

***CITY OF CHEVIOT
HAMILTON COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

City Council
City of Cheviot
3814 Harrison Avenue
Cheviot, Ohio 45211

We have reviewed the *Report of Independent Accountants* of the City of Cheviot, Hamilton County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Cheviot is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 13, 2007

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CITY OF CHEVIOT, OHIO
AUDIT REPORT
For the Year Ended December 31, 2004

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1
Management’s Discussion and Analysis	3
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	18
Statement of Net Assets – Enterprise Fund	19
Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Fund	20
Statement of Cash Flows – Enterprise Fund	21
Statement of Fiduciary Assets and Liabilities -Agency Funds	22
Notes to the Basic Financial Statements	23
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i>	50
Schedule of Findings	52
Schedule of Prior Year Audit Findings	53

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Cheviot
Hamilton County
3814 Harrison Avenue
Cheviot, Ohio 45211

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cheviot, Hamilton County, Ohio (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cheviot, Hamilton County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, during 2004, the City adopted Governmental Accounting and Standards Board (GASB) Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”, GASB Statement No. 41, “Budgetary Comparison Schedules-Perspective Differences”, GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”, and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers”.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2007 on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management’s Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Charles E. Harris & Associates, Inc.

June 21, 2007

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Cheviot's discussion and analysis of the annual financial report provides an overview of the City's financial activities for the year ended December 31, 2004.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June, 1999. However, because this is the first year of implementing the new reporting model, comparative information of the previous year was not available. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

- The City's total net assets related to governmental activities increased \$364,690 during 2004.
- For governmental activities, general revenues accounted for \$3,215,875 or 72.43% of total revenue. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$1,224,169 or 27.57% of total revenue of \$4,440,044.
- The City had \$4,075,354 in expenses related to governmental activities, while only \$1,224,169 of these expenses were offset by program specific charges for services, grants and contributions. General revenues (primarily property and income taxes) of \$3,215,875 were adequate to provide for the remaining cost of these programs.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City of Cheviot's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. The fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as the amount of funds available for future spending. The fund financial statements focus on the City's most significant funds, with all other nonmajor funds presented in total in one column.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

REPORTING THE CITY AS A WHOLE

Statement of Net Assets and the Statement of Activities

The analysis of the City as a whole begins with the Statement of Net Assets and the Statement of Activities. These statements provide information that will help the reader to determine if the City of Cheviot is financially better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities– Most of the City's services are reported here including police, fire, waste collection, EMS, leisure time activities, public health, transportation, and general government.

Business-type Activities – This service consists of charges from residents to cover the cost of operating the City swimming pool

In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well-being. Some of these factors include the City's tax base and the condition of capital assets.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the City's major funds begins on page 14. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the City Auditor, with the approval of the City Council, to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The City of Cheviot's major funds are the General Fund and the 3 Mil Street Construction Fund.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

Governmental Funds

Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. 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 to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Fund

The proprietary fund uses the same measurement focus and basis of accounting as the Government-Wide Financial Statements.

Fiduciary Funds

The City's fiduciary funds are agency funds. All of the City's fiduciary funds are reported in a separate Statement of Fiduciary Assets and Liabilities – Agency Funds. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its own operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

THE CITY AS A WHOLE

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2004 compared to 2003.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

Table 1
Net Assets
Governmental Activities

	Governmental Activities	Business-Type Activities	Totals
	2004	2004	2004
Assets:			
Current and Other			
Assets	\$2,956,572	\$19,173	\$2,975,745
Capital Assets	<u>1,575,534</u>	<u>96,479</u>	<u>1,672,013</u>
Total Assets	<u>4,532,106</u>	<u>115,652</u>	<u>4,647,758</u>
Liabilities:			
Long-Term Liabilities	251,792	0	251,792
Other Liabilities	<u>1,201,450</u>	<u>70</u>	<u>1,201,520</u>
Total Liabilities	<u>1,453,242</u>	<u>70</u>	<u>1,453,312</u>
Net Assets:			
Invested in Capital			
Assets, Net of			
Related Debt	1,415,534	96,479	1,512,013
Restricted	1,070,605	0	1,070,605
Unrestricted	<u>592,725</u>	<u>19,103</u>	<u>611,828</u>
Total Net Assets	<u>\$3,078,864</u>	<u>\$115,582</u>	<u>\$3,194,446</u>

Net assets of the City's governmental activities increased \$364,690 during 2004. During 2004, building permits increased from a large construction project in the City and rental income increased from the harvest home and field house. There was also an increase in squad runs made by the fire department in 2004. The decrease in capital assets was due primarily to depreciation expense and deletions exceeding additions for the year. Long-term liabilities decreased due to the City paying off the Equipment Acquisition Notes that were issued during 2002.

Table 2, on the following page, shows the highlights of the City's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: program revenues and general revenues. Program revenues are defined as charges for services, grants, and contributions restricted to be used for a specific program. General revenues include taxes, unrestricted grants, and unrestricted investment earnings.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

Table 2 shows the changes in net assets for the year ended December 31, 2004. Since this is the first year the City has prepared financial statements following *GASB Statement No. 34*, revenue and expense comparisons to 2003 are not available. In future years, when prior-year information is available, a comparative analysis will be presented.

Table 2
Change in Net Assets

	2004	2004	2004
Revenues:			
Program Revenues:			
Charges for Services	\$426,332	\$39,681	\$466,013
Operating Grants and Contributions	392,983	-	392,983
Capital Grants and Contributions	404,854	-	404,854
Total Program Revenues	1,224,169	39,681	1,263,850
General Revenues:			
Property Taxes	880,675	-	880,675
Municipal Income Tax	1,844,399	-	1,844,399
Other Local Taxes	70,315	-	70,315
Grants and Entitlements not Restricted to Specific Programs	378,768	-	378,768
Investment Income	12,753	-	12,753
Other	28,965	-	28,965
Total General Revenues	3,215,875	-	3,215,875
Total Revenues	4,440,044	39,681	4,479,725
Program Expenses:			
Security of Persons and Property	1,557,990	-	1,557,990
Public Health	4,488	-	4,488
Leisure Time Activities	118,610	-	118,610
Public Works	408,994	-	408,994
Transportation	452,261	-	452,261
General Government	1,213,289	-	1,213,289
Intergovernmental	302,154	-	302,154
Interest and Fiscal Charges	17,568	-	17,568
Swimming Pool	-	43,583	43,583
Total Expenses	4,075,354	43,583	4,118,937
Increase (Decrease) in Net Assets	\$364,690	(\$3,902)	\$360,788

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

Governmental Activities

The 2.0 percent income tax is the largest source of revenue for the City of Cheviot. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either bimonthly, monthly, or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. The City allows a credit for income taxes paid to another municipality up to 100 percent of the City's current tax rate.

When looking at the sources of income to support governmental activities, it should be noted that charges for services are only 9.6% of total revenue. Revenues provided by sources other than City residents in the form of operating and capital grants restricted to a certain program comprise another 17.97%. The remaining revenues are primarily generated locally through property and income taxes. City Council relies on these taxes to furnish the quality of life to businesses and citizens to which they and previous Councils have always been committed.

The net assets of the City's business-type activities decreased by \$3,902. The decrease occurred primarily from an increase in depreciation expense and a decrease in charges for services for the swimming pool. The City strives to control operation expenses for business-type activities in order to maintain stability in charges for services.

THE CITY'S FUNDS

Information about the City's major governmental funds begins on page 14. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,439,908 and expenditures of \$4,147,774. As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$1,186,658, an increase of \$292,134 in comparison with the prior year. Unreserved undesignated fund balance equals \$1,172,612. The remaining fund balance of \$14,046 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year or a variety of other restricted purposes. While the bulk of the governmental fund balances are not reserved in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the State or Federal Government.

The General Fund balance of \$250,702 continues to rely heavily on the City's income tax as its primary source of revenue for operations, which kept the balance and activity of the fund consistent. The General Fund balance decreased by \$33,221 from 2003, due partly to less inheritance tax revenue received during 2004.

The 3 Mil Street Construction Fund balance increased by \$105,767, because revenues exceeded expenditures. Revenues remained primarily consistent with the prior year while expenditures decreased due to less street repairs and construction during 2004.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the major object level within each department and fund.

During 2004, there were various revisions to the General Fund budget. Original appropriations were \$3,677,143 and final appropriations were \$3,696,918, a less than one percent increase.

Original General Fund budgeted revenues were \$3,458,700, which matched final budgeted revenues. Actual revenues were \$3,214,816. The difference amounted to \$243,884. The decrease from final budgeted revenues and actual revenues was primarily due to actual income tax receipts being less than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities 2004	Business-Type Activities 2004
Land	\$143,466	\$1,864
Land Improvements	37,519	-
Buildings and Building Improvements	1,009,761	94,615
Furniture and Equipment	349,788	-
Infrastructure	35,000	-
Totals	\$1,575,534	\$96,479

The primary decrease in governmental capital assets occurred due to depreciation expense and deletions exceeding additions for the year. For 2004, the City is reporting current year additions to infrastructure for the first time. The City does not plan to phase in prior years' amounts. The additions during 2004 included repaving for Taft Avenue and for North Bend Road at the Westwood Northern Boulevard intersection. There were no additions or deletions for business-type activities; the only decrease occurred because of current year depreciation expense. See Note 10 of the Notes to the Basic Financial Statements for more detailed information.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

Debt

At December 31, 2004, the City of Cheviot had \$160,000 in debt outstanding.

Table 4
Outstanding Debt at Year End
Governmental Activities

	<u>2004</u>	<u>2003</u>
Municipal Building Bonds	\$160,000	\$240,000
Equipment Acquisition Notes	-	43,426
Totals	<u>\$160,000</u>	<u>\$283,426</u>

The Municipal Building Bonds were issued on August 1, 1986, in the amount of \$1,595,000 for the construction of a municipal building. The bonds were issued at a 7.38 percent interest rate and will reach maturity on November 1, 2006. The bonds are paid from the Equipment Acquisition Fund.

The Equipment Acquisition Notes were issued on October 4, 2002, in the amount of \$86,853 for the purchase of a garbage truck. The notes were issued at a 2.16 percent interest rate for a period of two years. The notes were paid off during 2004 from the Equipment Acquisition Fund.

The City did not issue any new debt during 2004.

The City's overall 10.5 percent legal debt margin was \$12,573,370 as of December 31, 2004. The more restrictive unvoted legal debt margin within 5.5 percent was \$6,570,571 as of the same date. See Note 15 of the Notes to the Basic Financial Statements for information on the City's debt.

CONTACTING THE CITY'S FINANCE DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Patty Henry, Assistant Auditor, City of Cheviot, 3814 Harrison Avenue, Cheviot, Ohio 45211.

City of Cheviot, Ohio

Statement of Net Assets

December 31, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,037,739	\$ 19,173	\$ 1,056,912
Accounts Receivable	30,862	-	30,862
Due from Other Governments	278,429	-	278,429
Prepaid Items	5,036	-	5,036
Materials and Supplies Inventory	42,947	-	42,947
Municipal Income Tax Receivable	650,369	-	650,369
Other Local Taxes Receivable	68,620	-	68,620
Property Taxes Receivable	842,570	-	842,570
Nondepreciable Capital Assets	143,466	1,864	145,330
Depreciable Capital Assets, Net	1,432,068	94,615	1,526,683
<i>Total Assets</i>	<u>4,532,106</u>	<u>115,652</u>	<u>4,647,758</u>
Liabilities:			
Accounts Payable	62,890	70	62,960
Accrued Wages Payable	60,424	-	60,424
Contracts Payable	143,290	-	143,290
Retainage Payable	15,423	-	15,423
Due to Other Governments	132,156	-	132,156
Accrued Interest Payable	1,966	-	1,966
Vacation Leave Payable	6,399	-	6,399
Deferred Revenue	778,902	-	778,902
Long-Term Liabilities:			
Due Within One Year	80,000	-	80,000
Due in More Than One Year	171,792	-	171,792
<i>Total Liabilities</i>	<u>1,453,242</u>	<u>70</u>	<u>1,453,312</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,415,534	96,479	1,512,013
Restricted for:			
Other Purposes	611,646	-	611,646
Debt Service	138,062	-	138,062
Capital Projects	320,897	-	320,897
Unrestricted	592,725	19,103	611,828
<i>Total Net Assets</i>	<u>\$ 3,078,864</u>	<u>\$ 115,582</u>	<u>\$ 3,194,446</u>

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 1,557,990	\$ 217,529	\$ 125	\$ -
Public Health	4,488	-	-	-
Leisure Time Activities	118,610	82,498	110	-
Public Works	408,994	-	10,292	-
Transportation	452,261	53,741	382,456	-
General Government	1,213,289	72,564	-	-
Intergovernmental	302,154	-	-	404,854
Interest and Fiscal Charges	17,568	-	-	-
Total Governmental Activities	4,075,354	426,332	392,983	404,854
Business-Type Activity:				
Swimming Pool	43,583	39,681	-	-
Total Primary Government	\$ 4,118,937	466,013	392,983	404,854

General Revenues:

Property Taxes Levied for:
General Purposes
Debt Service
Street Improvements
Municipal Income Tax
Other Local Taxes
Grants and Entitlements not Restricted
to Specific Programs
Investment Income
Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-Type Activity	Total
\$ (1,340,336)	\$ -	\$ (1,340,336)
(4,488)	-	(4,488)
(36,002)	-	(36,002)
(398,702)	-	(398,702)
(16,064)	-	(16,064)
(1,140,725)	-	(1,140,725)
102,700	-	102,700
(17,568)	-	(17,568)
(2,851,185)	-	(2,851,185)
-	(3,902)	(3,902)
(2,851,185)	(3,902)	(2,855,087)
670,522	-	670,522
79,159	-	79,159
130,994	-	130,994
1,844,399	-	1,844,399
70,315	-	70,315
378,768	-	378,768
12,753	-	12,753
28,965	-	28,965
3,215,875	-	3,215,875
364,690	(3,902)	360,788
2,714,174	119,484	2,833,658
\$ <u>3,078,864</u>	\$ <u>115,582</u>	\$ <u>3,194,446</u>

City of Cheviot, Ohio
Balance Sheet
Governmental Funds
December 31, 2004

	General	3 Mil Street Improvement	Nonmajor Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 8,389	\$ 207,899	\$ 821,451	\$ 1,037,739
Receivables:				
Property Taxes	623,714	140,363	78,493	842,570
Municipal Income Taxes	650,369	-	-	650,369
Other Local Taxes	68,620	-	-	68,620
Accounts	20,250	-	10,612	30,862
Due from Other Governments	100,545	9,406	168,478	278,429
Materials and Supplies Inventory	15,200	-	27,747	42,947
Prepaid Items	5,036	-	-	5,036
<i>Total Assets</i>	<u>1,492,123</u>	<u>\$ 357,668</u>	<u>\$ 1,106,781</u>	<u>\$ 2,956,572</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	\$ 54,383	\$ -	\$ 8,507	\$ 62,890
Contracts Payable	-	10,520	132,770	143,290
Retainage Payable	-	-	15,423	15,423
Accrued Wages Payable	51,543	-	8,881	60,424
Due to Other Governments	131,127	-	1,029	132,156
Deferred Revenue	1,004,368	147,555	203,808	1,355,731
<i>Total Liabilities</i>	<u>1,241,421</u>	<u>158,075</u>	<u>370,418</u>	<u>1,769,914</u>
Fund Balances:				
Reserved for Encumbrances	12,492	-	1,554	14,046
Unreserved, Undesignated, Reported in:				
General Fund	238,210	-	-	238,210
Special Revenue Funds	-	-	504,617	504,617
Debt Service Funds	-	-	127,492	127,492
Capital Projects Funds	-	199,593	102,700	302,293
<i>Total Fund Balances</i>	<u>250,702</u>	<u>199,593</u>	<u>736,363</u>	<u>1,186,658</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,492,123</u>	<u>\$ 357,668</u>	<u>\$ 1,106,781</u>	<u>\$ 2,956,572</u>

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2004*

Total Governmental Fund Balances	\$1,186,658
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	143,466
Land Improvements	362,519
Buildings and Building Improvements	2,125,804
Furniture and Equipment	3,037,532
Infrastructure	35,000
Accumulated Depreciation	<u>(4,128,787)</u>

Total	1,575,534
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	63,668
Municipal Income Tax	321,351
Intergovernmental	181,685
Accounts Receivable	<u>10,125</u>

Total	576,829
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued Interest	(1,966)
General Obligation Bonds	(160,000)
Vacation Leave Payable	(6,399)
Compensated Absences	<u>(91,792)</u>

Total	<u>(260,157)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>\$3,078,864</u></u>
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See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	3 Mil Street Improvement	Nonmajor Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$664,588	\$129,154	\$79,837	\$873,579
Municipal Income Tax	1,883,350	0	0	1,883,350
Other Local Taxes	70,315	0	0	70,315
Intergovernmental	341,105	23,756	789,643	1,154,504
Charges for Services	104,915	0	13,256	118,171
Licenses and Permits	56,851	0	30,360	87,211
Fines and Forfeitures	110,106	0	6,971	117,077
Rent	93,748	0	0	93,748
Contributions and Donations	0	0	235	235
Investment Income	11,507	0	1,246	12,753
Other	22,445	0	6,520	28,965
<i>Total Revenues</i>	<u>3,358,930</u>	<u>152,910</u>	<u>928,068</u>	<u>4,439,908</u>
Expenditures:				
Current:				
Security of Persons and Property	1,538,879	0	7,710	1,546,589
Public Health	4,488	0	0	4,488
Leisure Time Activities	104,533	0	2,420	106,953
Public Works	370,638	0	26,976	397,614
Transportation	95,228	0	276,039	371,267
General Government	1,190,129	0	4,023	1,194,152
Intergovernmental	0	0	302,154	302,154
Capital Outlay	34,891	47,143	467	82,501
Debt Service:				
Principal Retirement	0	0	123,426	123,426
Interest and Fiscal Charges	0	0	18,630	18,630
<i>Total Expenditures</i>	<u>3,338,786</u>	<u>47,143</u>	<u>761,845</u>	<u>4,147,774</u>
<i>Excess of Revenues Over Expenditures</i>	<u>20,144</u>	<u>105,767</u>	<u>166,223</u>	<u>292,134</u>
Other Financing Sources (Uses):				
Transfers - In	0	0	53,365	53,365
Transfers - Out	(53,365)	0	0	(53,365)
<i>Total Other Financing Sources (Uses)</i>	<u>(53,365)</u>	<u>0</u>	<u>53,365</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(33,221)	105,767	219,588	292,134
<i>Fund Balances at Beginning of Year - Restated (Note 3)</i>	<u>283,923</u>	<u>93,826</u>	<u>516,775</u>	<u>894,524</u>
<i>Fund Balances at End of Year</i>	<u>\$250,702</u>	<u>\$199,593</u>	<u>\$736,363</u>	<u>\$1,186,658</u>

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds		\$292,134
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay	49,543	
Depreciation	(133,559)	
Excess of Depreciation Expense over Capital Outlay		(84,016)
 Repayment of long-term obligations is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
General Obligation Bond Principal Payments	80,000	
Note Principal Payments	43,426	
		123,426
 Some revenues that will not be collected for several months after the City's year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by these amounts:		
Property Taxes	7,096	
Municipal Income Tax	(38,951)	
Intergovernmental	21,866	
Charges for Services	10,125	
		136
 Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
Decrease in Accrued Interest		1,062
 Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:		
Decrease in Vacation Leave Payable	999	
Decrease in Compensated Absences	30,949	
		31,948
		\$364,690
 <i>Change in Net Assets of Governmental Activities</i>		

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$677,000	\$677,000	\$664,588	(\$12,412)
Municipal Income Tax	1,910,000	1,910,000	1,739,277	(170,723)
Other Local Taxes	70,000	70,000	70,315	315
Intergovernmental	332,600	332,600	338,210	5,610
Charges for Services	131,900	131,900	107,655	(24,245)
Licenses and Permits	32,500	32,500	56,851	24,351
Fines and Forfeitures	110,500	110,500	110,106	(394)
Rent	70,000	70,000	93,628	23,628
Investment Income	26,000	26,000	11,507	(14,493)
Other	98,200	98,200	22,679	(75,521)
<i>Total Revenues</i>	3,458,700	3,458,700	3,214,816	(243,884)
Expenditures:				
Current:				
Security of Persons and Property	1,682,796	1,682,796	1,589,724	93,072
Public Health	6,800	6,800	6,661	139
Leisure Time Activities	125,755	125,755	109,688	16,067
Public Works	398,805	398,805	396,352	2,453
Transportation	103,000	103,000	96,599	6,401
General Government	1,303,217	1,322,992	1,207,332	115,660
Capital Outlay	56,770	56,770	45,421	11,349
<i>Total Expenditures</i>	3,677,143	3,696,918	3,451,777	245,141
<i>Excess of Revenues Under Expenditures</i>	(218,443)	(238,218)	(236,961)	1,257
Other Financing Sources (Uses):				
Transfers - In	152,000	159,463	0	(159,463)
Transfers - Out	(238,449)	(238,449)	(53,365)	185,084
<i>Total Other Financing Sources (Uses)</i>	(86,449)	(78,986)	(53,365)	25,621
<i>Net Change in Fund Balance</i>	(304,892)	(317,204)	(290,326)	26,878
<i>Fund Balance Beginning of Year</i>	206,685	206,685	206,685	0
Prior Year Encumbrances Appropriated	58,372	58,372	58,372	0
<i>Fund Balance (Deficit) End of Year</i>	(\$39,835)	(\$52,147)	(\$25,269)	\$26,878

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2004

	<u>Swimming Pool</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$19,173</u>
Non-current Assets:	
Non-Depreciable Capital Assets	1,864
Depreciable Capital Assets, Net	<u>94,615</u>
<i>Total Assets</i>	<u>115,652</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	<u>70</u>
Net Assets:	
Invested in Capital Assets	96,479
Unrestricted	<u>19,103</u>
<i>Total Net Assets</i>	<u><u>\$115,582</u></u>

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
*Statement of Revenues, Expenses and
 Changes in Fund Net Assets
 Enterprise Fund
 For the Year Ended December 31, 2004*

	Swimming Pool
Operating Revenues:	
Charges for Services	\$39,681
Operating Expenses:	
Personal Services	19,888
Contractual Services	13,288
Materials and Supplies	5,802
Depreciation	4,605
<i>Total Operating Expenses</i>	43,583
<i>Change in Net Assets</i>	(3,902)
<i>Net Assets Beginning of Year - Restated (Note 3)</i>	119,484
<i>Net Assets End of Year</i>	\$115,582

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2004

	Swimming Pool
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received From Customers	\$39,681
Cash Payments for Employee Services and Benefits	(19,942)
Cash Payments to Suppliers	(19,020)
<i>Net Increase in Cash and Cash Equivalents</i>	719
<i>Cash and Cash Equivalents Beginning of Year</i>	18,454
<i>Cash and Cash Equivalents End of Year</i>	\$19,173
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	(\$3,902)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	4,605
Changes in Assets and Liabilities:	
Increase in Accounts Payable	16
<i>Net Cash Provided by Operating Activities</i>	\$719

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2004

Assets:	
Equity in Pooled Cash and Cash Equivalents	\$21
Cash and Cash Equivalents in Segregated Accounts	954
	<hr/>
<i>Total Assets</i>	<u><u>\$975</u></u>
 Liabilities:	
Due to Other Governments	\$21
Undistributed Monies	954
	<hr/>
<i>Total Liabilities</i>	<u><u>\$975</u></u>

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Cheviot (the "City") is a non-chartered municipal corporation operating under the laws of the State of Ohio. The community was established in 1818 as part of Green Township; it then became a village on July 1, 1901, before becoming a city on January 1, 1932. The municipal government is known as a Council/Mayor form of government. The Mayor is directly elected to a four-year term. The President of Council and seven council members (1 from each ward and 3 at-large) are elected to four-year terms. The Mayor appoints a Safety Service Director. The Safety Service Director is the chief executive officer and the head of the administrative agencies of the City. He/she appoints all department heads and employees, except for the Clerk of Council, who is appointed by Council.

Reporting Entity

A reporting entity is comprised of the primary government, related component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds and departments that are not legally separate from the City. Services provided include police and fire protection, waste management, parks and recreation, planning, zoning, street maintenance and repair, community development, public health and welfare. A staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the organization's budget, the issuance of its debt or the levying of its taxes. The City has no component units.

The financial activity of the Mayor's Court has been included in the City's financial statements as an agency fund. The Mayor has fiduciary responsibility for the collection and distribution of the court fees and fines to other governments.

The City participates in three organizations which are defined as jointly governed organizations. These organizations are the Center for Local Government, the Ohio-Kentucky-Indiana Regional Council of Governments (OKI) and the Hamilton County Municipal League (HCML). These organizations are presented in Note 16 of the Basic Financial Statements.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Cheviot have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless those pronouncements conflict with or contradict GASB pronouncements. The City's accounting policies are described below. The City does not apply FASB statements issued after November 30, 1989 to its governmental activities, business-type activities or enterprise fund.

Basis Of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

The Statement of Net Assets presents the financial condition of the governmental and business-type activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support 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 governmental program or business segment is self-financing or draws from the general revenues of the City.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

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

Governmental Funds

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

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

3 Mil Street Construction Fund – The 3 Mil Street Construction Fund accounts for property taxes collected for major street improvements.

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

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The City's proprietary fund is an enterprise fund.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Enterprise Fund – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the City accounts for charges from residents to cover the cost of operating the City swimming pool.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The City's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has two agency funds which are used to account for the collection and distribution of court fines and forfeitures, and for the collection of building permits held for distribution to other governments.

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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

Like the government-wide statements, all enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fund Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its enterprise activities.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; the enterprise fund and the agency funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: municipal income taxes, charges for services, interest on investments, intergovernmental revenues (including motor vehicle license tax, gasoline tax, and local government assistance), and grants.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Cash and Cash Equivalents

To improve cash management, cash received by the City, except cash held in a segregated account, is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. Cash and cash equivalents that are held separately for Mayor's court and not held by the City are recorded on the financial statements as "Cash and Cash Equivalents in Segregated Accounts."

During 2004, the City did not have any investments.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are reported on the financial statements as cash equivalents.

The City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during 2004 amounted to \$11,507 which includes \$8,542 assigned from other funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Materials and Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Capital Assets

General capital assets are capital assets that are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements. Capital assets used by the enterprise fund are reported in both the business-type activities column of the government-wide Statement of Net Assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values on the date received. The City maintains a capitalization threshold of six hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

All capital assets except for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacements. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Building Improvements	20-45 years
Furniture and Equipment	5-20 years
Infrastructure	10-60 years

The City's infrastructure consists of streets. The City only reports the amounts acquired after 2003.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued using the termination method. An accrual for earned sick leave is made to the extent it is probable that the benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

Accrued Liabilities And Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Long-term bonds are recognized as liabilities on the governmental fund financial statements when due.

Reservations Of Fund Balance

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances are recorded as a reservation of fund balance.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include funds for the operation of recreational activities, improving the living environment of the City, the operation of police programs, and the City's street repair/improvement programs.

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

Interfund Transaction

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the City, these revenues are charges for services for use of the City's swimming pool. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as nonoperating.

Estimates

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

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the major object level within each department and fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts set forth in the budgetary statements and schedules as final budgeted amounts represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE

Changes in Accounting Principles

For 2004, the City has implemented *GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"*, *GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"*, *Statement No. 38, "Certain Financial Statement Note Disclosures"*, *GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units"*, *GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences, GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers."*

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE (continued)

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type. The government-wide statements combine the governmental activities into one column.

GASB Statement No. 37 clarifies certain provisions of *GASB Statement No. 34*, including the required content of the Management's Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Statement No. 39 further defines the guidelines of *GASB Statement No. 14*, "The Financial Reporting Entity". The implementation of this new statement had no effect on the City's financial statements for 2004.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. The implementation of this statement did not apply to the presentation of budgetary statements by the City for 2004.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability for each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

Restatement of Fund Balance

Restatements were necessary for errors discovered in intergovernmental receivables and for the reclassification of the Waste Collection Fund as a Special Revenue Fund and the Unclaimed Monies Trust Fund as part of the General Fund.

Restatements were also necessary for capital assets due to errors discovered and due to the City implementing *GASB Statement No. 34* for the first year, requiring depreciation expense to be recorded.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE (continued)

The effect of these changes resulted in the following restatements of fund balances:

	<u>General</u>	<u>3 Mil Street Construction</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, December 31, 2003	\$367,134	\$93,826	\$517,702	\$978,662
Intergovernmental Receivable	-	-	(5,557)	(5,557)
Intergovernmental Payable	(85,561)	-	(1,967)	(87,528)
Change in Fund Structure	2,350	-	6,597	8,947
Adjusted Fund Balance, December 31, 2003	<u>\$283,923</u>	<u>\$93,826</u>	<u>\$516,775</u>	\$894,524

GASB 34 Adjustments:

Capital Assets	\$1,659,550
Vacation Leave Payable	(7,398)
Accrued Interest Payable	(3,028)
Long-Term Liabilities:	
Bonds Payable	(240,000)
Notes Payable	(43,426)
Compensated Absences Payable	(122,741)
Long-Term (Deferred) Assets:	
Delinquent Property Taxes	56,572
Municipal Income Tax	360,302
Due from Other Governments	<u>159,819</u>
Governmental Activities, Net Assets December 31, 2003	<u>\$2,714,174</u>

These changes had the following effect on the enterprise fund as of December 31, 2003:

	<u>Enterprise Fund</u>
Fund Equity, December 31, 2003	\$124,217
Capital Assets	1,864
Change in Fund Structure	<u>(6,597)</u>
Fund Equity, December 31, 2003	<u>\$119,484</u>

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY

Compliance

In violation of Ohio Revised Code 5705.39, the General Fund had appropriations which exceeded estimated resources for original and final budgeted amounts by \$39,835, and \$52,147, respectively.

Accountability

The Waste Collection Fund had a fund balance deficit of \$1,087 at December 31, 2004. The General Fund is liable for the deficit in this special revenue fund and will provide transfers when cash is required, not when accruals occur.

NOTE 5 - BUDGET TO GAAP RECONCILIATION

While reporting financial position and results of operations on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$33,221)
Revenue Accruals	(144,114)
Expenditure Accruals	(79,333)
Encumbrances	<u>(33,658)</u>
Budget Basis	<u><u>(\$290,326)</u></u>

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS

The investment and deposit of City monies are governed by the Ohio Revised Code. State statutes classify monies held by the City into three categories.

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

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Auditor or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City Auditor by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classifies deposits and investments by categories of risk as defined in *GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including repurchase agreements), and Reverse Repurchase Agreements."*

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Deposits

At year-end, the carrying amount of the City's deposits was \$1,057,887, and the bank balance was \$1,108,220. Of the bank balance, \$102,870 was covered by federal depository insurance, and \$1,005,350 was uninsured and uncollateralized. Although the balance was collateralized by securities held by the financial institutions, trust departments in the City's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

The City did not have any investments at year-end.

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utilities property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 7 - PROPERTY TAXES (continued)

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Cheviot. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2004, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations, and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

The full tax rate for all City operations for the year ended December 31, 2004, was \$13.22 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Category	Assessed Value	Percentage
Real Property	\$112,648,970	93.8%
Tangible Personal Property	2,019,990	4.5
Public Utility Property	5,387,020	1.7
Totals	<u>\$120,055,980</u>	<u>100.0%</u>

NOTE 8 – MUNICIPAL INCOME TAX

The City levies a municipal income tax of two percent on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to 100 percent of the City's current tax rate.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are distributed to the General Fund.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 9 - RECEIVABLES

Receivables at December 31, 2004, consisted of property taxes, municipal income taxes, other local taxes, accounts and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible. A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	
Fire Department Grant	\$4,050
Liquor Licensing Fees	861
Homestead and Rollback	51,015
Local Government Revenue Assistance	10,987
Undivided Local Government	18,144
Inheritance Tax	23,236
Personal Property Exemption	9,032
Motor Vehicle Registration	50,590
Gasoline Cents Per Gallon	46,672
Permissive Motor Vehicle Tax	6,861
State Gasoline Excise Tax	<u>56,981</u>
Total	<u><u>\$278,429</u></u>

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	Restated Balance At <u>12/31/2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance At <u>12/31/2004</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 143,466	\$ -	\$ -	\$ 143,466
Depreciable Capital Assets:				
Land Improvements	362,519	-	-	362,519
Buildings and Building Improvements	2,125,804	-	-	2,125,804
Furniture and Equipment	3,031,789	14,543	(8,800)	3,037,532
Infrastructure	-	35,000	-	35,000
Total Depreciable Capital Assets	<u>5,520,112</u>	<u>49,543</u>	<u>(8,800)</u>	<u>5,560,855</u>
Less Accumulated Depreciation:				
Land Improvements	(319,969)	(5,031)	-	(325,000)
Buildings and Building Improvements	(1,075,825)	(40,218)	-	(1,116,043)
Furniture and Equipment	<u>(2,608,234)</u>	<u>(88,310)</u>	<u>8,800</u>	<u>(2,687,744)</u>
Total Accumulated Depreciation	<u>(4,004,028)</u>	<u>(133,559)</u>	<u>8,800</u>	<u>(4,128,787)</u>
Depreciable Capital Assets, Net	<u>1,516,084</u>	<u>(84,016)</u>	<u>-</u>	<u>1,432,068</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 1,659,550</u></u>	<u><u>\$ (\$84,016)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,575,534</u></u>

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 10 - CAPITAL ASSETS (continued)

A summary of the changes in the business-type activity capital assets at December 31, 2004, follows:

	Restated Balance at 12/31/03	Additions	Deletions	Balance at 12/31/04
Business-Type Activities				
Land	\$1,864	-	-	\$1,864
Depreciable Capital Asset:				
Buildings and Building Improvements	167,300	-	-	167,300
Less Accumulated Depreciation:				
Buildings and Building Improvements	(68,080)	(4,605)	-	(72,685)
Depreciable Capital Asset, Net	<u>99,220</u>	<u>(4,605)</u>	<u>-</u>	<u>94,615</u>
Business-Type Activities Capital Assets, Net	<u>\$101,084</u>	<u>(\$4,605)</u>	<u>-</u>	<u>\$96,479</u>

Depreciation expense was charged to governmental programs as follows:

Security of Persons and Property	\$43,550
Leisure Time Activities	11,657
Public Works	10,842
Transportation	45,242
General Government	<u>22,268</u>
Total Depreciation Expense	<u>\$133,559</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$109,434, \$70,422, and \$81,766 respectively; 76.53 percent has been contributed for 2004 and 100 percent for 2003 and 2002. No Contributions were made to the member-directed plan for 2004 by the City or by the plan members.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability 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. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

The City's required contributions to the Fund for the years ended December 31, 2004, 2003, and 2002 were \$150,585, \$142,903, and \$147,960 respectively. The full amount has been contributed for 2003 and 2002. 69.82 percent has been contributed for 2004 with the remainder being reported as a liability.

NOTE 12 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$213,404. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to 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. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$43,485 for police and \$40,375 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

NOTE 13 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. City employees earn vacation leave at varying rates based upon length of service. Accumulated unused vacation time is paid to fire and administrative employees by year-end. Balances are not carried forward.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 13 - OTHER EMPLOYEE BENEFITS (continued)

Accumulated unused vacation time for police, public works, and street employees can either be paid by year-end or carried over to the next year. The maximum amount that can be carried over is five days. The liability for vacation benefits is recorded as "Vacation Leave Payable", rather than long-term liabilities, as the balances are to be used by employees in the year following the year earned.

Full-time employees of the City of Cheviot are credited with 15 days of sick leave per year. There is not a maximum sick leave accumulation amount. Upon retirement, payment is made to non-administrative employees of the City for one-fourth of the total sick leave accumulation, up to a maximum payout of 25 days for maintenance department, 120 days for police department and 480 hours for fire department employees. The administrative employees do not receive any payment for accumulated sick days.

Insurance Benefits

The City has elected to provide employee medical/surgical and life insurance benefits through United Health Care for all full-time employees. The City pays 100 percent of the monthly premium for administrative employees. The City pays 91 percent of the monthly premium for union employees under the family plan, and 100 percent of the monthly premium for union employees under the non-family plan, up to an annual cap of \$5,830 per employee. After surpassing the cap, the City pays 65 percent and the union employees pay 35 percent.

Deferred Compensation

City employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan is created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For year 2004, the City contracted with American Alternative Insurance Corporation for municipal general liability and with Cincinnati Insurance Company for municipal automotive liability, law enforcement liability, boiler and machinery, and buildings insurance.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 14 - RISK MANAGEMENT (continued)

Public Official insurance is contracted with Scottsdale Indemnity Company. Coverage is as follows:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Municipal General Liability	\$2,000,000	\$0
Municipal Automobile Liability	100,000/300,000	100/250
Public Official	1,000,000	5,000
Law Enforcement Liability	1,000,000	5,000
Boiler and Machinery	100,000	500
Buildings	varies with value of building	250

Settled claims have not exceeded this commercial coverage in any of the last four years. There have been no significant reductions in coverage from last year.

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2004 were as follows:

	Balance at December 31, 2003	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, 2004	Due Within <u>One Year</u>
<u>General Obligation Bonds:</u>					
1986 Municipal Building Bonds 7.38% (Voted)	\$240,000	\$ -	\$80,000	\$160,000	\$80,000
<u>Other Long-Term Obligations:</u>					
2002 Equipment Acquisition Notes, 2.16%	43,426	-	43,426	-	-
Compensated Absences Payable	122,741	3,011	33,960	91,792	-
Total - General Long-Term Obligations	\$406,167	\$3,011	\$157,386	\$251,792	\$80,000

The Municipal Building Bonds were issued on August 1, 1986, in the amount of \$1,595,000 for the construction of a municipal building. The bonds were issued at a 7.38 percent interest rate and will reach maturity on November 1, 2006. The bonds are paid from the Equipment Acquisition Fund.

The Equipment Acquisition Notes were issued on October 4, 2002, in the amount of \$86,853 for the purchase of a garbage truck. The notes were issued at a 2.16 percent interest rate for a period of two years. The notes were paid from the Equipment Acquisition Fund.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 15 - LONG-TERM OBLIGATIONS (continued)

Compensated absences will be paid from the General and the Street Construction Maintenance and Repair Funds.

As of December 31, 2004, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$12,573,370, and the unvoted legal debt margin was \$6,570,571.

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2004, were:

Year	Municipal Building Bonds	
	Principal	Interest
2005	\$80,000	\$11,800
2006	80,000	5,900
Totals	<u>\$160,000</u>	<u>\$17,700</u>

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Center for Local Government

The Center for Local Government was established to improve public service delivery by the cities, townships and villages in the Greater Cincinnati metropolitan area, especially among its member jurisdictions, through improved information exchange, cost reductions, shared resources, interjurisdictional collaboration, and new approaches to capital equipment and skills acquisition. The Center is governed by a Board of Trustees consisting of five members. The City does not have any financial interest in or responsibility for the Center. The City's financial contribution during 2004 was \$1,233. Information can be obtained from the Center by writing to Robert Johnson, Executive Director of the Center for Local Government, 10979 Reed Hartman Highway, Suite 301, Cincinnati, Ohio, 45242.

Ohio-Kentucky-Indiana Regional Council of Governments

The City participates in the Ohio-Kentucky-Indiana Regional Council of Governments (OKI). OKI members include Butler, Clermont, Hamilton and Warren Counties in Ohio, Boone, Campbell and Kenton Counties in Kentucky and Dearborn and Ohio Counties in Indiana. The purpose of OKI is to provide coordinated planning services to the appropriate federal, state and local governments, their political subdivisions, agencies, departments, instrumentalities, and special districts, in connection with the preparation and development of comprehensive and continuing regional transportation and development plan within the OKI Region. OKI also serves as an area-wide review agency in conjunction with comprehensive planning within the OKI Region.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

OKI contracts periodically for local funds and other support with the governing board of each of the counties who are members of OKI or with such other persons as may be appropriate to provide such funds and support. The support is based on the population of the area represented. A Board of Trustees was created for conducting the activities of the OKI. This Board consists of one elected official of each county and municipal corporation, one individual selected by each County planning agency or commission and one person selected by each planning agency or commission of each municipal corporation located in each member county. This Board of Trustees then selects not more than ten residents of the OKI Region. The total membership of the Board of Trustees shall not exceed 100. Any member of OKI may withdraw its membership upon written notice to OKI to be effective two years after receipt of the notice by OKI. If the organization were to dissolve, OKI's net assets revert to the said public bodies in proportion to each body's contribution towards the assets.

Payments to OKI are made from the General Fund. No financial contributions were made by the City during 2004. To obtain financial information, write to Ronald Kuker, Director of Finance and Administration of the Ohio-Kentucky-Indiana Regional Council of Governments at 720 East Pete Rose Way, Suite 420, Cincinnati, Ohio, 45202.

The Hamilton County Municipal League

The City participates in the Hamilton County Municipal League, a jointly governed organization. HCML members are represented by the Mayor or his designee from the incorporated municipalities of Hamilton County. Any member municipality may nominate for membership a municipality located outside Hamilton County. The purpose of the HCML is the furtherance of local government, the improvement of municipal government and services, promotion of general welfare of the cities and villages, to provide an opportunity for the municipalities to meet as a group for the discussion of mutual problems generally or special problems and to provide training or educational programs as may be deemed appropriate.

The HCML charges an annual membership fee as determined by the Board of Directors and confirmed by a majority of the membership of the HCML. This Board consists of the five officers elected by a majority vote and the Mayor of the City of Cincinnati or his designee. This Board was created to conduct the business of the HCML.

Any member may withdraw its membership upon written notice to the HCML. A member shall also cease to be a member in good standing if the dues are not paid at the annual meeting. If the organization were to dissolve, HCML's net assets shall revert to the said public bodies in proportion to each body's contribution towards the assets.

Payments to the HCML are made from the General Fund. The amount the City paid during 2004 was \$1,281. To obtain financial information, write to Curt Paddock, Director of the Hamilton County Municipal League at 5725 Dragon Way, Suite 219, Cincinnati, Ohio, 45227.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 17 - SIGNIFICANT CONTRACTUAL COMMITMENTS

As of December 31, 2004, the City had the following contractual commitment:

<u>Company</u>	<u>Original Contract</u>	<u>Amount Expended</u>	<u>Balance 12/31/2004</u>
CDS Associates, Inc.	<u>\$385,854</u>	<u>\$282,658</u>	<u>\$103,196</u>

The City received money from Cincinnati Water Works for the Carrie Avenue water line replacement, which will be owned and maintained by Cincinnati Water Works. Prior to construction, the City received \$404,854 to pay for the water line.

NOTE 18 - TRANSFERS

Transfers made during the year ended December 31, 2004 were \$53,365 from the General Fund to Nonmajor Funds to provide additional resources for debt service payments and for waste collection operations.

NOTE 19 - CONTINGENT LIABILITIES

Federal and State Grants

For the period January 1, 2004, to December 31, 2004, the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

Litigation

The City of Cheviot is party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Cheviot
Hamilton County
3814 Harrison Avenue
Cheviot, Ohio 45211

To City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cheviot, Ohio (the "City") as of and for the year ended December 31, 2004, which collectively comprise the City of Cheviot, Ohio's basic financial statements and have issued our report thereon dated June 21, 2007, wherein we noted the City adopted Governmental Accounting Standards Board (GASB) Statements Nos. 34, 37, 38, 39, 41, GASB Interpretation No. 6, and GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

We noted other matters involving internal control that we have reported to management in a separate letter dated June 21, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item number 2004-CHEV-01.

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

Charles E. Harris and Associates, Inc.
June 21, 2007

**CITY OF CHEVIOT
HAMILTON COUNTY, OHIO
SCHEDULE OF FINDINGS
For The Year Ended December 31, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Compliance and Other Matters

Finding Number 2004-CHEV-01-Appropriations exceeding Estimated Resources

Section 5705.39 Revised Code, sets out that the total appropriations from each fund should not exceed the total estimated resources. No appropriation measure is to become effective until the county auditor files a certificate that the appropriations from each fund do not exceed the total official estimate or amended official certificate. Contrary to this requirement, the general fund had appropriations which exceeded the estimated resources for original and final budgeted amounts by \$39,835 and \$52,147, respectively.

Prior to Council authorizing the original appropriations or approving any amendments, we recommend Council compare proposed appropriations with the amounts reflected on the (Amended) Certificate of Estimated Resources to ensure that appropriations will not exceed the City's estimated resources. Since appropriation measures do not become effective until the County Auditor files a certificate that appropriations do not exceed estimated resources, City management should not order any expenditure of money until the County Auditor certifies that appropriations do not exceed estimated resources for each City fund.

Management indicated they would monitor budgetary control more closely to ensure that sufficient estimated revenue is available to support appropriations.

**CITY OF CHEVIOT
HAMILTON COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	ORC 5705.41(D) – Expenditures Not Certified	Yes	City now certifies expenditures
2003-002	ORC 5705.09(F) – Failure to establish Capital Projects Fund	Yes	City established fund
2003-003	ORC 5705.41(B)- Expenditures exceeded Appropriations	Yes	No expenditures exceeded appropriations in current year
2003-004	Reportable Condition- Loan proceeds incorrectly recorded	Yes	No such transactions in current year



Mary Taylor, CPA
Auditor of State

**CITY OF CHEVIOT
HAMILTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 25, 2007**