>1,2</sup>	10.56%	1,190,130	1,058,910
FFCB	392,388	AAA <sup>1,2</sup>	1.84%	0	392,388
FHLMC	895,600	AAA <sup>1,2</sup>	4.20%	0	895,600
Municipal Bonds	99,172	AA-	0.47%	0	99,172
Common Stock	3,281,853	N/A	15.41%	0	0
Total Investments	<u>\$21,298,635</u>		<u>100.00%</u>	<u>\$3,607,855</u>	<u>\$14,408,927</u>

<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, 2016**

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**NOTE 5 - 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. The investment in corporate stocks are all endowment monies.

*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	\$31,195,162	\$0
Investments:		
Fifth Third Money Market	(32,161)	32,161
US Bank Money Market	(99,335)	99,335
Vanguard Money Market	(6,380)	6,380
Vanguard Stock Market Index	(1,900,707)	1,900,707
US Treasury Notes	(10,368,439)	10,368,439
STAR Ohio	(3,811)	3,811
Negotiable C/D's	(773,085)	773,085
FNMA	(1,196,664)	1,196,664
FHLB	(2,249,040)	2,249,040
FFCB	(392,388)	392,388
FHLMC	(895,600)	895,600
Municipal Bonds	(99,172)	99,172
Common Stock	(3,281,853)	3,281,853
Per GASB Statement No. 3	\$9,896,527	\$21,298,635



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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 6 - 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 2016 were levied after October 1, 2015 on assessed values as of January 1, 2015, 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 2011 and the last equalization adjustment was completed in 2016. Real property taxes are payable annually or semi-annually. The first payment is due January 1, with the remainder payable by June 30.

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, 2016 was \$.96 per \$1,000 of assessed value. The assessed value upon which the 2016 levy was based was \$863,624,410. This amount constitutes \$860,902,930 in real property assessed value, \$2,721,480 in public utility 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.

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

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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**NOTE 6 - TAXES (Continued)**

**B. Income Tax**

The City levies a resident income tax of .55% based upon 2016 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 2016, income tax revenue on the full accrual basis totaled \$11,987,598.

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2016 consisted primarily of property, income taxes, accounts receivable 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 inflows of resources.

**NOTE 8 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2016:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$0	\$3,665,093
Street Construction, Maintenance, and Repair Fund	1,315,093	0
Capital Improvement Reserve Fund	2,350,000	0
Total Governmental Funds	<u>\$3,665,093</u>	<u>\$3,665,093</u>

The transfers out of the General Fund into the Street Construction Maintenance & Repair Fund were subsidies for operating expenditures. The transfer into the Capital Improvement Reserve Fund was to maintain the capital reserves for upcoming capital expenditures.

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

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

**NOTE 9 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2016:

*Historical Cost:*

Class	December 31, 2015	Additions	Deletions	December 31, 2016
<i>Non-Depreciable Capital Assets:</i>				
Green Areas Land	\$55,759,186	\$343,070	\$0	\$56,102,256
Land, All Other	27,312,023	0	0	27,312,023
Construction in Progress	62,045	281,191	(21,475)	321,761
Total Non-Depreciable Capital Assets	<u>83,133,254</u>	<u>624,261</u>	<u>(21,475)</u>	<u>83,736,040</u>
<i>Depreciable Capital Assets:</i>				
Buildings	11,564,718	30,488	0	11,595,206
Improvements Other than Buildings	3,285,999	425,500	0	3,711,499
Infrastructure	12,738,830	821,174	(456,227)	13,103,777
Machinery and Equipment	5,359,699	639,991	(334,854)	5,664,836
Total Depreciable Capital Assets	<u>32,949,246</u>	<u>1,917,153</u>	<u>(791,081)</u>	<u>34,075,318</u>
Total Cost	<u>\$116,082,500</u>	<u>\$2,541,414</u>	<u>(\$812,556)</u>	<u>\$117,811,358</u>

*Accumulated Depreciation:*

Class	December 31, 2015	Additions	Deletions	December 31, 2016
Buildings	(\$2,066,097)	(\$205,956)	\$0	(\$2,272,053)
Improvements Other than Buildings	(1,670,505)	(147,228)	0	(1,817,733)
Infrastructure	(7,176,665)	(466,637)	425,853	(7,217,449)
Machinery and Equipment	(3,107,408)	(535,542)	323,828	(3,319,122)
Total Depreciation	<u>(\$14,020,675)</u>	<u>(\$1,355,363) *</u>	<u>\$749,681</u>	<u>(\$14,626,357)</u>
<i>Net Value:</i>	<u>\$102,061,825</u>			<u>\$103,185,001</u>

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

General Government	(\$133,246)
Security of Persons and Property	(128,322)
Transportation	(781,737)
Leisure Time Activities	(160,611)
Community Environment	(151,447)
Total Depreciation Expense	<u>(\$1,355,363)</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, 2016**

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**NOTE 9 - CAPITAL ASSETS (Continued)**

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

Summary by Category at December 31, 2016:

*Historical Cost:*

Class	December 31, 2015	Additions	Deletions	December 31, 2016
<i>Non-Depreciable Capital Assets:</i>				
Land	\$84,087	\$0	\$0	\$84,087
Construction in Progress	64,115	137,198	(50,665)	150,648
Total Non-Depreciable Capital Assets	<u>148,202</u>	<u>137,198</u>	<u>(50,665)</u>	<u>234,735</u>
<i>Depreciable Capital Assets:</i>				
Buildings	5,272,090	0	0	5,272,090
Improvements Other than Buildings	14,619,069	925,021	(65,115)	15,478,975
Machinery and Equipment	2,387,440	137,711	(44,924)	2,480,227
Total Depreciable Capital Assets	<u>22,278,599</u>	<u>1,062,732</u>	<u>(110,039)</u>	<u>23,231,292</u>
Total Cost	<u>\$22,426,801</u>	<u>\$1,199,930</u>	<u>(\$160,704)</u>	<u>\$23,466,027</u>
<i>Accumulated Depreciation:</i>				
Class	December 31, 2015	Additions	Deletions	December 31, 2016
Buildings	(\$1,476,677)	(\$88,894)	\$0	(\$1,565,571)
Improvements Other than Buildings	(6,099,791)	(261,947)	65,115	(6,296,623)
Machinery and Equipment	(1,283,192)	(158,297)	44,924	(1,396,565)
Total Depreciation	<u>(\$8,859,660)</u>	<u>(\$509,138)</u>	<u>\$110,039</u>	<u>(\$9,258,759)</u>
<i>Net Value:</i>	<u>\$13,567,141</u>			<u>\$14,207,268</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, 2016***

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#### **NOTE 10 – DEFINED BENEFIT PENSION PLANS**

##### ***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

##### ***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension 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, 2016**

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**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

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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, 2016**

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**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$495,118 for 2016.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

##### ***Plan Description – Ohio Police & Fire Pension Fund (OPF)***

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.



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

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	19.50 %
Employee:	
January 1, 2016 through December 31, 2016	12.25 %
<b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	0.50
Total Employer	19.50 %
Employee:	
January 1, 2016 through December 31, 2016	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$359,095 for 2016.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF’s total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City’s proportion of the net pension liability was based on the City’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability	\$5,552,586	\$5,228,496	\$10,781,082
Proportion of the Net Pension Liability-2016	0.032056%	0.081275%	
Proportion of the Net Pension Liability-2015	0.032582%	0.080034%	
Percentage Change	(0.000526%)	0.0012411%	
Pension Expense	\$717,416	\$773,439	\$1,490,855

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

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$1,632,113	\$850,999	\$2,483,112
City contributions subsequent to the measurement date	495,118	359,095	854,213
Total Deferred Outflows of Resources	<u>\$2,127,231</u>	<u>\$1,210,094</u>	<u>\$3,337,325</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$108,401	\$14,681	\$123,082
Change in Proportionate Share	(1,114)	0	(1,114)
Total Deferred Inflows of Resources	<u>\$107,287</u>	<u>\$14,681</u>	<u>\$121,968</u>

\$854,213 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year Ending December 31:			
2017	\$356,959	\$221,262	\$578,221
2018	383,056	221,262	604,318
2019	415,464	221,262	636,726
2020	369,347	175,896	545,243
2021	0	(2,829)	(2,829)
2022	0	(535)	(535)
Total	<u>\$1,524,826</u>	<u>\$836,318</u>	<u>\$2,361,144</u>

**Actuarial Assumptions - OPERS**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

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

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.27 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$8,846,624	\$5,552,586	\$2,774,167

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8% to 7.5%. Although the exact amount of these changes is not known, the impact to the City’s net pension liability is expected to be significant.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

##### ***Actuarial Assumptions – OPF***

OPF's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

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

### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

#### **NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
<b>Total</b>	<b><u>120.00 %</u></b>	

\* levered 2x

OPF’s Board of Trustees has incorporated the “risk parity” concept into OPF’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

**Discount Rate** The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
City’s proportionate share of the net pension liability	\$6,895,686	\$5,228,496	\$3,816,222

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 11 - POSTEMPLOYMENT BENEFITS**

##### **A. Ohio Public Employees Retirement System (“OPERS”)**

Plan Description – OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2016, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB 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, 2016***

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#### **NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)**

##### **A. Ohio Public Employees Retirement System (“OPERS”) (Continued)**

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The City's contributions for health care to the OPERS for the years ending December 31, 2016, 2015, and 2014 were \$82,520, \$81,959 and \$81,925, respectively, which were equal to the required contributions for each year.

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

Plan Description – The City contributes to the OP&F sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OP&F to provide OPEB benefits. Authority to establish and amend benefits is provided in Chapter 742 of the ORC.

OP&F issues a stand-alone financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F’s website at [www.op-f.org](http://www.op-f.org).

Funding Policy – The ORC provides for contribution requirements of the participating employers and of plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB 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, 2016***

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**NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)**

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

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the portion of employer contributions allocated to health care was 0.5% of covered payroll for both police officers and firefighters. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2016, 2015, and 2014 were \$9,450, \$9,176 and \$8,857 for police, which were equal to the required contributions for each year.

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

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

**NOTE 12 - LONG-TERM OBLIGATIONS**

Detail of the changes in the bonds and compensated absences of the City for the year ended December 31, 2016 is as follows:

		Balance December 31, 2015	Issued	(Retired)	Balance December 31, 2016	Amount Due Within One Year
<b>Governmental Activities:</b>						
General Obligation Bond:						
2.00-3.00%						
2009 Administration Building	2018	\$640,000	\$0	(\$205,000)	\$435,000	\$215,000
Total General Obligation Bonds		<u>640,000</u>	<u>0</u>	<u>(205,000)</u>	<u>435,000</u>	<u>215,000</u>
Net Pension Liability:						
Ohio Public Employees Retirement System		3,220,231	1,310,095	0	4,530,326	0
Ohio Police and Fire Pension Fund		4,146,106	1,082,390	0	5,228,496	0
Total Net Pension Liability		<u>7,366,337</u>	<u>2,392,485</u>	<u>0</u>	<u>9,758,822</u>	<u>0</u>
Compensated Absences		1,837,438	1,761,553	(1,837,438)	1,761,553	440,766
<b>Total Governmental Activities</b>		<u>\$9,843,775</u>	<u>\$4,154,038</u>	<u>(\$2,042,438)</u>	<u>\$11,955,375</u>	<u>\$655,766</u>
<b>Business-Type Activities:</b>						
General Obligation Bonds:						
2.00-4.15%						
2009 Water Works Bonds	2028	\$2,795,000	\$0	(\$175,000)	\$2,620,000	\$180,000
Total General Obligation Bonds		<u>2,795,000</u>	<u>0</u>	<u>(175,000)</u>	<u>2,620,000</u>	<u>180,000</u>
Net Pension Liability:						
Ohio Public Employees Retirement System		709,522	312,738	0	1,022,260	0
Compensated Absences		255,791	284,194	(255,791)	284,194	65,673
<b>Total Business-Type Activities</b>		<u>\$3,760,313</u>	<u>\$596,932</u>	<u>(\$430,791)</u>	<u>\$3,926,454</u>	<u>\$245,673</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, 2016***

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**NOTE 12 - LONG-TERM OBLIGATIONS (Continued)**

**A. Principal and Interest Requirements**

Principal and interest requirements to retire long-term debt outstanding at December 31, 2016 are as follows:

Years	General Obligation Bonds	
	Principal	Interest
2017	\$395,000	\$108,020
2018	405,000	96,170
2019	195,000	84,020
2020	200,000	78,170
2021	205,000	71,770
2022-2026	1,135,000	243,105
2027-2028	520,000	32,578
Totals	<u>\$3,055,000</u>	<u>\$713,833</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, 2016*

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### **NOTE 13 - RISK MANAGEMENT**

#### **A. Comprehensive**

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 1993 the City entered into a joint insurance pool, Miami Valley Risk Management Association, Inc. (MVRMA, Inc.) with other local cities. As of December 31, 2016, 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 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.

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

Pollution Liability	\$1,000,000	per occurrence
Public Officials/Personal Injury	12,000,000	per occurrence
Property	1,000,000,000	per occurrence
Boiler and Machinery	100,000,000	per occurrence
Flood	25,000,000	per occurrence and aggregate
Cyber Liability	2,000,000	per occurrence and aggregate
Earthquake (Property)	25,000,000	per occurrence and aggregate

The member deductible per occurrence for all types of claims is \$2,500.

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.

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

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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

**A. Comprehensive (Continued)**

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.

**B. Medical/Surgical, Dental and Vision Insurance**

Medical coverage is offered to employees through a self-funded insurance plan. Under this program, the Risk Management Agency provides coverage for up to a maximum of \$100,000 per covered person. The plan is offered to local governments state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by United Healthcare of Ohio.

The City participates in the program and makes payments to the Risk Management Agency based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The City's independent advisor has actuarially determined that the fund is no longer running in a deficit so the provision for incurred by not reported claims as of December 31, 2016 is \$0. This amount is non-discounted and is based upon historical claims experience. The claims liability of \$0 reported at December 31, 2016, is based on an estimate provided by the Center for Local Government Board (independent advisor) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred by not reported claims, be accrued at the estimated ultimate cost of settling claims.

Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year End</u>
2015	\$165,039	\$523,367	(\$688,406)	\$0
2016	\$0	\$577,227	(\$577,227)	\$0

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **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 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, 2016 is \$4,345,000. 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, 2016.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **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. 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.

*REQUIRED SUPPLEMENTAL INFORMATION*

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

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***Schedule of City's Proportionate Share of the Net Pension Liability  
Last Three Years***

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**Ohio Public Employees Retirement System**

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.0325820%	0.0325820%	0.0320565%
City's proportionate share of the net pension liability (asset)	\$3,840,994	\$3,929,753	\$5,552,586
City's covered-employee payroll	\$4,101,315	\$4,018,442	\$3,989,733
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	93.65%	97.79%	139.17%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

**Ohio Police and Fire Pension Fund**

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.0800342%	0.0800342%	0.0812753%
City's proportionate share of the net pension liability (asset)	\$3,897,917	\$4,146,106	\$5,228,496
City's covered-employee payroll	\$2,133,879	\$1,758,295	\$1,835,121
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	182.67%	235.80%	284.91%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.

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

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***Schedule of City Contributions  
Last Four Years***

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**Ohio Public Employees Retirement System**

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$533,171	\$482,213	\$478,768	\$495,118
Contributions in relation to the contractually required contribution	<u>533,171</u>	<u>482,213</u>	<u>478,768</u>	<u>495,118</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$4,101,315	\$4,018,442	\$3,989,733	\$4,125,983
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

**Ohio Police and Fire Pension Fund**

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$339,927	\$334,076	\$348,673	\$359,095
Contributions in relation to the contractually required contribution	<u>339,927</u>	<u>334,076</u>	<u>348,673</u>	<u>359,095</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$2,133,879	\$1,758,295	\$1,835,121	\$1,889,974
Contributions as a percentage of covered-employee payroll	15.93%	19.00%	19.00%	19.00%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.  
Information prior to 2013 is not available.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of the Village of Indian Hill  
Hamilton County  
6525 Drake Road  
Cincinnati, Ohio 45242

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, Hamilton County, Ohio (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2017.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Dave Yost**  
Auditor of State

Columbus, Ohio

June 30, 2017