



**CITY OF CHEVIOT
HAMILTON COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2003 AND 2002



**Auditor of State
Betty Montgomery**

**CITY OF CHEVIOT
HAMILTON COUNTY**

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CITY OF CHEVIOT
HAMILTON COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council

We have audited the accompanying general-purpose financial statements of the City of Cheviot, Hamilton County, Ohio (the City), as of and for the years ended December 31, 2003 and December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Cheviot, Hamilton County, as of December 31, 2003 and December 31, 2002, and the results of its operations and the cash flows of its proprietary fund type for the years 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 August 5, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

August 5, 2004

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City of Cheviot
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$262,707	\$301,884	\$133,581	\$119,151
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Receivables:				
Property Taxes	609,086	0	79,884	136,407
Income Taxes	545,247	0	0	0
Other Local Taxes	68,620	0	0	0
Accounts	23,104	1,266	0	0
Due from Other Governments	96,347	169,599	6,601	8,231
Prepaid Items	3,797	0	0	0
Materials and Supplies Inventory	14,125	28,409	0	0
Fixed Assets (net where applicable, of accumulated depreciation)	0	0	0	0
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long-Term Obligations	0	0	0	0
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0	0
Total Assets and Other Debits	<u>\$1,623,033</u>	<u>\$501,158</u>	<u>\$220,066</u>	<u>\$263,789</u>
Liabilities, Fund Equity and Other Credits:				
Liabilities:				
Accounts Payable	\$42,518	\$9,977	\$0	\$0
Contracts Payable	30,874	0	0	0
Accrued Salaries Payable	103,442	14,518	0	0
Due to Other Governments	51,677	223	0	0
Deferred Revenue	1,027,388	117,644	86,485	144,638
Notes Payable	0	0	0	0
Compensated Absences Payable	0	0	0	0
Undistributed Monies	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	<u>1,255,899</u>	<u>142,362</u>	<u>86,485</u>	<u>144,638</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings, Unreserved	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	5,865	2,998	0	0
Reserved for Materials and Supplies Inventory	14,125	28,409	0	0
Unreserved, Undesignated	347,144	327,389	133,581	119,151
Total Fund Equity and Other Credits	<u>367,134</u>	<u>358,796</u>	<u>133,581</u>	<u>119,151</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$1,623,033</u>	<u>\$501,158</u>	<u>\$220,066</u>	<u>\$263,789</u>

See Accompanying Notes to the General Purpose Financial Statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$29,105	\$2,397	\$0	\$0	\$848,825
0	938	0	0	938
0	0	0	0	825,377
0	0	0	0	545,247
0	0	0	0	68,620
0	0	0	0	24,370
0	0	0	0	280,778
0	0	0	0	3,797
0	0	0	0	42,534
99,220	0	5,428,336	0	5,527,556
0	0	0	133,581	133,581
0	0	0	360,114	360,114
<u>\$128,325</u>	<u>\$3,335</u>	<u>\$5,428,336</u>	<u>\$493,695</u>	<u>\$8,661,737</u>
\$54	\$0	\$0	\$0	\$52,549
4,054	0	0	0	34,928
0	0	0	0	117,960
0	47	0	87,528	139,475
0	0	0	0	1,376,155
0	0	0	43,426	43,426
0	0	0	122,741	122,741
0	938	0	0	938
0	0	0	240,000	240,000
<u>4,108</u>	<u>985</u>	<u>0</u>	<u>493,695</u>	<u>2,128,172</u>
0	0	5,428,336	0	5,428,336
124,217	0	0	0	124,217
0	0	0	0	8,863
0	0	0	0	42,534
0	2,350	0	0	929,615
<u>124,217</u>	<u>2,350</u>	<u>5,428,336</u>	<u>0</u>	<u>6,533,565</u>
<u>\$128,325</u>	<u>\$3,335</u>	<u>\$5,428,336</u>	<u>\$493,695</u>	<u>\$8,661,737</u>

City of Cheviot
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 2003

	Governmental Fund Types				Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Property Taxes	\$660,688	\$0	\$95,042	\$130,960	\$0	\$886,690
Income Taxes	1,666,531	0	0	0	0	1,666,531
Other Local Taxes	68,620	0	0	0	0	68,620
Intergovernmental	461,299	338,672	12,285	65,517	0	877,773
Charges for Services	111,872	2,123	0	0	0	113,995
Fines, Licenses and Permits	142,570	42,406	0	0	0	184,976
Rent	72,268	0	0	0	0	72,268
Interest	12,214	1,208	0	0	0	13,422
Donations	0	2,225	0	0	0	2,225
Miscellaneous	19,797	6,312	0	0	91	26,200
Total Revenues	3,215,859	392,946	107,327	196,477	91	3,912,700
Expenditures:						
Current:						
Security of Persons and Property	1,641,411	24,862	0	0	0	1,666,273
Transportation	66,243	453,220	0	0	0	519,463
Public Health Services	6,629	0	0	0	0	6,629
Public Works	381,630	0	0	0	0	381,630
Human Services	99,250	0	0	0	0	99,250
General Government	1,145,924	4,797	1,373	0	0	1,152,094
Capital Outlay	21,114	7,167	0	461,249	0	489,530
Debt Service:						
Principal Retirement	0	0	123,427	0	0	123,427
Interest and Fiscal Charges	0	0	26,026	0	0	26,026
Total Expenditures	3,362,201	490,046	150,826	461,249	0	4,464,322
Excess of Revenues Over (Under) Expenditures	(146,342)	(97,100)	(43,499)	(264,772)	91	(551,622)
Other Financing Sources (Uses):						
Operating Transfers - In	156,838	7,799	45,303	43,396	0	253,336
Operating Transfers - Out	(236,940)	0	0	(43,396)	0	(280,336)
Total Other Financing Sources (Uses)	(80,102)	7,799	45,303	0	0	(27,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(226,444)	(89,301)	1,804	(264,772)	91	(578,622)
Fund Balances at Beginning of Year	594,275	449,811	131,777	383,923	2,259	1,562,045
Decrease in Reserve for Inventory	(697)	(1,714)	0	0	0	(2,411)
Fund Balances at End of Year	\$367,134	\$358,796	\$133,581	\$119,151	\$2,350	\$981,012

See Accompanying Notes to the General Purpose Financial Statements

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City of Cheviot
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$673,976	\$660,688	(\$13,288)	\$0	\$0	\$0
Income Taxes	1,859,864	1,846,398	(13,466)	0	0	0
Other Local Taxes	69,951	69,119	(832)	0	0	0
Intergovernmental	334,037	571,469	237,432	319,000	337,751	18,751
Charges for Services	131,724	90,957	(40,767)	2,000	2,123	123
Fines, Licenses and Permits	144,638	142,570	(2,068)	40,700	42,406	1,706
Rent	69,882	72,800	2,918	0	0	0
Interest	25,956	12,214	(13,742)	0	1,208	1,208
Donations	0	0	0	4,000	2,225	(1,775)
Miscellaneous	97,938	20,296	(77,642)	6,500	5,217	(1,283)
Total Revenues	3,407,966	3,486,511	78,545	372,200	390,930	18,730
Expenditures:						
Current:						
Security of Persons and Property	1,659,474	1,655,379	4,095	38,557	24,969	13,588
Transportation	59,894	66,401	(6,507)	563,180	456,639	106,541
Public Health Services	6,618	6,629	(11)	0	0	0
Public Works	380,663	381,381	(718)	0	0	0
Human Services	118,377	102,336	16,041	2,199	0	2,199
General Government	1,196,783	1,149,727	47,056	6,000	4,955	1,045
Capital Outlay	31,188	26,883	4,305	9,650	9,466	184
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	3,452,997	3,388,736	64,261	619,586	496,029	123,557
Excess of Revenues Over (Under) Expenditures	(45,031)	97,775	142,806	(247,386)	(105,099)	142,287
Other Financing Sources (Uses):						
Operating Transfers - In	161,000	156,838	(4,162)	7,799	7,799	0
Operating Transfers - Out	(236,940)	(236,940)	0	0	0	0
Total Other Financing Sources (Uses)	(75,940)	(80,102)	(4,162)	7,799	7,799	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(120,971)	17,673	138,644	(239,587)	(97,300)	142,287
Fund Balances at Beginning of Year	145,339	145,339	0	354,640	354,640	0
Prior Year Encumbrances Appropriated	41,323	41,323	0	34,059	34,059	0
Fund Balances at End of Year	\$65,691	\$204,335	\$138,644	\$149,112	\$291,399	\$142,287

See Accompanying Notes to the General Purpose Financial Statements

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$99,700	\$95,042	(\$4,658)	\$135,000	\$130,960	(\$4,040)	\$0	\$0	\$0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
12,000	12,285	285	18,000	65,517	47,517	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
200	0	(200)	0	0	0	0	0	0
0	0	0	0	0	0	100	91	(9)
<u>111,900</u>	<u>107,327</u>	<u>(4,573)</u>	<u>153,000</u>	<u>196,477</u>	<u>43,477</u>	<u>100</u>	<u>91</u>	<u>(9)</u>
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
1,500	1,373	127	0	0	0	0	0	0
0	0	0	494,487	461,249	33,238	0	0	0
123,427	123,427	0	0	0	0	0	0	0
26,026	26,026	0	0	0	0	0	0	0
<u>150,953</u>	<u>150,826</u>	<u>127</u>	<u>494,487</u>	<u>461,249</u>	<u>33,238</u>	<u>2,359</u>	<u>0</u>	<u>2,359</u>
<u>(39,053)</u>	<u>(43,499)</u>	<u>(4,446)</u>	<u>(341,487)</u>	<u>(264,772)</u>	<u>76,715</u>	<u>(2,259)</u>	<u>91</u>	<u>2,350</u>
45,303	45,303	0	0	43,396	43,396	0	0	0
0	0	0	(43,396)	(43,396)	0	0	0	0
<u>45,303</u>	<u>45,303</u>	<u>0</u>	<u>(43,396)</u>	<u>0</u>	<u>43,396</u>	<u>0</u>	<u>0</u>	<u>0</u>
6,250	1,804	(4,446)	(384,883)	(264,772)	120,111	(2,259)	91	2,350
131,777	131,777	0	383,923	383,923	0	2,259	2,259	0
0	0	0	0	0	0	0	0	0
<u>\$138,027</u>	<u>\$133,581</u>	<u>(\$4,446)</u>	<u>(\$960)</u>	<u>\$119,151</u>	<u>\$120,111</u>	<u>\$0</u>	<u>\$2,350</u>	<u>\$2,350</u>

City of Cheviot
Combined Statement of Revenues, Expenses and
Changes in Retained Earnings
All Enterprise Funds
For the Year Ended December 31, 2003

Operating Revenues:	
Charges for Services	<u>\$54,438</u>
Operating Expenses:	
Personal Services	23,206
Contractual Services	46,873
Materials and Supplies	7,977
Depreciation	<u>3,680</u>
Total Operating Expenses	<u>81,736</u>
Loss before Operating Transfers	(27,298)
Operating Transfers - In	<u>27,000</u>
Net Loss	(298)
Retained Earnings at Beginning of Year	<u>124,515</u>
Retained Earnings at End of Year	<u><u>\$124,217</u></u>

See Accompanying Notes to the General Purpose Financial Statements

City of Cheviot
Combined Statement of Revenues, Expenses and Changes in
Fund Equity - Budget and Actual (Budget Basis)
All Enterprise Funds
For the Year Ended December 31, 2003

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Charges for Services	\$43,000	\$54,438	\$11,438
Expenses:			
Personal Services	23,300	23,152	148
Contractual Services	53,846	44,837	9,009
Materials and Supplies	9,000	7,977	1,023
Total Expenses	86,146	75,966	10,180
Excess of Revenues Under Expenses	(43,146)	(21,528)	21,618
Operating Transfers - In	32,000	27,000	(5,000)
Excess of Revenues Over (Under) Expenses and Transfers	(11,146)	5,472	16,618
Fund Equity at Beginning of Year	23,633	23,633	0
Fund Equity at End of Year	\$12,487	\$29,105	\$16,618

See Accompanying Notes to the General Purpose Financial Statements

City of Cheviot
Combined Statement of Cash Flows
All Enterprise Funds
For the Year Ended December 31, 2003

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Customers	\$54,438
Cash Payments for Employee Services and Benefits	(23,152)
Cash Payments to Suppliers for Goods and Services	<u>(52,814)</u>

Net Cash Used for Operating Activities (21,528)

Cash Flows from Non-Capital Financing Activities:

Operating Transfers - In	<u>27,000</u>
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Net Increase in Cash and Cash Equivalents 5,472

Cash and Cash Equivalents at Beginning of Year 23,633

Cash and Cash Equivalents at End of Year \$29,105

Reconciliation of Operating Loss to
Net Cash Used for Operating Activities:

Operating Loss (\$27,298)

Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:

Depreciation	3,680
Changes in Assets and Liabilities:	
Increase in Contracts Payable	<u>2,090</u>

Net Cash Used for Operating Activities (\$21,528)

See Accompanying Notes to the General Purpose Financial Statements

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

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 being converted to a city on January 1, 1932. The municipal government is known as a Council/Manager form of government. Legislative power is vested in an eight-member council: four members elected by wards, three elected at large, and a Mayor elected at large. 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 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. The City of Cheviot is divided into departments, financial management and control systems. Services provided include police and fire protection, 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 does not have any component units included in its reporting entity.

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

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 17 of the General Purpose Financial Statements.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to City functions and activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types

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

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than amounts relating to the expendable trust or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

Proprietary Fund Type

The proprietary funds are used to account for the City's ongoing activities that are similar to those often found in the private sector. The following is the City's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be recovered or financed primarily through user charges or where it has been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types

Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City's fiduciary funds include an expendable trust fund and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The City's agency funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of the general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - The general fixed assets account group is used to account for all fixed assets of the City, other than those fixed assets accounted for in the enterprise funds.

General Long-Term Obligations Account Group - This account group is used to account for all long-term obligations of the City except those accounted for in the enterprise funds.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

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 the enterprise funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The accrual basis of accounting is followed for the proprietary funds.

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 a 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.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, shared revenues and donations. On an accrual basis, revenue from income tax is recognized in the year in which the exchange on which the tax is imposed takes place, and revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). 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 a 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: income taxes, state-levied locally shared taxes (including gasoline tax), charges for services, rentals, and fines, licenses and permits.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

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

Budgetary Process

The City follows these procedures in establishing the budgetary data reported in the combined financial statements.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax Budget

A tax budget of estimated revenues and expenditures for all budgeted funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds, except agency funds, are legally required to be budgeted.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the beginning of the year fund balance and the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation ordinance.

On or about January 1, the certificate of estimated resources is amended to include actual unencumbered balances from the preceding year. Further amendments may be made during the year if the City Auditor determines that revenue collected will be greater than or less than the prior estimates, and the budget commission finds the revised estimates to be reasonable. The amounts set forth in the budgetary statements represent the amounts from the amended certificate in force at the time final appropriations were passed by Council.

Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds, except agency funds, must be legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted by Council action. Amounts shown in the budgetary statements represent the appropriated budgeted amounts and all supplemental appropriations passed during the year. Five supplemental appropriation measures were legally enacted during 2003 by Council.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made to personal services, contractual services, supplies and materials, capital outlay, debt service, operating transfers, and other operation charges within each function. The appropriations set by Council remain fixed unless amended by Council ordinance. More detailed appropriation allocations may be made by the City Auditor as long as the allocations are within Council's appropriated amount.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditure for governmental funds and the expendable trust fund, and reported in the notes to the financial statements for enterprise funds.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

Cash and Cash Equivalents

To improve cash management, all cash received by the City is pooled. Monies for all funds, including enterprise funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. The City's Mayor's Court has its own checking accounts for collection and distribution of court fines and forfeitures which are presented on the combined balance sheet as "Cash and Cash Equivalents in Segregated Accounts."

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During 2003, the City did not have any investments.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be 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 2003 amounted to \$12,214, which includes \$7,331 assigned from other City funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

Inventory

Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the enterprise funds when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. The enterprise funds did not have any significant inventory on hand at year-end.

Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fund fixed assets are assets used in providing services accounted for in enterprise funds. They are accounted for within the enterprise funds.

All purchased fixed assets are valued at cost when historical records are available and estimated historical cost where no historical records exist. For certain assets, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are valued at their estimated fair market value on the date received. The fixed assets threshold for the City is \$600.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Public domain (“infrastructure”) general fixed assets consisting of roads, bridges, curbs, gutters, sidewalks, and drainage systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated. Depreciation of enterprise fixed assets is computed using the straight-line method over 40 years for buildings and building improvements, the enterprise funds’ only fixed assets type.

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity between funds are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Compensated Absences

On January 1, 2003, City employees receive vacation leave based upon their years of service. City employees must use all their vacation leave by December 31, 2003, or they are paid their remaining vacation balance. Therefore, vacation leave cannot be accrued.

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “Compensated Absences Payable” in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. The City did not have any current unpaid compensated absences as of December 31, 2003.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Liabilities and Long-Term Debt

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current available financial resources. General obligation bonds and long-term notes are recognized as a liability of the general long-term obligations account group until due.

Reservations of Fund Balance

The City reserves fund balances for amounts that are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance has been reserved for encumbrances and materials and supplies inventory.

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.

Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 3 – COMPLIANCE

The certification of availability of unencumbered appropriations for expenditures was not made prior to all purchase commitments being incurred, contrary to Ohio Rev. Code Section 5705.41(D).

NOTE 4 – PRIOR PERIOD ADJUSTMENT

As of December 31, 2002, total liabilities in the general long-term obligations account group increased by \$83,772, from \$544,002 to \$627,774, due to the correction of an error for compensated absences payable. The compensated absences liability increased by \$83,772 from \$27,317 to \$111,089.

NOTE 5 - BUDGET TO GAAP RECONCILIATION

While reporting financial position, results of operations, and changes in fund balances/retained earnings 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, appropriations, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - All Enterprise Funds are 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 5 - BUDGET TO GAAP RECONCILIATION (continued)

3. Outstanding year-end encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental funds and the expendable trust fund or note disclosure for enterprise funds (GAAP Basis).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis are as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types and Expendable Trust Fund					
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	(\$226,444)	(\$89,301)	\$1,804	(\$264,772)	\$91
Adjustments:					
Revenue Accruals	270,652	(2,016)	0	0	0
Expenditure Accruals	15,592	4,502	0	0	0
Prepaid Items	16,245	0	0	0	0
Encumbrances	<u>(58,372)</u>	<u>(10,485)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Budget Basis	<u>\$17,673</u>	<u>(\$97,300)</u>	<u>\$1,804</u>	<u>(\$264,772)</u>	<u>\$91</u>

Net Loss/Excess of Revenues
Over Expenses and Transfers
All Enterprise Funds

	<u>Enterprise</u>
GAAP Basis	(\$298)
Adjustments:	
Expense Accruals	2,090
Depreciation	<u>3,680</u>
Budget Basis	<u>\$5,472</u>

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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 (STAR Ohio).

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; or
3. Obligations of the City.

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

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

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

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Deposits

At year-end, the carrying amount of the City's deposits was \$849,763, and the bank balance was \$855,761. Of the bank balance, \$102,942 was covered by federal depository insurance, and \$752,819 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

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

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property (other than public utility) located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

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. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 7 - PROPERTY TAXES (continued)

The full tax rate for all City operations for the year ended December 31, 2003, was \$12.24 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>	<u>Percentage</u>
Real Estate	\$112,648,970	93.87%
Public Utility Property	5,387,020	4.49%
Tangible Personal	1,963,200	1.64%
Total Property Taxes	<u>\$119,999,190</u>	<u>100.00%</u>

Real property taxes are payable annually or semi-annually. If paid annually, 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 alternate 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 in 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, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is offset by deferred revenue.

NOTE 8 - 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.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 8 - INCOME TAX (continued)

In 2003, the proceeds were allocated to the general fund. Income tax revenue for 2003 was \$1,666,531.

NOTE 9 - RECEIVABLES

Receivables at December 31, 2003, consisted of property taxes, income taxes, accounts and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible.

A summary of intergovernmental receivables follows:

General Fund	
Fire Department Grant	\$2,890
Police Department Grant	900
Liquor Licensing Fees	1,010
Homestead and Rollback	36,449
Local Government Revenue Assistance	11,796
Undivided Local Government	18,593
Inheritance Tax	13,945
Personal Property Exemption	10,764
Total General Fund	<u>96,347</u>
Special Revenue Fund	
Street Construction, Maintenance, and Repair Fund	
Motor Vehicle Registration	26,693
Gasoline Cents Per Gallon	53,456
Permissive Motor Vehicle Tax	42,280
State Gasoline Excise Tax	47,170
Total Street Construction, Maintenance, and Repair Fund	<u>169,599</u>
Debt Service Fund	
Capital Housing Fund	
Homestead and Rollback	<u>6,601</u>
Capital Projects Fund	
3 Mil Street Construction Repair Fund	
Homestead and Rollback	<u>8,231</u>
Total All Funds	<u><u>\$280,778</u></u>

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 10 - FIXED ASSETS

A summary of the enterprise fund fixed assets at December 31, 2003, follows:

Buildings and Building Improvements	\$167,300
Less: Accumulated Depreciation	<u>(68,080)</u>
Net Fixed Assets	<u><u>\$99,220</u></u>

Changes in general fixed assets during 2003 were as follows:

<u>Asset Category</u>	<u>Balance at December 31, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at December 31, 2003</u>
Land and Land Improvements	\$354,400	\$0	\$0	\$354,400
Buildings and Building	2,113,000	0	0	2,113,000
Furniture and Equipment	2,954,915	38,981	32,960	2,960,936
Totals	<u><u>\$5,422,315</u></u>	<u><u>\$38,981</u></u>	<u><u>\$32,960</u></u>	<u><u>\$5,428,336</u></u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% 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 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 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, 2003, 2002, and 2001 were \$70,422, \$81,766, and \$86,974 respectively; 89.42 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$142 made by the City and \$89 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 obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$142,903, \$147,960, and \$138,603 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 66.94 percent has been contributed for 2003 with the remainder being reported as a liability.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 12 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.31 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$41,182. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

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 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$43,728 for police and \$36,535 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 13 - OTHER EMPLOYEE BENEFITS

Compensated Absences

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

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 13 - 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 HealthCare 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 \$5,829.84 per employee. After surpassing the cap, the City pays 65 percent and the union employees pay 35 percent.

Deferred Compensation

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

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For year 2003, 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 General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 14 - 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.

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2003 were as follows:

	Balance at December 31, 2002 (Restated)	Increases	Decreases	Balance at December 31, 2003
<u>General Obligation Bonds:</u>				
1986 Municipal Building Bonds 7.38% (Voted)	\$320,000	\$0	\$80,000	\$240,000
<u>Other Long-Term Obligations:</u>				
2002 Equipment Acquisition Notes, 2.16%	86,853	0	43,427	43,426
Compensated Absences Payable	111,089	11,652	0	122,741
Due to Other Governments	109,832	87,528	109,832	87,528
TOTAL - Other Long-Term Obligations	<u>307,774</u>	<u>99,180</u>	<u>153,259</u>	<u>253,695</u>
TOTAL - General Long-Term Obligations	<u>\$627,774</u>	<u>\$99,180</u>	<u>\$233,259</u>	<u>\$493,695</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 debt service fund.

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

Compensated absences and due to other governments (which represents contractually required pension contributions paid outside the available period), will be paid from the funds from which the employees' salaries are paid.

As of December 31, 2003, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$12,450,070, and the unvoted legal debt margin was \$6,450,110.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 15 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2003, were:

Year	Municipal Building Bonds	Equipment Acquisition Notes
2004	\$97,700	\$44,364
2005	91,800	0
2006	85,900	0
Total	<u>\$275,400</u>	<u>\$44,364</u>

NOTE 16 - SEGMENT INFORMATION

The City's enterprise funds account for the provision of the swimming pool and waste collection services. Key financial information as of and for the year ended December 31, 2003, for each enterprise fund is as follows:

	<u>Swimming Pool</u>	<u>Waste Collection</u>	<u>Total</u>
Operating Revenues	\$43,606	\$10,832	\$54,438
Depreciation Expense	3,680	0	3,680
Operating Loss	(5,013)	(22,285)	(27,298)
Operating Transfers	0	27,000	27,000
Net Income (Loss)	(5,013)	4,715	(298)
Net Working Capital	18,400	6,597	24,997
Total Assets	117,674	10,651	128,325
Total Equity	117,620	6,597	124,217

NOTE 17 - 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 City does not have any financial interest in or responsibility for the Center. The City's financial contribution during 2003 was immaterial. Information can be obtained from the Center by writing to Lee Meyer, Director of the Center for Local Government, 4144 Crossgate Drive, Cincinnati, Ohio, 45236.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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. The amount the City paid during 2003 was immaterial. To obtain financial information, write to Barry Blank, Director of Finance and Administration of the Ohio-Kentucky-Indiana Regional Council of Governments at 801-B W. Eighth St. - Suite 400, Cincinnati, Ohio, 45203.

The Hamilton County Municipal League

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

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2003

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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

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

Payments to the HCML are made from the general fund. The amount the City paid during 2003 was immaterial. 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 18 - CONTINGENT LIABILITIES

Litigation

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

Federal and State Grants

For the period January 1, 2003, to December 31, 2003, 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.

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City of Cheviot
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$186,662	\$388,699	\$131,777	\$383,923
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Receivables:				
Property Taxes	595,452	0	95,785	136,267
Income Taxes	643,662	0	0	0
Accounts	72,635	171	0	0
Due from Other Governments	247,248	175,432	6,993	8,324
Prepaid Items	20,042	0	0	0
Materials and Supplies Inventory	14,822	30,123	0	0
Fixed Assets (net where applicable, of accumulated depreciation)	0	0	0	0
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long-Term Obligations	0	0	0	0
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0	0
Total Assets and Other Debits	<u>\$1,780,523</u>	<u>\$594,425</u>	<u>\$234,555</u>	<u>\$528,514</u>
Liabilities, Fund Equity and Other Credits:				
Liabilities:				
Accounts Payable	\$37,100	\$6,582	\$0	\$0
Contracts Payable	14,299	0	0	0
Accrued Salaries Payable	95,599	13,356	0	0
Due to Other Governments	65,921	278	0	0
Deferred Revenue	973,329	124,398	102,778	144,591
Notes Payable	0	0	0	0
Compensated Absences Payable	0	0	0	0
Undistributed Monies	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	<u>1,186,248</u>	<u>144,614</u>	<u>102,778</u>	<u>144,591</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings, Unreserved	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	31,943	30,721	0	0
Reserved for Materials and Supplies Inventory	14,822	30,123	0	0
Unreserved, Undesignated	547,510	388,967	131,777	383,923
Total Fund Equity and Other Credits	<u>594,275</u>	<u>449,811</u>	<u>131,777</u>	<u>383,923</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$1,780,523</u>	<u>\$594,425</u>	<u>\$234,555</u>	<u>\$528,514</u>

See Accompanying Notes to the General Purpose Financial Statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$23,633	\$2,346	\$0	\$0	\$1,117,040
0	1,330	0	0	1,330
0	0	0	0	827,504
0	0	0	0	643,662
0	0	0	0	72,806
0	0	0	0	437,997
0	0	0	0	20,042
0	0	0	0	44,945
102,900	0	5,422,315	0	5,525,215
0	0	0	131,777	131,777
0	0	0	412,225	412,225
<u>\$126,533</u>	<u>\$3,676</u>	<u>\$5,422,315</u>	<u>\$544,002</u>	<u>\$9,234,543</u>
\$54	\$0	\$0	\$0	\$43,736
1,964	0	0	0	16,263
0	0	0	0	108,955
0	0	0	109,832	176,031
0	0	0	0	1,345,096
0	0	0	86,853	86,853
0	0	0	27,317	27,317
0	1,417	0	0	1,417
0	0	0	320,000	320,000
2,018	1,417	0	544,002	2,125,668
0	0	5,422,315	0	5,422,315
124,515	0	0	0	124,515
0	0	0	0	62,664
0	0	0	0	44,945
0	2,259	0	0	1,454,436
124,515	2,259	5,422,315	0	7,108,875
<u>\$126,533</u>	<u>\$3,676</u>	<u>\$5,422,315</u>	<u>\$544,002</u>	<u>\$9,234,543</u>

City of Cheviot
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 2002

	Governmental Fund Types			Fiduciary	Total (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		Expendable Trust
Revenues:						
Property Taxes	\$666,155	\$0	\$102,355	\$132,867	\$0	\$901,377
Income Taxes	1,763,080	0	0	0	0	1,763,080
Intergovernmental	404,192	334,620	13,364	649,567	0	1,401,743
Charges for Services	16,692	7,025	0	0	0	23,717
Fines, Licenses and Permits	203,579	31,922	0	0	0	235,501
Rent	69,290	0	0	0	0	69,290
Interest	26,373	3,029	0	0	0	29,402
Donations	0	3,129	0	0	0	3,129
Miscellaneous	13,711	18,150	0	28,142	347	60,350
Total Revenues	3,163,072	397,875	115,719	810,576	347	4,487,589
Expenditures:						
Current:						
Security of Persons and Property	1,612,298	9,890	568	0	0	1,622,756
Transportation	121,529	362,877	0	0	0	484,406
Public Health Services	6,465	0	0	0	0	6,465
Public Works	373,910	848	0	0	0	374,758
Human Services	111,332	358	0	0	0	111,690
General Government	1,106,633	2,517	1,939	0	0	1,111,089
Capital Outlay	47,101	3,007	0	1,322,481	0	1,372,589
Debt Service:						
Principal Retirement	0	0	160,379	0	0	160,379
Interest and Fiscal Charges	0	0	34,193	0	0	34,193
Total Expenditures	3,379,268	379,497	197,079	1,322,481	0	5,278,325
Excess of Revenues Over (Under) Expenditures	(216,196)	18,378	(81,360)	(511,905)	347	(790,736)
Other Financing Sources (Uses):						
Proceeds from Sale of Notes	0	0	0	86,853	0	86,853
Operating Transfers - In	0	0	77,997	0	0	77,997
Operating Transfers - Out	(104,497)	0	0	0	0	(104,497)
Total Other Financing Sources (Uses)	(104,497)	0	77,997	86,853	0	60,353
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(320,693)	18,378	(3,363)	(425,052)	347	(730,383)
Fund Balances at Beginning of Year	913,772	446,251	135,140	808,975	1,912	2,306,050
Increase (Decrease) in Reserve for Inventory	1,196	(14,818)	0	0	0	(13,622)
Fund Balances at End of Year	\$594,275	\$449,811	\$131,777	\$383,923	\$2,259	\$1,562,045

See Accompanying Notes to the General Purpose Financial Statements

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City of Cheviot
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$645,000	\$666,155	\$21,155	\$0	\$0	\$0
Income Taxes	1,800,000	1,738,541	(61,459)	0	0	0
Intergovernmental	402,639	339,213	(63,426)	312,485	335,507	23,022
Charges for Services	2,850	16,396	13,546	0	7,025	7,025
Fines, Licenses and Permits	178,000	202,607	24,607	35,699	31,922	(3,777)
Rent	72,000	69,243	(2,757)	0	0	0
Interest	58,550	26,373	(32,177)	0	3,029	3,029
Donations	0	0	0	3,150	3,129	(21)
Miscellaneous	33,481	13,047	(20,434)	4,650	17,979	13,329
Total Revenues	3,192,520	3,071,575	(120,945)	355,984	398,591	42,607
Expenditures:						
Current:						
Security of Persons and Property	1,704,436	1,663,178	41,258	53,624	17,904	35,720
Transportation	120,000	120,000	0	579,448	413,344	166,104
Public Health Services	6,470	6,465	5	0	0	0
Public Works	377,065	360,297	16,768	572	559	13
Human Services	133,458	118,543	14,915	1,634	358	1,276
General Government	1,150,529	1,085,541	64,988	6,690	2,517	4,173
Capital Outlay	63,290	47,101	16,189	10,887	5,657	5,230
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	3,555,248	3,401,125	154,123	652,855	440,339	212,516
Excess of Revenues Over (Under) Expenditures	<u>(362,728)</u>	<u>(329,550)</u>	<u>33,178</u>	<u>(296,871)</u>	<u>(41,748)</u>	<u>255,123</u>
Other Financing Sources (Uses):						
Proceeds from Sale of Notes	0	0	0	0	0	0
Operating Transfers - In	18,330	0	(18,330)	0	0	0
Operating Transfers - Out	(146,230)	(104,497)	41,733	0	0	0
Total Other Financing Sources (Uses)	(127,900)	(104,497)	23,403	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(490,628)</u>	<u>(434,047)</u>	<u>56,581</u>	<u>(296,871)</u>	<u>(41,748)</u>	<u>255,123</u>
Fund Balances at Beginning of Year	487,430	487,430	0	378,567	378,567	0
Prior Year Encumbrances Appropriated	91,956	91,956	0	17,821	17,821	0
Fund Balances at End of Year	<u>\$88,758</u>	<u>\$145,339</u>	<u>\$56,581</u>	<u>\$99,517</u>	<u>\$354,640</u>	<u>\$255,123</u>

See Accompanying Notes to the General Purpose Financial Statements

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$109,000	\$102,355	(\$6,645)	\$136,284	\$132,867	(\$3,417)	\$0	\$0	\$0
0	0	0	0	0	0	0	0	0
14,000	13,364	(636)	293,072	649,567	356,495	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
200	0	(200)	0	0	0	0	0	0
86,853	0	(86,853)	272	28,142	27,870	100	347	247
<u>210,053</u>	<u>115,719</u>	<u>(94,334)</u>	<u>429,628</u>	<u>810,576</u>	<u>380,948</u>	<u>100</u>	<u>347</u>	<u>247</u>
568	568	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
2,100	1,939	161	0	0	0	100	0	100
0	86,853	(86,853)	1,109,758	1,342,388	(232,630)	0	0	0
160,379	160,379	0	0	0	0	0	0	0
34,300	34,193	107	0	0	0	0	0	0
<u>197,347</u>	<u>283,932</u>	<u>(86,585)</u>	<u>1,109,758</u>	<u>1,342,388</u>	<u>(232,630)</u>	<u>100</u>	<u>0</u>	<u>100</u>
<u>12,706</u>	<u>(168,213)</u>	<u>(180,919)</u>	<u>(680,130)</u>	<u>(531,812)</u>	<u>148,318</u>	<u>0</u>	<u>347</u>	<u>347</u>
86,853	86,853	0	0	0	0	0	0	0
78,100	77,997	(103)	0	0	0	0	0	0
0	0	0	0	0	0	(1,912)	0	1,912
<u>164,953</u>	<u>164,850</u>	<u>(103)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,912)</u>	<u>0</u>	<u>1,912</u>
177,659	(3,363)	(181,022)	(680,130)	(531,812)	148,318	(1,912)	347	2,259
135,140	135,140	0	915,735	915,735	0	1,912	1,912	0
0	0	0	0	0	0	0	0	0
<u>\$312,799</u>	<u>\$131,777</u>	<u>(\$181,022)</u>	<u>\$235,605</u>	<u>\$383,923</u>	<u>\$148,318</u>	<u>\$0</u>	<u>\$2,259</u>	<u>\$2,259</u>

City of Cheviot
Combined Statement of Revenues, Expenses and
Changes in Retained Earnings
All Enterprise Funds
For the Year Ended December 31, 2002

Operating Revenues:	
Charges for Services	<u>\$58,640</u>
Operating Expenses:	
Personal Services	26,373
Contractual Services	43,286
Materials and Supplies	9,228
Depreciation	<u>3,680</u>
Total Operating Expenses	<u>82,567</u>
Loss before Operating Transfers	(23,927)
Operating Transfers - In	<u>26,500</u>
Net Income	2,573
Retained Earnings at Beginning of Year	<u>121,942</u>
Retained Earnings at End of Year	<u><u>\$124,515</u></u>

See Accompanying Notes to the General Purpose Financial Statements

City of Cheviot
Combined Statement of Revenues, Expenses and Changes in
Fund Equity - Budget and Actual (Budget Basis)
All Enterprise Funds
For the Year Ended December 31, 2002

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Charges for Services	\$40,000	\$58,640	\$18,640
Expenses:			
Personal Services	28,300	26,373	1,927
Contractual Services	50,052	45,879	4,173
Materials and Supplies	9,900	9,228	672
Total Expenses	88,252	81,480	6,772
Excess of Revenues Under Expenses	(48,252)	(22,840)	25,412
Operating Transfers - In	36,000	26,500	(9,500)
Excess of Revenues Over (Under) Expenses and Transfers	(12,252)	3,660	15,912
Fund Equity at Beginning of Year	18,421	18,421	0
Prior Year Encumbrances Appropriated	1,552	1,552	0
Fund Equity at End of Year	<u>\$7,721</u>	<u>\$23,633</u>	<u>\$15,912</u>

See Accompanying Notes to the General Purpose Financial Statements

City of Cheviot
Combined Statement of Cash Flows
All Enterprise Funds
For the Year Ended December 31, 2002

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Customers	\$58,640
Cash Payments for Employee Services and Benefits	(26,373)
Cash Payments to Suppliers for Goods and Services	<u>(53,407)</u>

Net Cash Used for Operating Activities (21,140)

Cash Flows from Non-Capital Financing Activities:

Operating Transfers - In	<u>26,500</u>
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Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	<u>(1,700)</u>
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Net Increase in Cash and Cash Equivalents 3,660

Cash and Cash Equivalents at Beginning of Year 19,973

Cash and Cash Equivalents at End of Year \$23,633

**Reconciliation of Operating Loss to
Net Cash Used for Operating Activities:**

Operating Loss (\$23,927)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	3,680
Changes in Assets and Liabilities:	
Decrease in Accounts Payable	(42)
Decrease in Contracts Payable	<u>(851)</u>

Net Cash Used for Operating Activities (\$21,140)

See Accompanying Notes to the General Purpose Financial Statements

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

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 being converted to a City on January 1, 1932. The municipal government is known as a Council/Manager form of government. Legislative power is vested in a eight-member council: four members elected by wards, three elected at large, and a Mayor elected at large. 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 appoints all department heads and employees, except 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 represents the primary City operations which are directly responsible to the Mayor and Council. The City of Cheviot is divided into departments, financial management and control systems. Services provided include police and fire protection, 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 does not have any component units included in its reporting entity.

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

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

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to City functions and activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types

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

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than amounts relating to the expendable trust or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

Proprietary Fund Type

The proprietary funds are used to account for the City's ongoing activities that are similar to those often found in the private sector. The following is the City's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be recovered or financed primarily through user charges or where it has been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types

Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City's fiduciary funds include an expendable trust fund and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The City's agency funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of the general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - The general fixed assets account group is used to account for all fixed assets of the City, other than those fixed assets accounted for in the enterprise funds.

General Long-Term Obligations Account Group - This account group is used to account for all long-term obligations of the City except those accounted for in the enterprise funds.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

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 the enterprise funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The accrual basis of accounting is followed for the proprietary funds.

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 a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. 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.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the year the income is earned; property taxes are recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements 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 a 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: income taxes, state-levied locally shared taxes (including gasoline tax), charges for services, rentals, and fines, licenses and permits.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

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

Budgetary Process

The City follows these procedures in establishing the budgetary data reported in the combined financial statements.

Tax Budget

A tax budget of estimated revenues and expenditures for all budgeted funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds, except agency funds, are legally required to be budgeted.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected revenue of each fund.

On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the City Auditor determines that revenue collected will be greater than or less than the prior estimates, and the budget commission finds the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds, except agency funds, must be legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted by Council action. Amounts shown in the financial statements represent the appropriated budgeted amounts and all supplemental appropriations passed during the year. Five supplemental appropriation measures were legally enacted during 2002 by Council.

Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made to personal services, contractual services, supplies and materials, capital outlay, debt service, operating transfers, and other operation charges within each function. The appropriations set by Council remain fixed unless amended by Council ordinance. More detailed appropriation allocations may be made by the Finance Director as long as the allocations are within Council's appropriated amount.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditure for governmental funds and the expendable trust fund and reported in the notes to the financial statements for enterprise funds.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

Cash and Cash Equivalents

To improve cash management, all cash received by the City is pooled. Monies for all funds, including enterprise funds, are maintained in this pool. Individual fund integrity is maintained through the City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. The City also has segregated bank accounts for monies held separate from the City's central bank account. These accounts are presented on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts."

During 2002, the City did not have any investments.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during 2002 amounted to \$26,373, which includes \$18,493 assigned from other City funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

Inventory

Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the enterprise funds when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. The enterprise funds did not have any significant inventory on hand at year-end.

Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fund fixed assets are assets used in providing services accounted for in enterprise funds. They are accounted for within the enterprise funds.

All purchased fixed assets are valued at cost when historical records are available and estimated historical where no historical records exist. For certain assets, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are valued at their estimated fair market value on the date received. The fixed assets threshold for the City is \$600.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Public domain (“infrastructure”) general fixed assets consisting of roads, bridges, curbs, gutters, sidewalks, and drainage systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated. Depreciation of enterprise fixed assets is computed using the straight-line method over 40 years for buildings and building improvements, the enterprise funds’ only fixed assets type.

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Compensated Absences

On January 1, 2002, City employees receive vacation leave based upon their years of service. City employees must use all their vacation leave by December 31, 2002, or they are paid their remaining vacation balance. Therefore, vacation leave cannot be accrued.

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “Compensated Absences Payable” in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. The City did not have any current unpaid compensated absences as of December 31, 2002.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Liabilities and Long-Term Debt

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current available financial resources. General obligation bonds are recognized as a liability of the general long-term obligations account group until due.

Reservations of Fund Balance

The City reserves fund balances for amounts that are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance has been reserved for encumbrances and materials and supplies inventory.

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.

Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 3 - CHANGE IN ACCOUNTING ESTIMATES

As of December 31, 2001, total liabilities in the general long-term obligations account group decreased by \$12,261, from \$625,087 to \$612,826, due to a change in accounting estimate for compensated absences payable and an adjustment to the outstanding bonds payable. The compensated absences liability decreased by \$15,895 from \$45,968 to \$30,073 and the bonds liability increased by \$3,634 from \$476,745 to \$480,379.

NOTE 4 - BUDGET TO GAAP RECONCILIATION

While reporting financial position, results of operations, and changes in fund balances/retained earnings 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, appropriations, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - All Enterprise Funds are 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental funds and the expendable trust fund or note disclosure for enterprise funds (GAAP Basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as a balance sheet transaction (GAAP basis).

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 4 - BUDGET TO GAAP RECONCILIATION (continued)

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis are as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types and Expendable Trust Fund					
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	(\$320,693)	\$18,378	(\$3,363)	(\$425,052)	\$347
Adjustments:					
Revenue Accruals	(91,497)	716	0	0	0
Expenditure Accruals	17,504	(26,783)	0	(106,760)	0
Prepaid Items	1,962	0	0	0	0
Encumbrances	(41,323)	(34,059)	0	0	0
Budget Basis	<u>(\$434,047)</u>	<u>(\$41,748)</u>	<u>(\$3,363)</u>	<u>(\$531,812)</u>	<u>\$347</u>

Net Income/Excess of Revenues
Over Expenses and Transfers
All Enterprise Funds

	<u>Enterprise</u>
GAAP Basis	\$2,573
Adjustments:	
Expense Accruals	(893)
Fixed Asset Acquisitions	(1,700)
Depreciation	3,680
Budget Basis	<u>\$3,660</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.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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.

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

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

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

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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; or
3. Obligations of the City.

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

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

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

Deposits

At year-end, the carrying amount of the City's deposits was \$1,118,370, and the bank balance was \$1,172,287. Of the bank balance, \$200,000 was covered by federal depository insurance, and \$972,287 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Investments

The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. 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 (other than public utility) located in the City. Property tax revenue received during 2002 for real and public utility property taxes represents collections of 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 real property taxes are levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2002 real property taxes are collected in and intended to finance 2003.

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. 2002 public utility property taxes became a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 6 - PROPERTY TAXES (continued)

The full tax rate for all City operations for the year ended December 31, 2002, was \$12.56 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>	<u>Percentage</u>
Real Estate	\$104,317,040	92.78%
Public Utility Property	5,131,330	4.56%
Tangible Personal	2,986,210	2.66%
Total Property Taxes	<u>\$112,434,580</u>	<u>100.00%</u>

Real property taxes are payable annually or semi-annually. If paid annually, 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 in 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, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2002 operations. The receivable is offset by deferred revenue.

NOTE 7 - 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.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 7 - INCOME TAX (continued)

In 2002, the proceeds were allocated to the general fund. Income tax revenue for 2002 was \$1,763,080.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2002, consisted of property taxes, income taxes, accounts and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible.

A summary of intergovernmental receivables follows:

General Fund	
Liquor Licensing Fees	\$133
Homestead and Rollback	36,135
Local Government Revenue Assistance	11,704
Undivided Local Government	18,299
Inheritance Tax	<u>180,977</u>
Total General Fund	<u>247,248</u>
Special Revenue Fund	
Street Construction, Maintenance, and Repair Fund	
Motor Vehicle Registration	35,916
Gasoline Cents Per Gallon	54,947
Permissive Motor Vehicle Tax	57,070
State Gasoline Excise Tax	<u>27,499</u>
Total Street Construction, Maintenance, and Repair Fund	<u>175,432</u>
Debt Service Fund	
Capital Housing Fund	
Homestead and Rollback	<u>6,993</u>
Capital Projects Fund	
3 Mil Street Construction Repair Fund	
Homestead and Rollback	<u>8,324</u>
Total All Funds	<u><u>\$437,997</u></u>

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 9 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at December 31, 2002, follows:

Buildings and Building Improvements	\$167,300
Less: Accumulated Depreciation	<u>(64,400)</u>
Net Fixed Assets	<u><u>\$102,900</u></u>

Changes in general fixed assets during 2002 were as follows:

<u>Asset Category</u>	<u>Balance at December 31, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at December 31, 2002</u>
Land and Land Improvements	\$354,400	\$0	\$0	\$354,400
Buildings and Building	2,113,000	0	0	2,113,000
Furniture and Equipment	2,887,681	151,650	84,416	2,954,915
Totals	<u><u>\$5,355,081</u></u>	<u><u>\$151,650</u></u>	<u><u>\$84,416</u></u>	<u><u>\$5,422,315</u></u>

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, a decrease from 9.25 percent in 2001. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$81,766, \$86,974, and \$42,645, respectively. The full amount has been contributed for 2001 and 2000. 75.44 percent has been contributed for 2002 with the remainder being reported as a liability in the general long-term obligations account group.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police and 16.25 percent for firefighters. For 2001, the City contributions were 12.00 percent for police and 16.50 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$65,470 and \$82,490 for the year ended December 31, 2002, \$67,306 and \$71,297 for the year ended December 31, 2001, and \$73,253 and \$82,304 for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 66.24 percent and 67.56 percent, respectively, have been contributed for 2002 with the remainder being reported as a liability in the general long-term obligations account group.

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. Health care coverage for disability recipients and primary survivor recipients is available. 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 OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund post employment benefits were \$47,816. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan. The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Ohio Police and Firemen's Disability and 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 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.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

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 Ohio Police and Fire Pension Fund 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 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 2002. For 2001, the percent used to fund healthcare was 7.5 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$43,182 police and \$39,342 for fire. The OP&F's total health care expense for the year ended December 31, 2001, (the latest information available) was \$122,298,771, which was net of member contributions of \$6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 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 employees by year-end. Balances are not carried forward.

Full-time employees of the City of Cheviot are credited with sick leave of 15 days 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.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 12 - OTHER EMPLOYEE BENEFITS (continued)

Insurance Benefits

The City has elected to provide employee medical/surgical and life insurance benefits through United HealthCare 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 \$5,829.84 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 year 2002, the City contracted with American Alternative Insurance Corporation for municipal general liability and with Cincinnati Insurance Company for the 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

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

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2002 were as follows:

	Restated Balance at December 31, 2001	Increases	Decreases	Balance at December 31, 2002
<u>General Obligation Bonds:</u>				
Unvoted:				
1997 Automotive Equipment Bonds				
5.85%	\$80,379	\$0	\$80,379	\$0
Voted:				
1986 Municipal Building Bonds				
7.38%	400,000	0	80,000	320,000
TOTAL - General Obligation Bonds	<u>480,379</u>	<u>0</u>	<u>160,379</u>	<u>320,000</u>
<u>Other Long-Term Obligations:</u>				
2002 Equipment Acquisition Notes,				
2.16%	0	86,853	0	86,853
Compensated Absences Payable	30,073	0	2,756	27,317
Due to Other Governments	102,374	109,832	102,374	109,832
TOTAL - Other Long-Term Obligations	<u>132,447</u>	<u>196,685</u>	<u>105,130</u>	<u>224,002</u>
TOTAL - General Long-Term Obligations	<u><u>\$612,826</u></u>	<u><u>\$196,685</u></u>	<u><u>\$265,509</u></u>	<u><u>\$544,002</u></u>

The Automotive Equipment Bonds were issued on April 21, 1997, in the amount of \$312,685 for the purpose of acquiring automotive equipment including a waste collection vehicle and a fire truck. The bonds were issued at a 5.85 percent interest rate and matured on April 21, 2002. The bonds were retired from the equipment acquisition debt service fund.

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 debt service fund.

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

Compensated absences and due to other governments (which represents contractually required pension contributions paid outside the available period), will be paid from the funds from which the employees' salaries are paid.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

As of December 31, 2002, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$11,617,408, and the unvoted legal debt margin was \$6,315,679.

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2002, were:

Year	Municipal Building Bonds	Equipment Acquisition Notes
2003	\$103,600	\$45,303
2004	97,700	44,364
2005	91,800	0
2006	85,900	0
Total	\$379,000	\$89,667

NOTE 15 - SEGMENT INFORMATION

The City's enterprise funds account for the provision of the swimming pool and waste collection services. Key financial information as of and for the year ended December 31, 2002, for each enterprise fund is as follows:

	<u>Swimming Pool</u>	<u>Waste Collection</u>	<u>Total</u>
Operating Revenues	\$48,517	\$10,123	\$58,640
Depreciation Expense	3,680	0	3,680
Operating Loss	(666)	(23,261)	(23,927)
Operating Transfers	0	26,500	26,500
Net Income (Loss)	(666)	3,239	2,573
Fixed Asset Acquisitions	1,700	0	1,700
Net Working Capital	19,733	1,882	21,615
Total Assets	122,687	3,846	126,533
Total Equity	122,633	1,882	124,515

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Center for Local Government

The Center for Local Government was established to improve public service delivery by the cities, townships and villages in the Greater Cincinnati metropolitan area, especially among its member jurisdictions, through improved information exchange, cost reductions, shared resources, interjurisdictional collaboration, and new approaches to capital equipment and skills acquisition. The City does not have any financial interest in or responsibility for the Center. The City's financial contribution during 2002 was immaterial. Information can be obtained from the Center by writing to Lee Meyer, Director of the Center for Local Government, 4144 Crossgate Drive, Cincinnati, Ohio, 45236.

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. The amount the City paid during 2002 was immaterial. To obtain financial information, write to Barry Blank, Director of Finance and Administration of the Ohio-Kentucky-Indiana Regional Council of Governments at 801-B W. Eighth St. - Suite 400, Cincinnati, Ohio, 45203.

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

The Hamilton County Municipal League (HCML)

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

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

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

Payments to the HCML are made from the general fund. The amount the City paid during 2002 was immaterial. 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 17 – COMPLIANCE

\$332,568 worth of revenue and expenditures from the Ohio Public Works Commission Issue II program was not included on the City's financial statements. The accompanying financial statements have been adjusted accordingly.

The Ohio Public Works Fund Issue II fund capital outlay had an excess of expenditures over appropriations of \$332,568 and the automotive equipment bond debt service fund capital outlay program had an excess of expenditures over appropriations for the year ended December 31, 2002, in the amount of \$86,853.

The certification of availability of unencumbered appropriations for expenditures was not made prior to all purchase commitments being incurred, contrary to Ohio Rev. Code Section 5705.41(D).

City of Cheviot
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

NOTE 18 - CONTINGENT LIABILITIES

Litigation

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

Federal and State Grants

For the period January 1, 2002, to December 31, 2002, 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.

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Auditor of State Betty Montgomery

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

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

To the City Council:

We have audited the general purpose financial statements of the City of Cheviot, Hamilton County, Ohio (the City), as of and for the fiscal years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated August 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate report to management of the City in a letter dated August 5, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001 through 2003-004. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 5, 2004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable conditions described above, to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 5, 2004.

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

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

Betty Montgomery
Auditor of State

August 5, 2004

**CITY OF CHEVIOT
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Material Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate needs to be signed only by the subdivision's fiscal officer. Every such contract made without such a certificate shall be null and void, and no warrant shall be issued in payment of any amount due thereon.

This Section also provides two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City Auditor may authorize the issuance of a warrant in payment of amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000, (\$3,000 after April 7, 2003), the City Auditor may authorize payment through a Then and Now certificate without affirmation of the Council, if such expenditure is otherwise valid.

Contrary to the above requirement, the availability of funds was not certified for 36% of the disbursements tested for fiscal year 2002 and 16% for fiscal year 2003. Failure to certify the availability of funds and encumber appropriations can result in overspending and negative cash balances. Therefore, we recommend the City obtain approved purchased orders, which contain the City Auditor's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2003-002

Material Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.09(F), requires the City to establish a special fund for each class of revenues derived from a source other than general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure, and anticipated revenues should be included in the City appropriations.

The City failed to establish a Capital Projects Fund for the payments the Ohio Public Works Commission made on behalf of the City of \$332,568 to Adleta Inc. in 2002. The City failed to include these transactions on its financial statements. The accompanying financial statements have been adjusted to reflect the receipt and disbursement of this money.

We recommend the City establish a fund and budget monies spent on behalf of the City. Guidance on the accounting treatment for these types of transactions is set forth in Auditor of State Bulletins 2000-008 and 2002-004.

FINDING NUMBER 2003-003

Material Noncompliance Citation / Reportable Condition

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision or taxing unit from making an expenditure unless it has been appropriated. Expenditures and outstanding encumbrances exceeded appropriations for the following funds:

Fiscal Year	Fund	Appropriations	Expenditures	Variance
2002	Issue II	\$0	\$332,568	(\$332,568)
2002	Debt Service	197,347	283,932	(86,585)

The City failed to establish a Capital Projects Fund for Issue II monies spent on behalf of the City to Adleta Inc., (see finding 2003-002) and did not record the proceeds and expenditure of an acquisition note, (see finding 2003-004).

We recommend the City properly budget all monies and funds.

FINDING NUMBER 2003-004

Reportable Condition

The City issued an \$86,853 Equipment Acquisition Note on October 4, 2002 for a garbage truck. The City recorded the proceeds as a negative expenditure against capital outlay. The result of this is the transaction is not reflected on the City's financial statements nor was it routed through the budgetary process approved by City Council. The financial statements have been adjusted accordingly.

We recommend the City properly record the sale of notes as such and also reflect the expenditure. This will provide users of the financial statements an accurate summation of the debt and capital outlay activity.

**CITY OF CHEVIOT
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2001-20431-001	Citation of Ohio Rev. Code, Section 5705.41(D), failure to certify availability of funds.	No	Not corrected. This has been reissued as finding 2003-001.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
AUGUST 26, 2004**