

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

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005 through December 31, 2005. 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, 2005

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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, 2005, 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, 2005, 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.

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

Charles E. Harris & Associates, Inc.

June 21, 2007

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(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, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The City's total net assets related to governmental activities increased \$628,658 during 2005.
- For governmental activities, general revenues accounted for \$3,373,045 or 73.12% of total revenue. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$1,239,742 or 26.88% of total revenue of \$4,612,787.
- The City had \$3,984,129 in expenses related to governmental activities, while only \$1,239,742 of these expenses were offset by program specific charges for services, grants and contributions. General revenues (primarily property and income taxes) of \$3,373,045 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, 2005
(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 only major fund is the General Fund.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(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 2005 compared to 2004.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

Table 1
Net Assets
Governmental Activities

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Assets:						
Current and Other						
Assets	\$3,257,053	\$2,956,572	\$20,972	\$19,173	\$3,278,025	\$2,975,745
Capital Assets	<u>2,098,027</u>	<u>1,575,534</u>	<u>92,762</u>	<u>96,479</u>	<u>2,190,789</u>	<u>1,672,013</u>
Total Assets	<u>5,355,080</u>	<u>4,532,106</u>	<u>113,734</u>	<u>115,652</u>	<u>5,468,814</u>	<u>4,647,758</u>
Liabilities:						
Long-Term Liabilities	170,452	251,792	-	-	170,452	251,792
Other Liabilities	<u>1,477,106</u>	<u>1,201,450</u>	<u>66</u>	<u>70</u>	<u>1,477,172</u>	<u>1,201,520</u>
Total Liabilities	<u>1,647,558</u>	<u>1,453,242</u>	<u>66</u>	<u>70</u>	<u>1,647,624</u>	<u>1,453,312</u>
Net Assets:						
Invested in Capital						
Assets, Net of						
Related Debt	2,018,027	1,415,534	92,762	96,479	2,110,789	1,512,013
Restricted	867,211	1,070,605	-	-	867,211	1,070,605
Unrestricted	<u>822,284</u>	<u>592,725</u>	<u>20,906</u>	<u>19,103</u>	<u>843,190</u>	<u>611,828</u>
Total Net Assets	<u>\$3,707,522</u>	<u>\$3,078,864</u>	<u>\$113,668</u>	<u>\$115,582</u>	<u>\$3,821,190</u>	<u>\$3,194,446</u>

Net assets of the City's governmental activities increased \$628,658 during 2005. During 2005, the City received an unusually large amount of inheritance taxes, resulting in an increase in unrestricted net assets. In addition, the City's additions to governmental capital assets in the amount of \$884,466, offset by net deletions of \$18,868 and depreciation expense of \$343,105 resulted in an overall increase in invested in capital assets, net of related debt of \$522,493.

Net assets of the City's business-type activities only decreased by \$1,914, which was mainly due to consistent amounts of revenues and expenses.

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, 2005
(Unaudited)

Table 2 shows the changes in net assets for the year ended December 31, 2005 compared to 2004.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	\$746,191	\$426,332	\$46,337	\$39,681	\$792,528	\$466,013
Operating Grants and Contributions	427,735	392,983	-	-	427,735	392,983
Capital Grants and Contributions	65,816	404,854	-	-	65,816	404,854
Total Program Revenues	1,239,742	1,224,169	46,337	39,681	1,286,079	1,263,850
General Revenues:						
Property and Other Local Taxes	949,525	950,990	-	-	949,525	950,990
Municipal Income Tax	1,773,069	1,844,399	-	-	1,773,069	1,844,399
Grants and Entitlements not Restricted to Specific Programs	604,551	378,768	-	-	604,551	378,768
Investment Income	32,685	12,753	-	-	32,685	12,753
Other	13,215	28,965	-	-	13,215	28,965
Total General Revenues	3,373,045	3,215,875	-	-	3,373,045	3,215,875
Total Revenues	4,612,787	4,440,044	46,337	39,681	4,659,124	4,479,725
Program Expenses:						
Security of Persons and Property	1,587,396	1,557,990	-	-	1,587,396	1,557,990
Public Health	6,868	4,488	-	-	6,868	4,488
Leisure Time Activities	132,503	118,610	-	-	132,503	118,610
Public Works	407,147	408,994	-	-	407,147	408,994
Transportation	591,181	452,261	-	-	591,181	452,261
General Government	1,246,251	1,213,289	-	-	1,246,251	1,213,289
Intergovernmental	0	302,154	-	-	0	302,154
Interest and Fiscal Charges	12,783	17,568	-	-	12,783	17,568
Swimming Pool	0	0	48,251	43,583	48,251	43,583
Total Expenses	3,984,129	4,075,354	48,251	43,583	4,032,380	4,118,937
Increase (Decrease) in Net Assets	628,658	364,690	(1,914)	(3,902)	626,744	360,788
Net Assets, Beginning of Year	3,078,864	2,714,174	115,582	119,484	3,194,446	2,833,658
Net Assets, End of Year	3,707,522	3,078,864	113,668	115,582	3,821,190	3,194,446

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

Changes in governmental activities included an increase in charges for services of \$319,859 due to a one time billing for garbage collection. Capital grants and contributions decreased by \$339,038 because the City received a one time reimbursement from Greater Cincinnati Water Works for improvements to water lines that were made by the City of Cheviot during construction on Carrie Avenue in 2004. Grants and entitlements restricted to specific programs increased by \$225,783 due primarily to an unusually large settlement of inheritance taxes received in 2005.

Transportation expenses in the governmental activities increased by \$138,920 due to depreciation expense on infrastructure that was added during 2005. Intergovernmental expenses decreased by \$302,154 due to the City's payment in 2004 for improvements to water lines owned by Greater Cincinnati Water Works related to the Carrie Avenue construction.

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 16.18% 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 10.70%. 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 only decreased by \$1,914. The decrease occurred primarily from an increase in depreciation expense, offset by only slight changes in revenues and expenses for the year. The City strives to control operation expenses for business-type activities in order to maintain stability in charges for services.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

THE CITY'S FUNDS

Information about the City's major governmental funds begins on page 15. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,576,269 and expenditures of \$4,587,417. As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$1,175,510, a decrease of \$11,148 in comparison with the prior year. Unreserved undesignated fund balance equals \$1,143,106. The remaining fund balance of \$32,404 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 \$453,121 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 increased by \$202,419 from 2004, due primarily to a very large inheritance tax settlement received in 2005.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The 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 2005, there were various revisions to the General Fund budget. Original appropriations were \$3,509,095 final appropriations were \$3,898,063, an 11 percent increase. This was primarily due to increases in expenditures for security of persons and property and capital outlay during the year. While final appropriations were \$3,898,063, actual expenditures were \$3,711,488, a five percent decrease, which was due to decreases in actual expenditures for security of persons and property and general government from final estimates.

Original General Fund budgeted revenues were \$3,600,600 and final budgeted revenues were \$3,901,126. The difference between original and final budgeted revenues was \$300,526, Actual revenues were \$3,801,266, an 8 percent increase related to increases in anticipated property and income tax revenues. The difference between actual revenues and final budgeted revenues amounted to \$99,860. The decrease from final budgeted revenues and actual revenues was primarily due to actual income tax receipts being less than anticipated, offset by an increase in intergovernmental revenues related to the large inheritance tax received in 2005.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Land	\$143,466	\$143,466	\$1,864	\$1,864
Land Improvements	32,488	37,519	-	-
Buildings and Building Improvements	1,011,495	1,009,761	90,898	94,615
Furniture and Equipment	451,340	349,788	-	-
Infrastructure	459,238	35,000	-	-
Totals	<u>\$2,098,027</u>	<u>\$1,575,534</u>	<u>\$92,762</u>	<u>\$96,479</u>

The primary increase in governmental capital assets occurred due to the completion of infrastructure projects. There were no additions or deletions for business-type activities; the only decrease occurred in current year depreciation expense. See Note 9 of the Notes to the Basic Financial Statements for more detailed information.

Debt

At December 31, 2005, the City of Cheviot had \$80,000 in debt outstanding.

Table 4
Outstanding Debt at Year End
Governmental Activities

	2005	2004
Municipal Building Bonds	\$80,000	\$160,000

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 City did not issue any new debt during 2005.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

The City's overall 10.5 percent legal debt margin was \$14,035,533 as of December 31, 2005. The more restrictive unvoted legal debt margin within 5.5 percent was \$7,313,851 as of the same date. See Note 14 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, 2005

	Primary Government		
	Governmental Activities	Business-Type Activity	Total
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$845,197	\$20,972	\$866,169
Accounts Receivable	58,284	-	58,284
Due from Other Governments	353,328	-	353,328
Prepaid Items	4,674	-	4,674
Materials and Supplies Inventory	56,706	-	56,706
Municipal Income Tax Receivable	627,788	-	627,788
Other Local Taxes Receivable	71,320	-	71,320
Property Taxes Receivable	1,239,756	-	1,239,756
Nondepreciable Capital Assets	143,466	1,864	145,330
Depreciable Capital Assets, Net	1,954,561	90,898	2,045,459
<i>Total Assets</i>	<u>5,355,080</u>	<u>113,734</u>	<u>5,468,814</u>
Liabilities:			
Accounts Payable	52,188	66	52,254
Accrued Wages Payable	71,722	-	71,722
Contracts Payable	2,726	-	2,726
Due to Other Governments	158,897	-	158,897
Accrued Interest Payable	2,949	-	2,949
Vacation Leave Payable	5,961	-	5,961
Deferred Revenue	1,182,663	-	1,182,663
Long-Term Liabilities:			
Due Within One Year	80,000	-	80,000
Due in More Than One Year	90,452	-	90,452
<i>Total Liabilities</i>	<u>1,647,558</u>	<u>66</u>	<u>1,647,624</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,018,027	92,762	2,110,789
Restricted for:			
Other Purposes	571,190	-	571,190
Debt Service	129,878	-	129,878
Capital Projects	166,143	-	166,143
Unrestricted	822,284	20,906	843,190
<i>Total Net Assets</i>	<u>\$3,707,522</u>	<u>\$113,668</u>	<u>\$3,821,190</u>

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$1,587,396	\$238,696	\$4,976	\$15,871
Public Health	6,868	-	-	-
Leisure Time Activities	132,503	67,770	55	42,375
Public Works	407,147	349,291	6,736	-
Transportation	591,181	27,726	415,968	-
General Government	1,246,251	62,708	-	7,570
Interest and Fiscal Charges	12,783	-	-	-
<i>Total Governmental Activities</i>	3,984,129	746,191	427,735	65,816
Business-Type Activity:				
Swimming Pool	48,251	46,337	-	-
<i>Total Primary Government</i>	<u>\$4,032,380</u>	<u>\$792,528</u>	<u>\$427,735</u>	<u>\$65,816</u>

General Revenues:

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

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activity	Total
(\$1,327,853)	\$ -	(\$1,327,853)
(6,868)	-	(6,868)
(22,303)	-	(22,303)
(51,120)	-	(51,120)
(147,487)	-	(147,487)
(1,175,973)	-	(1,175,973)
(12,783)	-	(12,783)
(2,744,387)	-	(2,744,387)
-	(1,914)	(1,914)
(2,744,387)	(1,914)	(2,746,301)
741,309	-	741,309
77,527	-	77,527
130,689	-	130,689
1,773,069	-	1,773,069
604,551	-	604,551
32,685	-	32,685
13,215	-	13,215
3,373,045	-	3,373,045
628,658	(1,914)	626,744
3,078,864	115,582	3,194,446
<u>\$3,707,522</u>	<u>\$113,668</u>	<u>\$3,821,190</u>

City of Cheviot, Ohio
Balance Sheet
Governmental Funds
December 31, 2005

	General	Nonmajor Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$213,602	\$631,595	\$845,197
Receivables:			
Property Taxes	1,090,293	149,463	1,239,756
Municipal Income Taxes	627,788	-	627,788
Other Local Taxes	71,320	-	71,320
Accounts	53,220	5,064	58,284
Due from Other Governments	140,574	212,754	353,328
Materials and Supplies Inventory	13,594	43,112	56,706
Prepaid Items	4,674	-	4,674
<i>Total Assets</i>	<u>\$2,215,065</u>	<u>\$1,041,988</u>	<u>\$3,257,053</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$44,253	\$7,935	\$52,188
Contracts Payable	111	2,615	2,726
Accrued Wages Payable	62,255	9,467	71,722
Due to Other Governments	155,193	3,704	158,897
Deferred Revenue	1,500,132	295,878	1,796,010
<i>Total Liabilities</i>	<u>1,761,944</u>	<u>319,599</u>	<u>2,081,543</u>
Fund Balances:			
Reserved for Encumbrances	22,209	10,195	32,404
Unreserved, Undesignated, Reported in:			
General Fund	430,912	-	430,912
Special Revenue Funds	-	443,686	443,686
Debt Service Fund	-	121,023	121,023
Capital Projects Funds	-	147,485	147,485
<i>Total Fund Balances</i>	<u>453,121</u>	<u>722,389</u>	<u>1,175,510</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,215,065</u>	<u>\$1,041,988</u>	<u>\$3,257,053</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, 2005*

Total Governmental Fund Balances	\$1,175,510
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
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	2,168,179
Furniture and Equipment	3,173,580
Infrastructure	671,436
Accumulated Depreciation	<u>(4,421,153)</u>
Total	2,098,027
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	64,339
Municipal Income Tax	308,792
Intergovernmental	205,845
Accounts Receivable	<u>34,371</u>
Total	613,347
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	(2,949)
General Obligation Bonds	(80,000)
Vacation Leave Payable	(5,961)
Compensated Absences	<u>(90,452)</u>
Total	<u>(179,362)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$3,707,522</u></u>

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, 2005

	General	Nonmajor Funds	Total Governmental Funds
Revenues:			
Property and Other Local Taxes	\$740,779	\$208,075	\$948,854
Municipal Income Tax	1,785,628	-	1,785,628
Intergovernmental	563,950	455,835	1,019,785
Charges for Services	440,906	10,313	451,219
Licenses and Permits	45,898	26,207	72,105
Fines and Forfeitures	116,047	4,054	120,101
Rent	78,520	-	78,520
Contributions and Donations	7,570	43,275	50,845
Investment Income	32,685	3,312	35,997
Other	13,215	-	13,215
<i>Total Revenues</i>	<u>3,825,198</u>	<u>751,071</u>	<u>4,576,269</u>
Expenditures:			
Current:			
Security of Persons and Property	1,672,678	13,095	1,685,773
Public Health	6,868	0	6,868
Leisure Time Activities	120,607	541	121,148
Public Works	383,864	12,051	395,915
Transportation	96,123	358,954	455,077
General Government	1,214,409	9,151	1,223,560
Capital Outlay	211,230	396,046	607,276
Debt Service:			
Principal Retirement	-	80,000	80,000
Interest and Fiscal Charges	-	11,800	11,800
<i>Total Expenditures</i>	<u>3,705,779</u>	<u>881,638</u>	<u>4,587,417</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>119,419</u>	<u>(130,567)</u>	<u>(11,148)</u>
Other Financing Sources (Uses):			
Transfers - In	90,000	7,000	97,000
Transfers - Out	(7,000)	(90,000)	(97,000)
<i>Total Other Financing Sources (Uses)</i>	<u>83,000</u>	<u>(83,000)</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	202,419	(213,567)	(11,148)
<i>Fund Balances at Beginning of Year</i>	<u>250,702</u>	<u>935,956</u>	<u>1,186,658</u>
<i>Fund Balances at End of Year</i>	<u>\$453,121</u>	<u>\$722,389</u>	<u>\$1,175,510</u>

Some items reported in the statement of activities do not require the use of current financial

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, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$11,148)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	884,466
Depreciation	<u>(343,105)</u>

Contributions and Donations	541,361
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Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each sale.

Loss on Disposal of Capital Assets	(18,868)
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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
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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	671
Municipal Income Tax	(12,559)
Intergovernmental	24,160
Charges for Services	<u>24,246</u>

36,518

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.

Increase in Accrued Interest	(983)
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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	438
Decrease in Compensated Absences	<u>1,340</u>

1,778

<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$628,658</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 Balance - Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and Other Local Taxes	\$514,751	\$738,266	\$738,080	(\$186)
Municipal Income Tax	1,863,494	1,910,000	1,795,650	(114,350)
Intergovernmental	471,981	483,760	536,358	52,598
Charges for Services	421,384	431,900	437,983	6,083
Licenses and Permits	31,709	32,500	45,898	13,398
Fines and Forfeitures	107,809	110,500	116,047	5,547
Rent	68,296	70,000	77,780	7,780
Contributions and Donations	-	-	7,570	7,570
Investment Income	25,367	26,000	32,685	6,685
Other	95,809	98,200	13,215	(84,985)
<i>Total Revenues</i>	3,600,600	3,901,126	3,801,266	(99,860)
Expenditures:				
Current:				
Security of Persons and Property	1,548,200	1,715,841	1,673,835	42,006
Public Health	7,000	7,000	6,868	132
Leisure Time Activities	133,500	134,142	117,387	16,755
Public Works	406,550	406,782	387,751	19,031
Transportation	96,000	96,000	96,000	-
General Government	1,317,845	1,310,478	1,216,111	94,367
Capital Outlay	-	227,820	213,536	14,284
<i>Total Expenditures</i>	3,509,095	3,898,063	3,711,488	186,575
<i>Excess of Revenues Over Expenditures</i>	91,505	3,063	89,778	86,715
Other Financing Sources (Uses):				
Transfers - In	-	172,000	90,000	(82,000)
Transfers - Out	(170,000)	(170,000)	(7,000)	163,000
<i>Total Other Financing Sources (Uses)</i>	(170,000)	2,000	83,000	81,000
<i>Net Change in Fund Balance</i>	(78,495)	5,063	172,778	167,715
<i>Fund Deficit Beginning of Year</i>	(25,269)	(25,269)	(25,269)	-
Prior Year Encumbrances Appropriated	33,658	33,658	33,658	-
<i>Fund Balance (Deficit) End of Year</i>	(\$70,106)	\$13,452	\$181,167	\$167,715

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2005

	<u>Swimming Pool</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$20,972</u>
Non-current Assets:	
Non-Depreciable Capital Assets	1,864
Depreciable Capital Assets, Net	<u>90,898</u>
<i>Total Assets</i>	<u>113,734</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	<u>66</u>
Net Assets:	
Invested in Capital Assets	92,762
Unrestricted	<u>20,906</u>
<i>Total Net Assets</i>	<u><u>\$113,668</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, 2005*

	Swimming Pool
Operating Revenues:	
Charges for Services	\$46,337
Operating Expenses:	
Personal Services	23,333
Contractual Services	14,547
Materials and Supplies	6,654
Depreciation	3,717
<i>Total Operating Expenses</i>	48,251
<i>Change in Net Assets</i>	(1,914)
<i>Net Assets Beginning of Year</i>	115,582
<i>Net Assets End of Year</i>	\$113,668

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2005

	Swimming Pool
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received From Customers	\$46,337
Cash Payments for Employee Services and Benefits	(23,267)
Cash Payments to Suppliers	(21,271)
<i>Net Increase in Cash and Cash Equivalents</i>	1,799
<i>Cash and Cash Equivalents Beginning of Year</i>	19,173
<i>Cash and Cash Equivalents End of Year</i>	\$20,972
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	(\$1,914)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	3,717
Changes in Assets and Liabilities:	
Decrease in Accounts Payable	(4)
<i>Net Cash Provided by Operating Activities</i>	\$1,799

See accompanying notes to the basic financial statements.

City of Cheviot, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2005

Assets:	
Equity in Pooled Cash and Cash Equivalents	\$46
Cash and Cash Equivalents in Segregated Accounts	2,965
	<hr/>
<i>Total Assets</i>	<u><u>\$3,011</u></u>
 Liabilities:	
Due to Other Governments	\$46
Undistributed Monies	2,965
	<hr/>
<i>Total Liabilities</i>	<u><u>\$3,011</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, 2005

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 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 15 of the Basic Financial Statements.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 activity and to its enterprise fund unless those pronouncements conflict with or contradict GASB pronouncements. The City does not apply FASB statements and interpretations issued after November 30, 1989 to its governmental activities, business-type activities or enterprise fund. The City's more significant accounting policies are described below.

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 activity 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 activity 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, 2005

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 is the City's major governmental fund:

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.

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, 2005

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 patrons 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 fees for 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 governmental fund financial statements.

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, 2005

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, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but were levied to finance 2006 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 2005, 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 2005 amounted to \$32,685 which includes \$22,043 assigned from other funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount 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, 2005

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 expensed/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 activity 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, 2005

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, 2005

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.

The government wide statement of net assets reports \$867,211 of restricted net assets, of which \$283,544 are restricted by enabling legislation.

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.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 appropriations 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 appropriations 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, including all supplemental appropriations.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

During 2005, the City has implemented GASB Statement No. 40, "*Deposit and Investment Risk Disclosure – an Amendment of GASB Statement No. 3.*", GASB Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", and GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34*".

GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to risk, including credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the City's financial statements for 2005.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the City's financial statements for 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied when determining whether net assets should be classified as restricted. The implementation of this new statement had no effect on the City's financial statements for 2005.

NOTE 4 - 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).
4. Unrecorded cash represents amounts received but not included on the budget basis operating statement. These amounts are included as revenue on the GAAP basis operating statement.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 4 - BUDGET TO GAAP RECONCILIATION (continued)

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$202,419
Revenue Accruals	(20,968)
Expenditure Accruals	26,727
Encumbrances	(32,435)
Unrecorded Cash	<u>(2,965)</u>
Budget Basis	<u><u>\$172,778</u></u>

NOTE 5 - 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;

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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;
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.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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.

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 by 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.

Deposits

The City has no deposit policy for custodial risk beyond the requirements of State statute. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

At year-end, \$782,185 of the City's bank balance of \$884,130 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions agent but not in the City's name. Although all State statutory requirements for the deposit of money had been followed, noncompliance 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 6 - 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 2005 for real and public utilities property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 6 - PROPERTY TAXES (continued)

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. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. 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.

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, 2005, 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 2005 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, 2005, was \$12.22 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Category	Assessed Value	Percentage
Real Property	\$127,385,330	94.76%
Tangible Personal Property	1,651,690	1.23
Public Utility Property	5,396,630	4.01
Totals	\$134,433,650	100.00%

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 7 – 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.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2005, consisted of property taxes, municipal income taxes, other local taxes, accounts and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are expected to be received within one year. A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	
Fire Department Grant	\$15,871
Liquor Licensing Fees	432
Homestead and Rollback	50,525
Local Government Revenue Assistance	10,990
Undivided Local Government	17,303
Inheritance Tax	53,616
Personal Property Exemption	7,246
Motor Vehicle Registration	28,464
Gasoline Cents Per Gallon	45,332
Permissive Motor Vehicle Tax	44,054
State Gasoline Excise Tax	<u>79,495</u>
Total	<u><u>\$353,328</u></u>

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>12/31/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2005</u>
<u>Governmental Activities:</u>				
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	42,375	-	2,168,179
Furniture and Equipment	3,037,532	205,655	(69,607)	3,173,580
Infrastructure	35,000	636,436	-	671,436
Total Depreciable Capital Assets	<u>5,560,855</u>	<u>884,466</u>	<u>(69,607)</u>	<u>6,375,714</u>
Less Accumulated Depreciation:				
Land Improvements	(325,000)	(5,031)	-	(330,031)
Buildings and Building Improvements	(1,116,043)	(40,641)	-	(1,156,684)
Furniture and Equipment	(2,687,744)	(85,235)	50,739	(2,722,240)
Infrastructure	-	(212,198)	-	(212,198)
Total Accumulated Depreciation	<u>(4,128,787)</u>	<u>(343,105)</u>	<u>50,739</u>	<u>(4,421,153)</u>
Depreciable Capital Assets, Net	<u>1,432,068</u>	<u>541,361</u>	<u>(18,868)</u>	<u>1,954,561</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,575,534</u>	<u>\$ 541,361</u>	<u>\$ (18,868)</u>	<u>\$ 2,098,027</u>

A summary of the changes in the business-type activity capital assets at December 31, 2005, follows:

Capital Assets, Not Being Depreciated:				
Land	\$ 1,864	\$ -	\$ -	\$ 1,864
Depreciable Capital Assets:				
Buildings and Building Improvements	167,300	-	-	167,300
Less Accumulated Depreciation:				
Buildings and Building Improvements	(72,685)	(3,717)	-	(76,402)
Depreciable Capital Asset, Net	<u>94,615</u>	<u>(3,717)</u>	<u>-</u>	<u>90,898</u>
Business-Type Activities Capital Assets, Net	<u>\$ 96,479</u>	<u>\$ (3,717)</u>	<u>\$ -</u>	<u>\$ 92,762</u>

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental programs as follows:

Security of Persons and Property	\$83,595
Leisure Time Activities	11,355
Public Works	10,875
Transportation	214,494
General Government	<u>22,786</u>
 Total Depreciation Expense	 <u><u>\$343,105</u></u>

NOTE 10 – 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. 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.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

For the year ended December 31, 2005, 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 employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer'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, 2005, 2004, and 2003 were \$89,326, \$109,434, and \$70,422 respectively; 69.91 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$237 made by the City and \$149 made 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 benefits while the employer is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters for the years ended December 31, 2005, 2004, and 2003 were \$155,786, \$150,585, and \$142,903 respectively. The full amount has been contributed for 2004 and 2003. 65.80 percent for police officers and 67.70 percent for firefighters has been contributed for 2005.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 11 – 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 benefit recipients and qualified survivor benefit 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 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 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, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 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 to 6 percent annually for the next seven years and 4 percent annually after seven years.

All investments are carried at market value. 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 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$37,414. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

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 2005 and 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 2005 that were used to fund postemployment health care benefits were \$47,894 for police and \$39,667 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

NOTE 12 - 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. 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.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 12 - OTHER EMPLOYEE BENEFITS (continued)

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 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For 2005, 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. 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

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 13 - RISK MANAGEMENT (continued)

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.

The City pays the State Workers' Compensation System a premium based on a rate of \$100 of salaries. This rate is calculated on accident history and administrative costs.

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2005 were as follows:

	Balance at December 31, 2004	Increases	Decreases	Balance at December 31, 2005	Due Within One Year
<u>General Obligation Bonds:</u>					
1986 Municipal Building Bonds 7.38% (Voted)	\$160,000	\$0	\$80,000	\$80,000	\$80,000
<u>Other Long-Term Obligations:</u>					
Compensated Absences Payable	91,792	42,157	43,497	90,452	0
Total - General Long-Term Obligations	<u>\$251,792</u>	<u>\$42,157</u>	<u>\$123,497</u>	<u>\$170,452</u>	<u>\$80,000</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.

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

As of December 31, 2005, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$14,035,533, and the unvoted legal debt margin was \$7,313,851.

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2005, were:

Year	<u>Municipal Building Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	<u>\$80,000</u>	<u>\$5,900</u>

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 15 - 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 five member board of trustees. Each of the trustees is the chief administrative officer of the entity that they represent. The City does not have any financial interest in or responsibility for the Center. The City's financial contribution during 2005 was \$3,700. 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.

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 2005. 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.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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. No financial contributions were made by the City during 2005. To obtain financial information, write to Curt Paddock, Director of the Hamilton County Municipal League at 5725 Dragon Way, Suite 219, Cincinnati, Ohio, 45227.

NOTE 16 - TRANSFERS

Transfers made during the year ended December 31, 2005 included \$7,000 from the General Fund to Nonmajor Funds to provide additional resources for waste collection operations and \$90,000 from the Parking Lot Commission Fund to the General Fund to cover miscellaneous expenditures.

NOTE 17 – COMPLIANCE

In violation of Ohio Revised Code 5705.39, the City had original appropriations in excess of original estimated receipts plus available balances in the General Fund of \$78,495.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 18 - CONTINGENT LIABILITIES

Federal and State Grants

For the period January 1, 2005, to December 31, 2005, 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 is not party to any legal proceedings.

NOTE 19 – SUBSEQUENT EVENT

On May 23, 2006, the City issued \$204,680 in bonds for the purchase of a new ambulance and a garbage truck. The bonds were issued for a five year period, and will mature on May 23, 2011.

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Certified Public Accountants

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**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, 2005, which collectively comprise the City of Cheviot, Ohio's basic financial statements and have issued our report thereon dated June 21, 2007. 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 2005-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, 2005**

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

Finding Number 2005-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 budgeted amounts by \$70,106.

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, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-CHEV-01	ORC 5705.39(D) – Appropriations Exceeded Estimated Resources	No	Repeated as Finding 2005-CHEV-01



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**