

CITY OF LOVELAND, OHIO

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2005**

Prepared by:
William R. Taphorn
Director of Finance



Mary Taylor, CPA
Auditor of State

To the Members of City Council
City of Loveland
120 West Loveland Avenue
Loveland, Ohio 45140

We have reviewed the *Independent Auditors' Report* of the City of Loveland, Hamilton County, prepared by Bastin & Company, LLC, for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 30, 2007

This Page is Intentionally Left Blank.

TABLE OF CONTENTS

I FINANCIAL SECTION

A Independent Auditors' Report.....1

B Management's Discussion and Analysis3

C Basic Financial Statements:

 Government-wide Financial Statements:

 Statement of Net Assets.....11

 Statement of Activities12

 Fund Financial Statements:

Governmental Funds:

 Balance Sheet14

 Reconciliation of Total Governmental Fund Balances to Net Assets of
 Governmental Activities16

 Statement of Revenues, Expenditures and Changes in Fund Balances18

 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities20

 Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual (Non-GAAP Budgetary Basis):

 General Fund21

 Income Tax fund.....22

 Paramedic Fund23

 Fire and EMS Fund24

 Fire Protection Fund25

Proprietary Funds:

 Statement of Net Assets.....26

 Statement of Revenues, Expenses and Changes in Fund Net Assets27

 Statement of Cash Flows28

Fiduciary Funds:

 Statement of Fiduciary Net Assets29

Notes to the Basic Financial Statements.....30

This Page Intentionally Left Blank

Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of City Council
City of Loveland, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Loveland, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City Loveland, Ohio, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund, Income Tax Fund, Paramedic Fund, Fire and EMS Fund and Fire Protection Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures,

which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bastin & Company, L L C

Cincinnati, Ohio
August 30, 2006

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2005*

Unaudited

The discussion and analysis of the City of Loveland's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$1,160,817. Net assets of governmental activities decreased \$792,699, which represents a 4.5% decrease from 2004. Net assets of business-type activities increased \$1,953,516, from 2004.
- General revenues accounted for \$6,866,712, in revenue or 42.8% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$9,163,954 or 57.2% of all revenues.
- The City had \$9,929,556 in expenses related to governmental activities; only \$2,018,914 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$7,114,958 were adequate to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – *management's discussion and analysis*, the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2005*

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including police protection, parks and recreation, planning, zoning, street maintenance and other governmental services.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's refuse collection, water, water treatment, and stormwater services are reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Unaudited

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of the City's net assets at December 31, 2005 and 2004:

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
	2005	2004	2005	2004	2005	2004
Current and other assets	\$7,334,475	\$7,651,957	\$3,941,497	\$4,310,506	\$11,275,972	\$11,962,463
Capital assets, Net	21,256,845	21,369,767	14,434,144	12,090,094	35,690,989	33,459,861
Total assets	28,591,320	29,021,724	18,375,641	16,400,600	46,966,961	45,422,324
Long-term debt outstanding	7,836,603	7,156,647	3,283,866	3,202,901	11,120,469	10,359,548
Other liabilities	2,390,537	2,708,198	117,318	176,758	2,507,855	2,884,956
Total liabilities	10,227,140	9,864,845	3,401,184	3,379,659	13,628,324	13,244,504
Net assets						
Invested in capital assets, net of related debt	14,207,002	15,611,368	11,316,432	9,296,625	25,523,434	24,907,993
Restricted	4,498,421	2,256,742	0	0	4,498,421	2,256,742
Unrestricted	(341,243)	1,288,769	3,658,025	3,724,316	3,316,782	5,013,085
Total net assets	<u>\$18,364,180</u>	<u>\$19,156,879</u>	<u>\$14,974,457</u>	<u>\$13,020,941</u>	<u>\$33,338,637</u>	<u>\$32,177,820</u>

This space intentionally left blank.

CITY OF LOVELAND, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2005

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for fiscal year 2005 and 2004:

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for Services and Sales	\$837,201	\$395,773	\$4,722,625	\$4,364,760	\$5,559,826	4,760,533
Operating Grants and Contributions	560,818	524,188	0	0	560,818	524,188
Capital Grants and Contributions	620,895	1,977,365	2,422,415	0	3,043,310	1,977,365
General revenues:						
Income Taxes	2,443,582	2,685,636	0	0	2,443,582	2,685,636
Property Taxes	2,100,856	2,193,680	0	0	2,100,856	2,193,680
Grants and Entitlements not Restricted to Specific Programs	1,580,646	1,509,679	0	0	1,580,646	1,509,679
Investment Earnings	253,651	98,358	0	0	253,651	98,358
Miscellaneous	487,977	1,006,935	0	0	487,977	1,006,935
Total revenues	8,885,626	10,391,614	7,145,040	4,364,760	16,030,666	14,756,374
Program Expenses						
Security of Persons and Property	3,719,720	4,688,397	0	0	3,719,720	4,688,397
Leisure Time Activities	403,470	386,777	0	0	403,470	386,777
Community Development	171,196	212,333	0	0	171,196	212,333
Transportation	940,464	955,931	0	0	940,464	955,931
General Government	4,397,565	2,063,242	0	0	4,397,565	2,063,242
Interest and Fiscal Charges	297,141	260,819	0	0	297,141	260,819
Water	0	0	1,432,013	908,004	1,432,013	908,004
Sewer	0	0	1,755,232	1,570,965	1,755,232	1,570,965
Stormwater	0	0	793,667	707,213	793,667	707,213
Sanitation	0	0	959,381	727,109	959,381	727,109
Total expenses	9,929,556	8,567,499	4,940,293	3,913,291	14,869,849	12,480,790
Excess (deficiency) before Transfers	(1,043,930)	1,824,115	2,204,747	451,469	1,160,817	2,275,584
Transfers	251,231	531,295	(251,231)	(531,295)	0	0
Total Change in Net Assets	(792,699)	2,355,410	1,953,516	(79,826)	1,160,817	2,275,584
Beginning Net Assets	19,156,879	16,801,469	13,020,941	13,100,767	32,177,820	29,902,236
Ending Net Assets	\$18,364,180	\$19,156,879	\$14,974,457	\$13,020,941	\$33,338,637	\$32,177,820

Governmental Activities

The net assets of the City's governmental activities decreased by \$792,699, mainly due to the City's contribution to the business type activities for the construction of storm sewers.

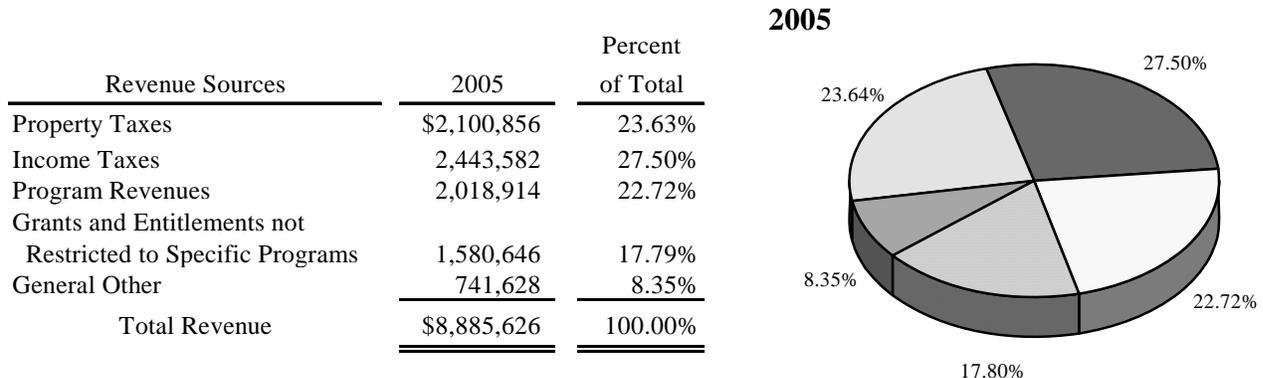
CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Unaudited

The City receives an income tax, which is based on 1.00% of all salaries, wages, commissions and other compensation and on net profits earned from businesses and residents living within the City.

Property taxes and income taxes made up 23.64% and 27.51% respectively of revenues for governmental activities for the City in fiscal year 2005. The City's reliance upon tax revenues is demonstrated by the following graph indicating 51.15% of total revenues from general tax revenues:



Business-Type Activities

Net assets of the business-type activities increased by \$1,953,516. This increase was the result of capital contributions of new storm sewers from payments made by governmental activities, and new water lines from outside developers.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$4,162,264, which is an increase from last year's balance of \$3,672,508. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2005 and 2004:

	Fund Balance December 31, 2005	Fund Balance (Deficit) December 31, 2004	Increase (Decrease)
General	\$103,017	(\$113,316)	\$216,333
Income Tax	2,747,039	2,613,822	133,217
Paramedic	41,787	22,946	18,841
Fire and EMS	44,900	82,051	(37,151)
Fire Protection	36,030	35,418	612
General Bond	17,860	17,860	0
Issue Two Projects	0	(282,783)	282,783
Other Governmental	1,171,631	1,296,510	(124,879)
Total	<u>\$4,162,264</u>	<u>\$3,672,508</u>	<u>\$489,756</u>

CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Unaudited

General Fund – The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2005 <u>Revenues</u>	2004 <u>Revenues</u>	Increase (Decrease)
Property Taxes	\$540,300	\$706,621	(\$166,321)
Intergovernmental Revenues	1,370,650	1,406,851	(36,201)
Charges for Services	427,748	439,130	(11,382)
Licenses and Permits	127,866	98,771	29,095
Fines and Forfeitures	150,296	160,072	(9,776)
All Other Revenue	44,770	18,132	26,638
Total	<u><u>\$2,661,630</u></u>	<u><u>\$2,829,577</u></u>	<u><u>(\$167,947)</u></u>

General Fund revenues in 2005 decreased 6.0% compared to revenues in fiscal year 2004. The most significant factor contributing to this decrease was the decrease in property tax revenues, mainly due to the expiration of a tax levy.

	2005 <u>Expenditures</u>	2004 <u>Expenditures</u>	Increase (Decrease)
Security of Persons and Property	\$2,247,937	\$2,149,320	\$98,617
Community Environment	171,196	212,333	(41,137)
General Government	1,289,717	1,490,662	(200,945)
Principal Retirement	51,000	34,000	17,000
Interest and Fiscal Charges	17,442	34,815	(17,373)
Total	<u><u>\$3,777,292</u></u>	<u><u>\$3,921,130</u></u>	<u><u>(\$143,838)</u></u>

General Fund expenditures decreased by \$143,838 over the prior year mostly due to decreases in salary and insurance costs.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2005 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$1.5 million did not change over the original budget estimates of \$1.5 million. The General Fund had an adequate fund balance to cover expenditures.

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2005*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 the City had \$35,690,989 net of accumulated depreciation invested in land, buildings, infrastructure, equipment and vehicles. Of this total, \$21,256,845 was related to governmental activities and \$14,434,144 to the business-type activities. The following table shows fiscal year 2005 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Land	\$3,069,252	\$3,069,252	\$0
Construction In Progress	0	0	0
Buildings	6,275,990	5,823,487	452,503
Improvements Other than Buildings	1,257,908	1,257,908	0
Machinery and Equipment	3,982,838	3,935,209	47,629
Infrastructure	18,666,432	18,666,432	0
Less: Accumulated Depreciation	(11,995,575)	(11,382,521)	(613,054)
Totals	\$21,256,845	\$21,369,767	(\$112,922)

	Business-Type Activities		Increase (Decrease)
	2005	2004	
Land	\$250,168	\$250,168	\$0
Construction in Progress	398,002	398,002	\$0
Buildings & Improvements	2,610,596	1,449,145	1,161,451
Utility Structures in Service	14,084,816	12,794,973	1,289,843
Infrastructure	3,420,740	3,174,844	245,896
Machinery and Equipment	300,236	275,374	24,862
Less: Accumulated Depreciation	(6,630,414)	(6,252,412)	(378,002)
Totals	\$14,434,144	\$12,090,094	\$2,344,050

The primary increase occurred in infrastructure. These increases resulted from the donation of new water lines and storm sewers. For additional information on the Cities' capital assets see Note 6.

CITY OF LOVELAND, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

Debt

At December 31, 2005, the City had \$7,300,000 in bonds outstanding, \$485,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Governmental Activities:		
General Obligation Bonds	\$4,250,000	\$3,585,000
Deferred Loss on Refundings	(66,230)	0
Ohio Public Works Commission Loans	2,711,385	2,458,099
Capital Leases Payable	154,688	301,589
Compensated Absences	750,743	775,337
Police Pension Accrued Liability	36,017	36,622
Total Governmental Activities	<u>\$7,836,603</u>	<u>\$7,156,647</u>
Business-Type Activities:		
General Obligation Bonds	\$3,050,000	\$2,935,000
Capital Leases Payable	116,560	172,339
Compensated Absences	117,306	95,562
Total Business-Type Activities	<u>3,283,866</u>	<u>3,202,901</u>
Totals	<u>\$11,120,469</u>	<u>\$10,359,548</u>

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. At December 31, 2005, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 9.

ECONOMIC FACTORS

During 2005, City Council expressed a need for an enhanced economic development focus to better assure the City's long-term financial outlook. The Administration has partnered with the Greater Cincinnati Chamber of Commerce in a more regional approach to economic development and growth, yet continues to work on relationships with local businesses and industries.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bill Taphorn, Director of Finance, City of Loveland, 120 West Loveland Ave., Loveland, Ohio 45140.

CITY OF LOVELAND, OHIO

Statement of Net Assets *December 31, 2005*

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 458,467	\$ 249,102	\$ 707,569
Investments	3,019,356	2,690,577	5,709,933
Receivables:			
Taxes	2,609,282	0	2,609,282
Accounts	32,563	758,396	790,959
Intergovernmental	784,869	6,600	791,469
Interest	41,281	0	41,281
Special Assessments	72,650	0	72,650
Inventory of Supplies at Cost	28,083	14,992	43,075
Prepays	18,529	6,131	24,660
Restricted Assets:			
Cash and Cash Equivalents	250,718	215,699	466,417
Cash and Cash Equivalents with Fiscal Agent	18,677	0	18,677
Capital Assets:			
Capital Assets Not Being Depreciated	3,069,252	648,170	3,717,422
Capital Assets Being Depreciated	18,187,593	13,785,974	31,973,567
Total Assets	28,591,320	18,375,641	46,966,961
Liabilities:			
Accounts Payable	198,984	80,165	279,149
Accrued Wages and Benefits	161,842	24,636	186,478
Matured Bonds & Interest Payable	18,677	0	18,677
Deferred Revenue	1,980,605	0	1,980,605
Accrued Interest Payable	30,429	12,517	42,946
Long Term Liabilities:			
Due Within One Year	678,114	188,797	866,911
Due in More Than One Year	7,158,489	3,095,069	10,253,558
Total Liabilities	10,227,140	3,401,184	13,628,324
Net Assets:			
Invested in Capital Assets, Net of Related Debt	14,207,002	11,316,432	25,523,434
Restricted For:			
Capital Projects	484,543	0	484,543
Debt Service	17,685	0	17,685
Other Purposes	3,996,193	0	3,996,193
Unrestricted (Deficit)	(341,243)	3,658,025	3,316,782
Total Net Assets	\$ 18,364,180	\$ 14,974,457	\$ 33,338,637

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Activities
For the Year Ended December 31, 2005**

	Program Revenues			
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 3,719,720	\$ 210,744	\$ 852	\$ 0
Leisure Time Activities	403,470	35,672	0	0
Community Environment	171,196	127,866	0	0
Transportation	940,464	35,171	559,966	620,895
General Government	4,397,565	427,748	0	0
Interest and Fiscal Charges	297,141	0	0	0
Total Governmental Activities	9,929,556	837,201	560,818	620,895
Business-Type Activities:				
Water	1,432,013	1,700,946	0	1,062,660
Sewer	1,755,232	1,712,197	0	0
Stormwater	793,667	382,111	0	1,359,755
Sanitation	959,381	927,371	0	0
Total Business-Type Activities	4,940,293	4,722,625	0	2,422,415
Totals	\$ 14,869,849	\$ 5,559,826	\$ 560,818	\$ 3,043,310

General Revenues

Property Taxes
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous
Transfers
Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (3,508,124)	\$ 0	\$ (3,508,124)
(367,798)	0	(367,798)
(43,330)	0	(43,330)
275,568	0	275,568
(3,969,817)	0	(3,969,817)
(297,141)	0	(297,141)
<u>(7,910,642)</u>	<u>0</u>	<u>(7,910,642)</u>
0	1,331,593	1,331,593
0	(43,035)	(43,035)
0	948,199	948,199
<u>0</u>	<u>(32,010)</u>	<u>(32,010)</u>
<u>0</u>	<u>2,204,747</u>	<u>2,204,747</u>
<u>(7,910,642)</u>	<u>2,204,747</u>	<u>(5,705,895)</u>
2,100,856	0	2,100,856
2,443,582	0	2,443,582
1,580,646	0	1,580,646
253,651	0	253,651
487,977	0	487,977
251,231	(251,231)	0
<u>7,117,943</u>	<u>(251,231)</u>	<u>6,866,712</u>
(792,699)	1,953,516	1,160,817
<u>19,156,879</u>	<u>13,020,941</u>	<u>32,177,820</u>
<u>\$ 18,364,180</u>	<u>\$ 14,974,457</u>	<u>\$ 33,338,637</u>

CITY OF LOVELAND, OHIO

**Balance Sheet
Governmental Funds
December 31, 2005**

	General Fund	Income Tax Fund	Paramedic Fund	Fire and EMS Fund
Assets:				
Cash and Cash Equivalents	\$ 12,201	\$ 212,523	\$ 41,175	\$ 4,236
Investments	0	2,295,488	0	45,756
Receivables:				
Taxes	967,651	301,460	521,237	431,724
Accounts	32,563	0	0	0
Intergovernmental	301,518	0	38,436	25,540
Interest	0	0	0	0
Special Assessments	0	0	0	0
Inventory of Supplies, at Cost	2,631	0	0	0
Prepaid Items	10,505	0	0	5,425
Restricted Assets:				
Cash and Cash Equivalents	0	0	0	0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0
Total Assets	\$ 1,327,069	\$ 2,809,471	\$ 600,848	\$ 512,681
Liabilities:				
Accounts Payable	\$ 68,556	\$ 8,711	\$ 0	\$ 10,983
Accrued Wages and Benefits Payable	131,543	10,474	0	0
Matured Bonds and Interest Payable	0	0	0	0
Deferred Revenue	1,023,953	43,247	559,061	456,798
Total Liabilities	1,224,052	62,432	559,061	467,781
Fund Balances:				
Reserved for Encumbrances	0	0	0	0
Reserved for Prepaid Items	10,505	0	0	5,425
Reserved for Supplies Inventory	2,631	0	0	0
Reserved for Debt Service	0	0	0	0
Unreserved, Undesignated in:				
General Fund	89,881	0	0	0
Special Revenue Funds	0	2,747,039	41,787	39,475
Capital Projects Funds	0	0	0	0
Total Fund Balances	103,017	2,747,039	41,787	44,900
Total Liabilities and Fund Balances	\$ 1,327,069	\$ 2,809,471	\$ 600,848	\$ 512,681

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Fire Protection Fund	General Bond Fund	Issue Two Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 35,565	\$ 17,860	\$ 0	\$ 134,907	\$ 458,467
0	0	0	678,112	3,019,356
387,210	0	0	0	2,609,282
0	0	0	0	32,563
29,072	0	77,699	312,604	784,869
0	0	0	41,281	41,281
0	0	0	72,650	72,650
0	0	0	25,452	28,083
0	0	0	2,599	18,529
0	0	0	250,718	250,718
0	18,677	0	0	18,677
<u>\$ 451,847</u>	<u>\$ 36,537</u>	<u>\$ 77,699</u>	<u>\$ 1,518,323</u>	<u>\$ 7,334,475</u>
\$ 0	\$ 0	\$ 77,699	\$ 33,035	\$ 198,984
0	0	0	19,825	161,842
0	18,677	0	0	18,677
<u>415,817</u>	<u>0</u>	<u>0</u>	<u>293,832</u>	<u>2,792,708</u>
<u>415,817</u>	<u>18,677</u>	<u>77,699</u>	<u>346,692</u>	<u>3,172,211</u>
0	0	0	5,036	5,036
0	0	0	2,599	18,529
0	0	0	25,351	27,982
0	17,860	0	30,254	48,114
0	0	0	0	89,881
36,030	0	0	714,720	3,579,051
0	0	0	393,671	393,671
<u>36,030</u>	<u>17,860</u>	<u>0</u>	<u>1,171,631</u>	<u>4,162,264</u>
<u>\$ 451,847</u>	<u>\$ 36,537</u>	<u>\$ 77,699</u>	<u>\$ 1,518,323</u>	<u>\$ 7,334,475</u>

CITY OF LOVELAND, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2005***

Total Governmental Fund Balances	\$ 4,162,264
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	21,256,845
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	812,103
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds Payable	(4,250,000)
Deferred Loss on Debt Defeasnce	66,230
OPWC Public Works Commission Loans	(2,711,385)
Capital Leases	(154,688)
Compensated Absences Payable	(750,743)
Police/Fire Accured Pension Liability	(36,017)
Accrued Interest Payable	(30,429)
	<u>(7,867,032)</u>
<i>Net Assets of Governmental Activities</i>	<u>\$ 18,364,180</u>

See accompanying notes to the basic financial statements

This Page Intentionally Left Blank

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005**

	General Fund	Income Tax Fund	Paramedic Fund	Fire and EMS Fund
Revenues:				
Property Taxes	\$ 540,300	\$ 0	\$ 550,269	\$ 450,774
Municipal Income Tax	0	2,400,335	0	0
Intergovernmental Revenues	1,370,650	0	58,340	50,770
Charges for Services	427,748	0	60,000	0
Licenses and Permits	127,866	0	0	0
Investment Earnings	0	0	0	0
Fines and Forfeitures	150,296	0	0	0
All Other Revenue	44,770	0	0	118,782
Total Revenue	2,661,630	2,400,335	668,609	620,326
Expenditures:				
Current:				
Security of Persons and Property	2,247,937	0	649,768	460,573
Leisure Time Activities	0	0	0	0
Community Environment	171,196	0	0	0
Transportation	0	0	0	0
General Government	1,289,717	738,437	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	51,000	5,000	0	129,080
Interest and Fiscal Charges	17,442	7,652	0	67,824
Total Expenditures	3,777,292	751,089	649,768	657,477
Excess (Deficiency) of Revenues Over Expenditures	(1,115,662)	1,649,246	18,841	(37,151)
Other Financing Sources (Uses):				
Sale of Bonds	0	165,830	0	0
Issuance of OPWC Loans	0	0	0	0
Payment to Refunding Agent	0	0	0	0
Transfers In	1,330,229	0	0	0
Transfers Out	0	(1,681,859)	0	0
Total Other Financing Sources (Uses)	1,330,229	(1,516,029)	0	0
Net Change in Fund Balances	214,567	133,217	18,841	(37,151)
Fund Balances at Beginning of Year	(113,316)	2,613,822	22,946	82,051
Increase (Decrease) in Inventory Reserve	1,766	0	0	0
Fund Balances End of Year	\$ 103,017	\$ 2,747,039	\$ 41,787	\$ 44,900

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Fire Protection Fund	General Bond Fund	Issue Two Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 410,731	\$ 0	\$ 0	\$ 138,500	\$ 2,090,574
0	0	0	0	2,400,335
42,969	0	1,252,350	546,851	3,321,930
0	0	0	0	487,748
0	0	0	70,843	198,709
0	0	0	242,767	242,767
0	0	0	448	150,744
0	0	0	348,934	512,486
<u>453,700</u>	<u>0</u>	<u>1,252,350</u>	<u>1,348,343</u>	<u>9,405,293</u>
453,088	0	0	4,786	3,816,152
0	0	0	296,215	296,215
0	0	0	0	171,196
0	0	0	583,054	583,054
0	2,985	0	375,894	2,407,033
0	0	1,430,927	1,015,735	2,446,662
0	184,821	0	112,094	481,995
0	120,597	0	87,869	301,384
<u>453,088</u>	<u>305,418</u>	<u>1,430,927</u>	<u>2,475,647</u>	<u>10,503,691</u>
612	(308,403)	(178,577)	(1,127,304)	(1,098,398)
0	1,715,000	0	648,351	2,529,181
0	0	461,360	0	461,360
0	(1,657,828)	0	0	(1,657,828)
0	251,231	0	351,630	1,933,090
0	0	0	0	(1,681,859)
<u>0</u>	<u>308,403</u>	<u>461,360</u>	<u>999,981</u>	<u>1,583,944</u>
612	0	282,783	(127,323)	485,546
35,418	17,860	(282,783)	1,296,510	3,672,508
0	0	0	2,444	4,210
<u>\$ 36,030</u>	<u>\$ 17,860</u>	<u>\$ 0</u>	<u>\$ 1,171,631</u>	<u>\$ 4,162,264</u>

CITY OF LOVELAND, OHIO

**Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ 485,546

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

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

Capital Outlay	798,304	
Depreciation Expense	<u>(886,717)</u>	(88,413)

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	(24,509)
---	----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(499,339)
--	-----------

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets.	(2,986,360)
---	-------------

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	1,926,230	
Ohio Public Works Commission Loans	208,074	
Police/Fire Accrued Pension Payment	605	
Capital Leases Payable	<u>146,901</u>	2,281,810

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	9,762
--	-------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	24,594	
Change in Inventory	<u>4,210</u>	<u>28,804</u>

Change in Net Assets of Governmental Activities \$ (792,699)

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 525,000	\$ 525,000	\$ 542,329	\$ 17,329
Intergovernmental Revenue	725,900	725,900	1,294,319	568,419
Charges for Services	15,000	15,000	12,700	(2,300)
Licenses and Permits	110,000	110,000	127,866	17,866
Fines and Forfeitures	155,000	155,000	150,296	(4,704)
All Other Revenues	11,000	11,000	47,523	36,523
Total Revenues	1,541,900	1,541,900	2,175,033	633,133
Expenditures:				
Current:				
Security of Persons and Property	2,132,170	2,247,711	2,247,711	0
Community Environment	182,900	188,266	188,266	0
General Government	1,476,300	1,492,293	1,407,141	85,152
Total Expenditures	3,791,370	3,928,270	3,843,118	85,152
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,249,470)	(2,386,370)	(1,668,085)	718,285
Other Financing Sources (Uses):				
Transfers In	2,319,470	2,454,815	1,748,728	(706,087)
Transfers Out	(70,000)	(68,445)	(68,442)	3
Total Other Financing Sources (Uses):	2,249,470	2,386,370	1,680,286	(706,084)
Net Change in Fund Balance	0	0	12,201	12,201
Fund Balance at Beginning of Year	0	0	0	0
Fund Balance at End of Year	\$ 0	\$ 0	\$ 12,201	\$ 12,201

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - Income Tax Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Municipal Income Tax	\$ 2,500,000	\$ 2,500,000	\$ 2,602,263	\$ 102,263
Total Revenues	2,500,000	2,500,000	2,602,263	102,263
Expenditures:				
Current:				
General Government	2,129,691	3,005,894	693,726	2,312,168
Debt Service:				
Interest and Fiscal Charges	0	5,100	5,087	13
Total Expenditures	2,129,691	3,010,994	698,813	2,312,181
Excess (Deficiency) of Revenues Over (Under) Expenditures	370,309	(510,994)	1,903,450	2,414,444
Other Financing Sources (Uses):				
Sale of General Obligation Bonds	180,000	165,339	165,830	491
Transfers Out	(2,255,939)	(1,837,300)	(1,744,224)	93,076
Total Other Financing Sources (Uses):	(2,075,939)	(1,671,961)	(1,578,394)	93,567
Net Change in Fund Balance	(1,705,630)	(2,182,955)	325,056	2,508,011
Fund Balance at Beginning of Year	2,182,955	2,182,955	2,182,955	0
Fund Balance at End of Year	\$ 477,325	\$ 0	\$ 2,508,011	\$ 2,508,011

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Paramedic Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 552,500	\$ 552,500	\$ 552,574	\$ 74
Intergovernmental Revenue	54,000	60,974	58,340	(2,634)
Charges for Services	60,000	60,000	60,000	0
Total Revenues	<u>666,500</u>	<u>673,474</u>	<u>670,914</u>	<u>(2,560)</u>
Expenditures:				
Current:				
Security of Persons and Property	677,322	694,330	650,595	43,735
Total Expenditures	<u>677,322</u>	<u>694,330</u>	<u>650,595</u>	<u>43,735</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,822)	(20,856)	20,319	41,175
Fund Balance at Beginning of Year	20,856	20,856	20,856	0
Fund Balance at End of Year	<u>\$ 10,034</u>	<u>\$ 0</u>	<u>\$ 41,175</u>	<u>\$ 41,175</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Fire and EMS Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 451,000	\$ 451,000	\$ 452,567	\$ 1,567
Intergovernmental Revenue	53,000	53,000	50,770	(2,230)
All Other Revenues	93,026	118,280	118,782	502
Total Revenues	597,026	622,280	622,119	(161)
Expenditures:				
Current:				
Security of Persons and Property	440,525	467,565	419,988	47,577
Total Expenditures	440,525	467,565	419,988	47,577
Excess (Deficiency) of Revenues Over (Under) Expenditures	156,501	154,715	202,131	47,416
Other Financing Sources (Uses):				
Transfers Out	(239,266)	(237,480)	(234,904)	2,576
Total Other Financing Sources (Uses):	(239,266)	(237,480)	(234,904)	2,576
Net Change in Fund Balance	(82,765)	(82,765)	(32,773)	49,992
Fund Balance at Beginning of Year	82,765	82,765	82,765	0
Fund Balance at End of Year	\$ 0	\$ 0	\$ 49,992	\$ 49,992

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Fire Protection Fund
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 414,500	\$ 414,500	\$ 412,728	\$ (1,772)
Intergovernmental Revenue	53,008	64,544	42,969	(21,575)
Total Revenues	467,508	479,044	455,697	(23,347)
Expenditures:				
Current:				
Security of Persons and Property	500,964	512,500	453,588	58,912
Total Expenditures	500,964	512,500	453,588	58,912
Excess (Deficiency) of Revenues Over (Under) Expenditures	(33,456)	(33,456)	2,109	35,565
Fund Balance at Beginning of Year	33,456	33,456	33,456	0
Fund Balance at End of Year	\$ 0	\$ 0	\$ 35,565	\$ 35,565

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Net Assets Proprietary Funds December 31, 2005

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
Assets:					
<i>Current Assets:</i>					
Cash and Cash Equivalents	\$ 177,355	\$ 27,639	\$ 33,067	\$ 11,041	\$ 249,102
Investments	1,915,628	298,530	357,165	119,254	2,690,577
<i>Receivables:</i>					
Accounts	209,503	310,014	68,968	169,911	758,396
Intergovernmental	0	0	6,600	0	6,600
Inventory of Supplies at Cost	14,792	0	100	100	14,992
Prepaid Items	3,995	0	1,406	730	6,131
<i>Restricted Assets:</i>					
Cash and Cash Equivalents	215,699	0	0	0	215,699
<i>Total Current Assets</i>	<u>2,536,972</u>	<u>636,183</u>	<u>467,306</u>	<u>301,036</u>	<u>3,941,497</u>
<i>Non Current Assets:</i>					
<i>Capital Assets:</i>					
Capital Assets Not Being Depreciated	581,052	63,118	0	4,000	648,170
Capital Assets Being Depreciated	8,793,233	1,637,876	3,354,865	0	13,785,974
Total Assets	<u>11,911,257</u>	<u>2,337,177</u>	<u>3,822,171</u>	<u>305,036</u>	<u>18,375,641</u>
Liabilities:					
<i>Current Liabilities:</i>					
Accounts Payable	20,271	1,670	0	58,224	80,165
Accrued Wages and Benefits	13,955	1,453	2,100	7,128	24,636
Accrued Interest Payable	6,968	50	4,403	1,096	12,517
<i>Total Current Liabilities</i>	<u>41,194</u>	<u>3,173</u>	<u>6,503</u>	<u>66,448</u>	<u>117,318</u>
<i>Long Term Liabilities:</i>					
Compensated Absences Payable	65,911	11,744	5,206	34,445	117,306
Capital Leases Payable	0	5,432	58,280	52,848	116,560
General Obligation Bonds Payable	1,855,000	0	1,195,000	0	3,050,000
Total Liabilities	<u>1,962,105</u>	<u>20,349</u>	<u>1,264,989</u>	<u>153,741</u>	<u>3,401,184</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt	7,519,285	1,695,562	2,101,585	0	11,316,432
Unrestricted	2,429,867	621,266	455,597	151,295	3,658,025
Total Net Assets	<u>\$ 9,949,152</u>	<u>\$ 2,316,828</u>	<u>\$ 2,557,182</u>	<u>\$ 151,295</u>	<u>\$ 14,974,457</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005**

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
Operating Revenues:					
Charges for Services	\$ 1,442,765	\$ 1,711,442	\$ 370,198	\$ 906,218	\$ 4,430,623
Other Operating Revenue	202,157	755	696	1,242	204,850
Total Operating Revenues	1,644,922	1,712,197	370,894	907,460	4,635,473
Operating Expenses:					
Personal Services	295,943	34,668	59,696	78,582	468,889
Contractual Services	654,538	1,635,128	570,417	877,210	3,737,293
Materials and Supplies	44,390	18,276	8,057	3,769	74,492
Basic Utility Services	120,928	0	0	0	120,928
Depreciation	230,726	67,173	89,074	330	387,303
Total Operating Expenses	1,346,525	1,755,245	727,244	959,891	4,788,905
Operating Income (Loss)	298,397	(43,048)	(356,350)	(52,431)	(153,432)
Nonoperating Revenue (Expenses):					
Intergovernmental Grants	0	0	7,186	26,511	33,697
Investment Earnings	56,024	13	4,031	510	60,578
Interest Expense	(85,488)	0	(66,423)	0	(151,911)
Gain (Loss) on Disposal of Capital Assets	0	0	0	(6,600)	(6,600)
Capital Contributions	1,062,660	0	1,359,755	0	2,422,415
Total Nonoperating Revenues (Expenses)	1,033,196	13	1,304,549	20,421	2,358,179
Income (Loss) Before Transfers	1,331,593	(43,035)	948,199	(32,010)	2,204,747
Transfers Out	(232,029)	0	(15,068)	(4,134)	(251,231)
Change in Net Assets	1,099,564	(43,035)	933,131	(36,144)	1,953,516
Net Assets Beginning of Year	8,849,588	2,359,863	1,624,051	187,439	13,020,941
Net Assets End of Year	<u>\$ 9,949,152</u>	<u>\$ 2,316,828</u>	<u>\$ 2,557,182</u>	<u>\$ 151,295</u>	<u>\$ 14,974,457</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
<u>Cash Flows from Operating Activities:</u>					
Cash Received from Customers	\$1,690,316	\$1,723,319	\$376,550	\$925,368	\$4,715,553
Cash Payments for Goods and Services	(814,199)	(1,674,611)	(593,895)	(889,575)	(3,972,280)
Cash Payments to Employees	(292,342)	(32,235)	(59,564)	(83,361)	(467,502)
Net Cash Provided (Used) by Operating Activities	<u>583,775</u>	<u>16,473</u>	<u>(276,909)</u>	<u>(47,568)</u>	<u>275,771</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Transfers In from Other Funds	0	0	0	0	0
Transfers Out to Other Funds	(232,029)	0	(15,068)	(4,134)	(251,231)
Net Cash Used by Noncapital Financing Activities	<u>(232,029)</u>	<u>0</u>	<u>(15,068)</u>	<u>(4,134)</u>	<u>(251,231)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Acquisition and Construction of Assets	(258,321)	(1,441)	(89,438)	(22,117)	(371,317)
Intergovernmental Grants	0	0	586	26,511	27,097
Issuance of General Obligation Bonds	0	0	264,031	0	264,031
Principal Paid on General Obligation Bonds	(105,000)	0	(40,000)	0	(145,000)
Interest Paid on All Debt	(86,310)	0	(65,922)	0	(152,232)
Net Cash Used for Capital and Related Financing Activities	<u>(449,631)</u>	<u>(1,441)</u>	<u>69,257</u>	<u>4,394</u>	<u>(377,421)</u>
<u>Cash Flows from Investing Activities:</u>					
Receipts of Interest	50,000	0	0	0	50,000
Purchase of Investments	(87,716)	(32,876)	0	0	(120,592)
Sale of Investments	0	0	166,185	32,387	198,572
Net Cash Provided by Investing Activities	<u>(37,716)</u>	<u>(32,876)</u>	<u>166,185</u>	<u>32,387</u>	<u>127,980</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(135,601)	(17,844)	(56,535)	(14,921)	(224,901)
Cash and Cash Equivalents at Beginning of Year	312,956	45,483	89,602	25,962	474,003
Cash and Cash Equivalents at End of Year	<u>\$177,355</u>	<u>\$27,639</u>	<u>\$33,067</u>	<u>\$11,041</u>	<u>\$249,102</u>
<u>Reconciliation of Operating Income (Loss) to</u>					
<u>Net Cash Provided (Used) by Operating Activities:</u>					
Operating Income (Loss)	\$298,397	(\$43,048)	(\$356,350)	(\$52,431)	(\$153,432)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	230,726	67,173	89,074	330	387,303
Changes in Assets and Liabilities:					
Decrease in Accounts Receivable	45,394	11,122	5,656	17,908	80,080
(Increase) in Inventory	578	0	(100)	(100)	378
Decrease in Prepaid Items	(120)	0	(1,406)	(180)	(1,706)
Increase in Accounts Payable	5,199	(21,207)	(13,915)	(8,316)	(38,239)
Increase (Decrease) in Accrued Wages and Benefits	(9,779)	(787)	(3,906)	(5,885)	(20,357)
Increase (Decrease) in Compensated Absences	13,380	3,220	4,038	1,106	21,744
Total Adjustments	<u>285,378</u>	<u>59,521</u>	<u>79,441</u>	<u>4,863</u>	<u>429,203</u>
Net Cash Provided (Used) by Operating Activities	<u>\$583,775</u>	<u>\$16,473</u>	<u>(\$276,909)</u>	<u>(\$47,568)</u>	<u>\$275,771</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2005

	<u>Agency</u>
Assets:	
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	\$ 1,724
Total Assets	<u>1,724</u>
Liabilities:	
Due to Others	<u>1,724</u>
Total Liabilities	<u>\$ 1,724</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Loveland, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Manager form of government, was adopted on July 25, 1961.

The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: police protection, parks and recreation, planning, zoning, street maintenance, and other governmental services. The City also provides refuse collection services (on a contractual basis) and owns and operates a water treatment and distribution system and a wastewater treatment and collection system (which is operated by the Metropolitan Sewer District), each of which is reported as an enterprise fund. In addition, the City has included the Community Improvement Corporation of Loveland (CIC) as a blended component unit.

The Community Improvement Corporation of Loveland (CIC), a non-profit organization, is an eleven-member board comprised of one City official, seven council members and three community representatives. Although it is legally separate from the City, the CIC is reported as if it were part of the primary government because the City can impose its will on the CIC. The CIC is responsible for research and development of the City, including the assurance that mortgage payments will be made to foster such development, the acquisition, construction, equipment and improvement of buildings, structures and other properties, the acquisition of sites for such development, the lease, sale and subdivision of such sites and incurring of debt in order to carry out such development, and to make loans to any individual or business entity in order to carry out such development purpose for the City. Funding to finance the CIC comes from the sale of properties owned by the CIC and contributions from the City and private sources.

B. Basis of Presentation - Fund Accounting

The City uses funds 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 certain City functions or activities.

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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. The following fund types are used by the City:

Governmental Funds - are those funds 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 liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Principal sources of revenue are municipal income taxes and shared tax revenues. Primary expenditures are for police protection, community environment and general government.

Income Tax - This fund is used to account for the receipts and distribution of the City's income tax collections.

Paramedic - This fund is used to account for the City's paramedic services.

Fire & EMS - This fund is used to account for the operation of the City's fire and EMS department.

Fire Protection - This fund is used to account for the activities provided by the City's fire protection service.

General Bond - This fund is used to account for the accumulation of resources for, and the payment of, the City's long-term debt obligations.

Issue Two Projects - This fund is used to account for Issue Two funds from the State of Ohio for Capital Projects.

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

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are the City's major enterprise funds:

Water - This fund is used to account for the operation of the City's water treatment and distribution systems.

Sewer - This fund is used to account for the operation of the City's sewage treatment and collection systems.

Stormwater - This fund is used to account for the operation of the City's stormwater system.

Sanitation - This fund is used to account for the operation of the City's refuse collection system.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City's fiduciary funds are agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Basis of Presentation - Financial Statements

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds, the expendable trust fund, and the agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because generally these revenues are not measurable until received.

Special assessments receivable, which are measurable, but not available at December 31, are recorded as deferred revenue. Property taxes which are measurable at December 31, 2005 but which are not intended to finance 2005 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 3.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses recognized when incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual—All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year end, however, are reported as reservations of fund balances for subsequent year expenditures in the accompanying basic financial statements.

5. Lapsing of Appropriations

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

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" for the General Fund and the Major Special Revenue Funds:

	Net Change in Fund Balance				
	General Fund	Income Tax Fund	Paradnedic Fund	Fire & EMS Fund	Fire Protection Fund
GAAP Basis (as reported)	\$214,567	\$133,217	\$18,841	(\$37,151)	\$612
Increase (Decrease):					
Accrued Revenues at December 31, 2005 received during 2006	(277,779)	(258,213)	(612)	(466)	(465)
Accrued Revenues at December 31, 2004 received during 2005	209,681	460,141	2,917	2,259	2,462
Accrued Expenditures at December 31, 2005 paid during 2006	200,099	19,185	0	10,983	
Accrued Expenditures at December 31, 2004 paid during 2005	(335,131)	(29,274)	(827)	(7,848)	(500)
2005 Prepays for 2006	(10,505)	0	0	(5,425)	0
2004 Prepays for 2005	11,269	0	0	4,875	0
Budget Basis	<u>\$12,201</u>	<u>\$325,056</u>	<u>\$20,319</u>	<u>(\$32,773)</u>	<u>\$2,109</u>

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and the State Treasurer's Asset Reserve (STAR Ohio). STAR Ohio is considered a cash equivalent because it is a highly liquid investment with an original maturity date of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled deposits and investments are considered to be cash equivalents. See Note 2 "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts which are reported at cost, which approximates fair value. Fair value is determined by quoted market prices. See Note 2, "Cash, Cash Equivalents and Investments."

The City has invested funds in STAR Ohio during 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life threshold of three or more years.

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, improvements to land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined at December 31, 1987 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Property, Plant and Equipment – Business-Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (Years)</u>
Land Improvements	20
Buildings	25 – 50
Building Improvements	20 – 30
Infrastructure	10 – 20
Machinery, Equipment, Furniture, Fixtures and Vehicles	3 – 30

CITY OF LOVELAND, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2005***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Bond Fund Water Fund Stormwater Fund
Ohio Public Works Commission Loans	General Bond Fund
Capital Leases	General Fund Fire and EMS Fund Street Maintenance Fund Recreation Capital Improvement Fund Water Fund Sanitation Fund Stormwater Fund
Police/Fire Pension Accrued Liability	General Fund
Compensated Absences	General Fund Water Fund Sewer Fund Sanitation Fund Stormwater Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

Compensated absences are expensed in the water, sewer, and refuse collection enterprise funds when earned. The related liability is reported within the fund.

L. Restricted Assets

Certain cash and cash equivalents are classified as restricted on the balance sheet because these funds are being held by a trustee, an agent or by the City for specified purposes.

M Intergovernmental Revenues

In governmental funds, grants awarded on a non-reimbursement basis, entitlements and shared revenues are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursable grants are recorded as intergovernmental receivables and revenues when the related expenditures are made.

Grants received for proprietary fund operations are recognized as revenues when measurable and earned. Such resources restricted for the construction of capital assets are recorded as contributed capital.

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

O. Interfund Activity

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

CITY OF LOVELAND, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for supplies inventory, prepaid items, debt service and encumbered amounts that are not accrued at year end.

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

S. Estimates

The preparation of the 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.

This space intentionally left blank.

CITY OF LOVELAND, OHIO

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

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the City into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

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

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

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

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$1,310,373 and the bank balance was \$1,636,980. Federal depository insurance covered \$1,413,001 of the bank balance and \$223,979 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	\$223,979
Total Balance	\$223,979

B. Investments

The City's investments at June 30, 2005 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
Repurchase Agreements	\$849,932	N/A	\$849,932	\$0	\$0
STAR Ohio	398,082	AAAm ¹	398,082	0	0
FNMA	1,383,413	AAA ¹ /Aaa ²	987,537	395,876	0
FHLB	1,967,575	AAA ¹ /Aaa ²	1,723,435	244,140	0
FHLMC	994,945	AAA ¹ /Aaa ²	994,945	0	0
Total Investments	\$5,593,947		\$4,953,931	\$640,016	\$0

¹ Standard & Poor's

² Moody's Investor Service

CITY OF LOVELAND, OHIO

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

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

B. Investments (Continued)

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

Concentration of Credit Risk – The City places no limit on the amount the City may invest in one issuer. Of the City's total investments, 24.7% are FNMA, 35.2% are FHLB, and 17.8% are FHLMC.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the City's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Financial Statements	\$1,194,387	\$5,709,933
Certificates of Deposit (with maturities of more than 3 months)	1,364,000	(1,364,000)
Repurchase Agreements	(849,932)	849,932
STAR Ohio	(398,082)	398,082
Per GASB Statement No. 3	<u>\$1,310,373</u>	<u>\$5,593,947</u>

* Includes Cash with Fiscal Agent

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 3 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 2002 for Clermont County, 2000 for Warren County, and 1999 for Hamilton County. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25%. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the counties including the City of Loveland. The County Auditors periodically remit to the City its portion of the taxes collected.

The assessed values upon which the 2005 property tax receipts were based were as follows:

	County		
	Hamilton	Clermont	Warren
Real Property:			
Residential/Agricultural	\$185,720,610	\$28,178,690	\$15,974,040
Personal Property:			
Tangible Personal Property	10,938,790	1,258,584	104,350
Public Utility Personal Property	4,620,530	1,511,060	173,840
Total Assessed Value	<u>\$201,279,930</u>	<u>\$30,948,334</u>	<u>\$16,252,230</u>
Tax Rate/Assessed Value	\$12.00/\$1,000	\$11.55/\$1,000	\$11.72/\$1,000

CITY OF LOVELAND, OHIO

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

NOTE 3 – TAXES (Continued)

B. Income Tax

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

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

NOTE 4 - RECEIVABLES

Receivables at December 31, 2005 consisted of income taxes, accounts receivable, interest, special assessments, and intergovernmental receivables arising from shared revenues.

NOTE 5 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2005:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$1,330,229	\$0
Income Tax Fund	0	1,681,859
General Bond Fund	251,231	0
Nonmajor Governmental Funds	351,630	0
Total Governmental Funds	1,933,090	1,681,859
Enterprise Fund:		
Water	0	232,029
Stromwater	0	15,068
Sanitation	0	4,134
Total Enterprise Funds	0	251,231
Totals	<u>\$1,933,090</u>	<u>\$1,933,090</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The Enterprise funds provided transfers to the debt service fund during the year to retire a portion of debt paid by governmental activities. Transfers out of the Income tax fund were made according in accordance with City ordinances.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 6 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2005:

Historical Cost:

Class	December 31, 2004	Additions	Deletions	December 31, 2005
<i>Capital assets not being depreciated:</i>				
Land	\$3,069,252	\$0	\$0	\$3,069,252
<i>Capital assets being depreciated:</i>				
Buildings	5,823,487	452,503	0	6,275,990
Improvements other than Buildings	1,257,908	0	0	1,257,908
Machinery and Equipment	3,935,209	345,800	(298,171)	3,982,838
Infrastructure	18,666,432	0	0	18,666,432
Total Cost	<u>\$32,752,288</u>	<u>\$798,303</u>	<u>(\$298,171)</u>	<u>\$33,252,420</u>

Accumulated Depreciation:

Class	December 31, 2004	Additions	Deletions	December 31, 2004
Buildings	(907,488)	(124,048)	0	(1,031,536)
Improvements other than Buildings	(868,467)	(36,861)	0	(905,328)
Machinery and Equipment	(2,153,152)	(380,460)	273,662	(2,259,950)
Infrastructure	(7,453,414)	(345,347)	0	(7,798,761)
Total Depreciation	<u>(\$11,382,521)</u>	<u>(\$886,716) *</u>	<u>\$273,662</u>	<u>(\$11,995,575)</u>
<i>Net Value:</i>	<u>\$21,369,767</u>			<u>\$21,256,845</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$316,934
Leisure Time Activities	107,255
Transportation	383,153
General Government	79,374
Total Depreciation Expense	<u>\$886,716</u>

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 6 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by category of changes in business-type activities capital assets at December 31, 2005:

Historical Cost:

Class	December 31, 2004	Additions	Deletions	December 31, 2005
<i>Capital assets not being depreciated:</i>				
Land	\$250,168	\$0	\$0	\$250,168
Construction In Progress	398,002	0	0	398,002
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	1,449,145	1,161,451	0	2,610,596
Utility Structures in Service	12,794,973	1,289,843	0	14,084,816
Infrastructure	3,174,844	245,896	0	3,420,740
Machinery and Equipment	275,374	40,763	(15,900)	300,237
Total Cost	<u>\$18,342,506</u>	<u>\$2,737,953</u>	<u>(\$15,900)</u>	<u>\$21,064,559</u>

Accumulated Depreciation:

Class	December 31, 2004	Additions	Deletions	December 31, 2005
Buildings and Improvements	(\$887,191)	(\$46,005)	\$0	(\$933,196)
Utility Structures in Service	(4,024,609)	(261,971)	0	(4,286,580)
Infrastructure	(1,173,870)	(60,871)	0	(1,234,741)
Machinery and Equipment	(166,742)	(18,456)	9,300	(175,898)
Total Depreciation	<u>(\$6,252,412)</u>	<u>(\$387,303)</u>	<u>\$9,300</u>	<u>(\$6,630,415)</u>
<i>Net Value:</i>	<u>\$12,090,094</u>	<u>\$2,350,650</u>	<u>(\$6,600)</u>	<u>\$14,434,144</u>

This space intentionally left blank.

CITY OF LOVELAND, OHIO

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2005 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2005, 2004, and 2003 were \$422,018, \$397,779 and \$228,927, respectively, which were equal to the required contributions for each year.

CITY OF LOVELAND, OHIO

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2005 employer contribution rate (identified above) that was used to fund health care for the year 2005 was 4.0% of covered payroll which amounted to \$124,581.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 376,109. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2004 is \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

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

CITY OF LOVELAND, OHIO

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

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

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2005, 2004, and 2003 were \$196,641, \$199,701 and \$185,486 for police, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2005 covered payroll that was used to fund postemployment health care benefits was \$78,152 representing 7.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2004, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,812 for police and 10,528 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2004 were \$102,173,796, which was net of member contributions of \$55,665,341.

CITY OF LOVELAND, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2005***

NOTE 8 – COMPENSATED ABSENCES

All full-time City employees earn sick leave at the rate of 10 hours per calendar month of active service, up to a limit of 1,424 hours. Upon retirement from the City any employee, with 15 years of active service, receives one hour of monetary compensation for every two hours of unused sick leave. A retiring employee's payout may not exceed 1,248 hours of unused sick leave. The monetary compensation is the hourly rate of compensation of the employee at the time of retirement.

All full-time City employees earn vacation at varying rates based upon length of service. An employee may carry forward up to one year of vacation credit, plus six days, to the next year. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance, which is not to exceed the carryover for one year.

The City records a liability for accumulated unpaid vacation and sick leave benefits when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the Long-Term Obligations on the Entity Wide Statement of Net Assets. The amount decreased \$24,594 from a beginning year balance of \$775,337 to a year-end balance of \$750,743.

At December 31, 2005 the total accumulated unpaid sick leave time recorded in the General Long-Term Obligations Account Group was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	24,406	\$664,095
Vacation	<u>4,656</u>	<u>86,648</u>
Total	<u><u>29,062</u></u>	<u><u>\$750,743</u></u>

Compensated absences attributable to the Enterprise Funds of \$117,306 have been recorded within the Enterprise Funds and are not included in the above figures.

This space intentionally left blank.

CITY OF LOVELAND, OHIO

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

NOTE 9- LONG-TERM OBLIGATIONS

Long-term obligations of the City at December 31, 2005 were as follows:

		Balance December 31, 2004	Issued	(Retired)	Balance December 31, 2005	Amount Due Within One Year
Business-Type Activities:						
General Obligation Bonds:						
1998 Water System Improvement	4.37%	\$1,960,000	\$0	(\$105,000)	\$1,855,000	\$110,000
2003 Stormwater System	3.00%	975,000	0	(35,000)	940,000	35,000
2005 Stormwater System	4.48%	0	260,000	(5,000)	255,000	10,000
Total General Obligation Bonds		2,935,000	260,000	(145,000)	3,050,000	155,000
Other Long-Term Obligations:						
Compensated Absences		95,562	117,306	(95,562)	117,306	13,860
Capital Leases		172,339	0	(55,779)	116,560	19,937
Total Other Long-Term Obligations		267,901	117,306	(151,341)	233,866	33,797
Total Business-Type Activities		\$3,202,901	\$377,306	(\$296,341)	\$3,283,866	\$188,797
Governmental Activities:						
General Obligation Bonds:						
1997 Various Purpose Bonds	4.55%	\$1,875,000	\$0	(\$1,650,000)	\$225,000	\$110,000
2002 Various Purpose Bonds	3.25%	1,030,000	0	(40,000)	990,000	40,000
2003 City Hall-HVAC System	3.00%	65,000	0	(5,000)	60,000	5,000
2003 Fire Truck Acquisition	3.00%	615,000	0	(60,000)	555,000	60,000
2005 Various Purpose Refunding Bonds	4.25%	0	1,715,000	(45,000)	1,670,000	20,000
2005 Deferred Loss on Refunding		0	(71,749)	5,519	(66,230)	(5,519)
2005 P.W. Vehicles	4.23%	0	165,000	(25,000)	140,000	35,000
2005 North End T.I.F	4.16%	0	645,000	(35,000)	610,000	60,000
Total General Obligation Bonds		3,585,000	2,453,251	(1,854,481)	4,183,770	324,481
Ohio Public Works Commission Loans:						
1993 Hanna Avenue Waterline	0.00%	91,962	0	(11,495)	80,467	11,495
1993 State Route 48 Waterline	3.00%	60,340	0	(16,603)	43,737	17,105
1994 Park Avenue Waterline	3.00%	43,951	0	(10,502)	33,449	10,819
1994 East Loveland Avenue	3.00%	184,795	0	(16,104)	168,691	16,590
1994 West Booster	3.00%	144,150	0	(13,327)	130,823	13,728
1995 Lever Water Tower	3.00%	411,044	0	(28,926)	382,118	29,800
1996 Maderia Road Waterline	0.00%	337,785	0	(28,149)	309,636	28,149
1999 State Route 48 North	3.00%	198,512	0	(17,897)	180,615	13,667
2002 West Loveland Waterline	0.00%	262,500	0	(15,000)	247,500	15,000
2003 West Loveland Avenue	0.00%	325,058	0	(16,670)	308,388	16,670
2004 Elyson Extension	0.00%	398,002	78,708	(23,835)	452,875	11,918
2005 Walker Extension	0.00%	0	382,652	(9,566)	373,086	9,566
Total Ohio Public Works Commission Loans		2,458,099	461,360	(208,074)	2,711,385	194,507
Other Long-Term Obligations:						
Compensated Absences		775,337	750,743	(775,337)	750,743	103,566
Capital Leases		301,589	0	(146,901)	154,688	54,919
Police and Firemen's Pension Accrued Liability		36,622	0	(605)	36,017	641
Total Other Long-Term Obligations		1,113,548	750,743	(922,843)	941,448	159,126
Total Governmental Activities		\$7,156,647	\$3,665,354	(\$2,985,398)	\$7,836,603	\$678,114

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

A. Police and Firemen's Pension Fund

The City's liability for past service costs relating to the Police and Firemen's Pension Fund at December 31, 2005 was \$62,637 in principal and interest payments through the year 2035. Only the principal amount due of \$36,017 is included in the Governmental Activities.

B. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2005, follows:

Years	General Obligation Bonds		OPWC Loans		Police Pension Accrued Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$485,000	\$299,861	\$215,990	\$22,163	\$631	\$1,524
2007	505,000	281,777	218,657	19,497	659	1,497
2008	520,000	262,600	212,254	16,753	687	1,469
2009	535,000	244,220	193,697	14,426	716	1,439
2010	530,000	224,454	195,687	12,435	746	1,408
2011-2015	2,665,000	803,025	927,572	30,702	4,242	6,532
2016-2020	1,615,000	287,313	489,464	933	5,236	5,539
2021-2025	445,000	43,564	258,064	0	6,462	3,383
2026-2030	0	0	0	0	7,983	2,892
2031-2035	0	0	0	0	8,655	938
Totals	<u>\$7,300,000</u>	<u>\$2,446,814</u>	<u>\$2,711,385</u>	<u>\$116,909</u>	<u>\$36,017</u>	<u>\$26,621</u>

C. Defeasance of General Obligation Debt

In May of 2005 The City issued \$1,715,000 of Various Purpose Refunding General Obligation Bonds to defease the \$1,586,079 of General Obligation Bonds for Various Purposes dated October 1, 1997.

The net proceeds of the 2005 Various Purpose Refunding General Obligation Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts, which including interest earned, was and will be used to pay the principal and interest on the refunded bonds. The refunded General Obligation Bonds, which have a balance of \$1,545,000 at December 31, 2005, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advanced refunding.

The City reduced its aggregate debt service payments over the life of the refunded General Obligation Bonds by \$53,624, and incurred an economic gain of \$48,225.

CITY OF LOVELAND, OHIO

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

NOTE 10 - CAPITAL LEASE COMMITMENTS

Under several capital leases the City leases phone and computer equipment, a public safety radio communication system, an ambulance, three trucks, and a street sweeper for the police, fire, street and recreation departments. The cost of the leased assets and the related liability are accounted for in the Governmental Activities and Business-type funds capital assets and long-term debt accounts. The original cost of the assets under capital lease is \$734,540.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2005:

<u>Year Ending December 31,</u>	<u>Governmental Capital Leases</u>	<u>Business-Type Capital Leases</u>
2006	\$60,215	\$41,264
2007	60,215	41,264
2008	29,534	41,264
2009	14,767	1,658
Minimum Lease Payments	164,731	125,450
Less: Amount representing interest at the City's incremental borrowing rate of interest	(11,484)	(8,890)
Present value of minimum lease payments	<u>\$153,247</u>	<u>\$116,560</u>

NOTE 11 - INSURANCE AND RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1997, the City joined the Ohio Government Risk Management Plan (OGRMP), a public entity risk plan formed under 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The City pays an annual premium to OGRMP for its general insurance coverage. The agreement for formation of OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure through commercial insurance and reinsurance companies.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

CITY OF LOVELAND, OHIO

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

NOTE 12 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the City has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures” and GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.”

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks, credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting revenues for insurance recoveries.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 3, "Cash and Cash Equivalents." The implementation of GASB Statement No. 42 did not have an effect on the financial statements of the City.

NOTE 13 - CONTINGENCIES

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

CITY OF LOVELAND, OHIO

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2004**

Prepared by:
William R. Taphorn
Director of Finance

TABLE OF CONTENTS

I FINANCIAL SECTION

A Independent Auditor’s Report.....1

B Management’s Discussion and Analysis3

C Basic Financial Statements:

 Government-wide Financial Statements:

 Statement of Net Assets.....11

 Statement of Activities12

 Fund Financial Statements:

Governmental Funds:

 Balance Sheet14

 Reconciliation of Total Governmental Fund Balances to Net Assets of
 Governmental Activities16

 Statement of Revenues, Expenditures and Changes in Fund Balances18

 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities20

 Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual (Non-GAAP Budgetary Basis):

 General Fund21

 Income Tax fund.....22

 Paramedic Fund23

 Fire and EMS Fund24

 Fire Protection Fund25

Proprietary Funds:

 Statement of Net Assets.....26

 Statement of Revenues, Expenses and Changes in Fund Net Assets27

 Statement of Cash Flows28

Fiduciary Funds:

 Statement of Assets and Liabilities.....29

Notes to the Basic Financial Statements.....30

This Page Intentionally Left Blank

Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of City Council
City of Loveland, Ohio

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

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

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

As disclosed in Note 2 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* for the year ended December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not

to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report when assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Bastin & Company, L L C". The signature is written in dark ink on a light-colored background.

Cincinnati, Ohio
September 1, 2006

CITY OF LOVELAND, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

The discussion and analysis of the City of Loveland's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$2,041,642. Net assets of governmental activities increased \$2,167,123, which represents a 12.8% increase from 2004. Net assets of business-type activities decreased \$125,481, from 2003.
- General revenues accounted for \$8,074,279 in revenue or 51.1% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,730,326 or 48.9% of all revenues.
- The City had \$9,222,682 in expenses related to governmental activities; only \$3,315,526 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$8,074,279 were adequate to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – *management's discussion and analysis*, the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including police protection, parks and recreation, planning, zoning, street maintenance and other governmental services.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's refuse collection, water, water treatment, and stormwater services are reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Unaudited

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Current and other assets	\$7,651,957	\$4,310,506	\$11,962,463
Capital assets, Net	21,369,767	12,090,094	33,459,861
Total assets	<u>29,021,724</u>	<u>16,400,600</u>	<u>45,422,324</u>
Long-term debt outstanding	7,156,647	3,202,901	10,359,548
Other liabilities	2,708,198	176,758	2,884,956
Total liabilities	<u>9,864,845</u>	<u>3,379,659</u>	<u>13,244,504</u>
Net assets			
Invested in capital assets, net of related debt	14,642,427	9,046,790	23,689,217
Restricted	2,256,742	0	2,256,742
Unrestricted	2,257,710	3,974,151	6,231,861
Total net assets	<u>\$19,156,879</u>	<u>\$13,020,941</u>	<u>\$32,177,820</u>

CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for fiscal year 2004:

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Revenues			
Program revenues:			
Charges for Services and Sales	\$813,973	\$4,414,760	5,228,733
Operating Grants and Contributions	524,188	0	524,188
Capital Grants and Contributions	1,977,365	0	1,977,365
General revenues:			
Income Taxes	2,685,636	0	2,685,636
Property Taxes	2,193,680	0	2,193,680
Grants and Entitlements not Restricted to Specific Programs	1,509,679	0	1,509,679
Investment Earnings	98,358	0	98,358
Miscellaneous	1,403,131	0	1,403,131
Total revenues	11,206,010	4,414,760	15,620,770
Program Expenses			
Security of Persons and Property	4,723,497	0	4,723,497
Leisure Time Activities	386,777	0	386,777
Community Development	212,333	0	212,333
Transportation	955,931	0	955,931
General Government	2,683,325	0	2,683,325
Interest and Fiscal Charges	260,819	0	260,819
Water	0	1,096,374	1,096,374
Sewer	0	1,663,969	1,663,969
Stormwater	0	780,199	780,199
Sanitation	0	815,904	815,904
Total expenses	9,222,682	4,356,446	13,579,128
Excess (deficiency) before Transfers	1,983,328	58,314	2,041,642
Transfers	183,795	(183,795)	0
Total Change in Net Assets	2,167,123	(125,481)	2,041,642
Beginning Net Assets	16,989,756	13,146,422	30,136,178
Ending Net Assets	\$19,156,879	\$13,020,941	\$32,177,820

Governmental Activities

The net assets of the City's governmental activities increased by \$2,167,123, mainly due to the receipt of revenues for the addition of new streets within the City.

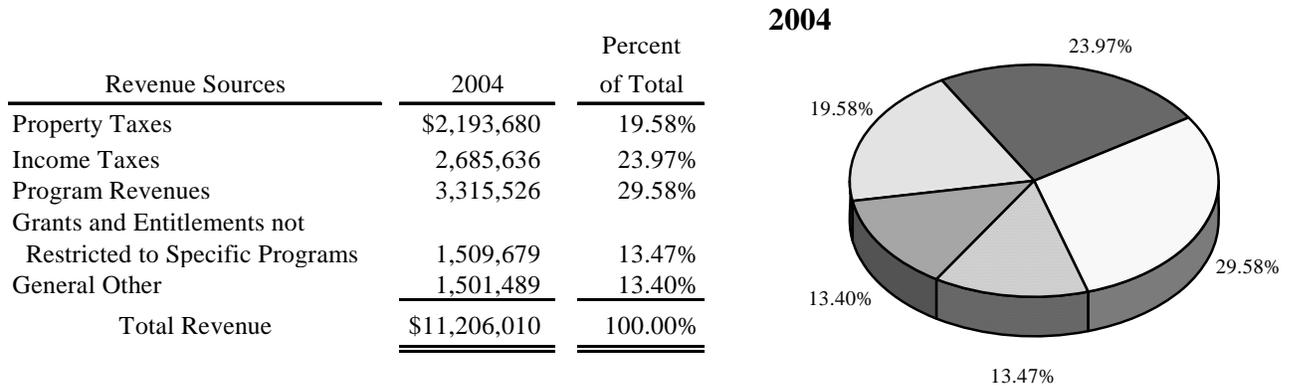
CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Unaudited

The City receives an income tax, which is based on 1.00% of all salaries, wages, commissions and other compensation and on net profits earned from businesses and residents living within the City.

Property taxes and income taxes made up 19.58% and 23.97% respectively of revenues for governmental activities for the City in fiscal year 2004. The City's reliance upon tax revenues is demonstrated by the following graph indicating 44% of total revenues from general tax revenues:



Business-Type Activities

Net assets of the business-type activities decreased by \$125,481. This decrease was the result of payments to the General Fund for overhead costs during 2004.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$3,672,508, which is an increase from last year's balance of \$1,358,469. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2004 and 2003:

	Fund Balance (Deficit) December 31, 2004	Fund Balance (Deficit) December 31, 2003	Increase (Decrease)
General	(\$113,316)	(\$63,722)	(\$49,594)
Income Tax	2,613,822	1,865,502	748,320
Paramedic	22,946	22,221	725
Fire and EMS	82,051	137,002	(54,951)
Fire Protection	35,418	444,781	(409,363)
General Bond	17,860	17,860	0
Issue Two Projects	(282,783)	260,658	(543,441)
Other Governmental	1,296,510	(1,325,833)	2,622,343
Total	<u>\$3,672,508</u>	<u>\$1,358,469</u>	<u>\$2,314,039</u>

CITY OF LOVELAND, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

General Fund – The City's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2004 <u>Revenues</u>	2003 <u>Revenues</u>	Increase <u>(Decrease)</u>
Property Taxes	\$706,621	\$758,257	(\$51,636)
Intergovernmental Revenues	1,406,851	825,718	581,133
Charges for Services	439,130	18,058	421,072
Licenses and Permits	98,771	106,179	(7,408)
Fines and Forfeitures	160,072	155,219	4,853
All Other Revenue	18,132	101,543	(83,411)
Total	<u>\$2,829,577</u>	<u>\$1,964,974</u>	<u>\$864,603</u>

General Fund revenues in 2004 increased 44% compared to revenues in fiscal year 2003. The most significant factor contributing to this increase was the increase in intergovernmental revenues, mainly due to a large inheritance tax collected in 2004.

	2004 <u>Expenditures</u>	2003 <u>Expenditures</u>	Increase <u>(Decrease)</u>
Security of Persons and Property	\$2,149,320	\$1,973,704	\$175,616
Community Environment	212,333	208,903	3,430
General Government	1,490,662	1,299,470	191,192
Principal Retirement	34,000	0	34,000
Interest and Fiscal Charges	34,815	0	34,815
Total	<u>\$3,921,130</u>	<u>\$3,482,077</u>	<u>\$439,053</u>

General Fund expenditures increased by \$439,053 over the prior year mostly due to increases in salary and insurance costs.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2004 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$2.1 million did significantly change over the original budget estimates of \$1.7 million. The change in budget reflects the receipt of a large inheritance tax. The General Fund had an adequate fund balance to cover expenditures.

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 the City had \$33,459,861 net of accumulated depreciation invested in land, buildings, infrastructure, equipment and vehicles. Of this total, \$21,369,767 was related to governmental activities and \$12,090,094 to the business-type activities. The following table shows fiscal year 2004 and 2003 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$3,069,252	\$5,039,697	(\$1,970,445)
Construction In Progress	0	1,261,271	(1,261,271)
Buildings and Improvements	5,823,487	5,081,024	742,463
Improvements Other than Buildings	1,257,908	1,229,553	28,355
Machinery and Equipment	3,935,209	3,040,191	895,018
Infrastructure	18,666,432	16,061,585	2,604,847
Less: Accumulated Depreciation	(11,382,521)	(10,635,444)	(747,077)
Totals	\$21,369,767	\$21,077,877	\$291,890

	Business-Type Activities		Increase (Decrease)
	2004	2003	
Land	\$250,168	\$250,168	\$0
Construction in Progress	398,002	0	\$398,002
Buildings & Improvements	1,449,145	1,449,145	0
Utility Structures in Service	12,794,973	12,387,228	407,745
Infrastructure	3,174,844	3,174,844	0
Machinery and Equipment	275,374	252,197	23,177
Less: Accumulated Depreciation	(6,252,412)	(5,905,164)	(347,248)
Totals	\$12,090,094	\$11,608,418	\$481,676

The primary increases occurred in infrastructure. These increases resulted from the completion of several roadway projects within the city. Additional information on the City's capital assets can be found in Note 8.

CITY OF LOVELAND, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

Debt

At December 31, 2004, the City had \$6,520,000 in bonds outstanding, \$350,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Governmental Activities:		
General Obligation Bonds	\$3,585,000	\$3,765,992
Ohio Public Works Commission Loans	2,458,099	2,193,016
Capital Leases Payable	301,589	295,006
Compensated Absences	775,337	692,781
Police Pension Accrued Liability	36,622	37,202
Total Governmental Activities	<u>\$7,156,647</u>	<u>\$6,983,997</u>
Business-Type Activities:		
General Obligation Bonds	\$2,935,000	\$3,060,000
Capital Leases Payable	172,339	209,534
Compensated Absences	95,562	145,251
Total Business-Type Activities	<u>3,202,901</u>	<u>3,414,785</u>
Totals	<u>\$10,359,548</u>	<u>\$10,398,782</u>

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. At December 31, 2004, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 12.

ECONOMIC FACTORS

During 2004, City Council expressed a need for an enhanced economic development focus to better assure the City's long-term financial outlook. The Administration has partnered with the Greater Cincinnati Chamber of Commerce in a more regional approach to economic development and growth, yet continues to work on relationships with local businesses and industries.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bill Taphorn, Director of Finance, City of Loveland, 120 West Loveland Ave., Loveland, Ohio 45140.

CITY OF LOVELAND, OHIO

Statement of Net Assets
December 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 575,038	\$ 474,003	\$ 1,049,041
Investments	2,711,553	2,768,557	5,480,110
Receivables:			
Taxes	2,595,857	0	2,595,857
Accounts	83,768	838,476	922,244
Intergovernmental	1,269,390	0	1,269,390
Interest	15,430	0	15,430
Special Assessments	72,650	0	72,650
Inventory of Supplies at Cost	23,873	15,370	39,243
Prepays	18,694	4,425	23,119
Restricted Assets:			
Cash and Cash Equivalents	267,027	209,675	476,702
Cash and Cash Equivalents with Fiscal Agent	18,677	0	18,677
Capital Assets:			
Capital Assets Not Being Depreciated	3,069,252	648,170	3,717,422
Capital Assets Being Depreciated	18,300,515	11,441,924	29,742,439
Total Assets	<u>29,021,724</u>	<u>16,400,600</u>	<u>45,422,324</u>
Liabilities:			
Accounts Payable	527,328	118,404	645,732
Accrued Wages and Benefits	203,241	44,993	248,234
Matured Bonds & Interest Payable	18,677	0	18,677
Deferred Revenue	1,918,761	0	1,918,761
Accrued Interest Payable	40,191	13,361	53,552
Long Term Liabilities:			
Due Within One Year	635,977	209,459	845,436
Due in More Than One Year	6,520,670	2,993,442	9,514,112
Total Liabilities	<u>9,864,845</u>	<u>3,379,659</u>	<u>13,244,504</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	15,025,079	9,046,790	24,071,869
Restricted For:			
Capital Projects	1,124,994	0	1,124,994
Other Purposes	1,131,748	0	1,131,748
Unrestricted	1,875,058	3,974,151	5,849,209
Total Net Assets	<u>\$ 19,156,879</u>	<u>\$ 13,020,941</u>	<u>\$ 32,177,820</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Activities
For the Year Ended December 31, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 4,723,497	\$ 220,522	\$ 14,041	\$ 0
Leisure Time Activities	386,777	28,025	0	0
Community Environment	212,333	98,771	0	0
Transportation	955,931	27,525	510,147	1,977,365
General Government	2,683,325	439,130	0	0
Interest and Fiscal Charges	260,819	0	0	0
Total Governmental Activities	9,222,682	813,973	524,188	1,977,365
Business-Type Activities:				
Water	1,096,374	1,659,578	0	0
Sewer	1,663,969	1,467,664	0	0
Stormwater	780,199	423,649	0	0
Sanitation	815,904	863,869	0	0
Total Business-Type Activities	4,356,446	4,414,760	0	0
Totals	\$ 13,579,128	\$ 5,228,773	\$ 524,188	\$ 1,977,365

General Revenues

- Property Taxes
- Municipal Income Taxes
- Grants and Entitlements not Restricted to Specific Programs
- Investment Earnings
- Miscellaneous
- Transfers
- Total General Revenues and Transfers

- Change in Net Assets

- Net Assets Beginning of Year

- Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (4,488,934)	\$ 0	\$ (4,488,934)
(358,752)	0	(358,752)
(113,562)	0	(113,562)
1,559,106	0	1,559,106
(2,244,195)	0	(2,244,195)
<u>(260,819)</u>	<u>0</u>	<u>(260,819)</u>
<u>(5,907,156)</u>	<u>0</u>	<u>(5,907,156)</u>
0	563,204	563,204
0	(196,305)	(196,305)
0	(356,550)	(356,550)
<u>0</u>	<u>47,965</u>	<u>47,965</u>
<u>0</u>	<u>58,314</u>	<u>58,314</u>
<u>(5,907,156)</u>	<u>58,314</u>	<u>(5,848,842)</u>
2,193,680	0	2,193,680
2,685,636	0	2,685,636
1,509,679	0	1,509,679
98,358	0	98,358
1,403,131	0	1,403,131
<u>183,795</u>	<u>(183,795)</u>	<u>0</u>
<u>8,074,279</u>	<u>(183,795)</u>	<u>7,890,484</u>
2,167,123	(125,481)	2,041,642
<u>16,989,756</u>	<u>13,146,422</u>	<u>30,136,178</u>
<u>\$ 19,156,879</u>	<u>\$ 13,020,941</u>	<u>\$ 32,177,820</u>

CITY OF LOVELAND, OHIO

Balance Sheet
Governmental Funds
December 31, 2004

	General Fund	Income Tax Fund	Paramedic Fund	Fire and EMS Fund
Assets:				
Cash and Cash Equivalents	\$ 0	\$ 319,109	\$ 20,856	\$ 12,099
Investments	0	1,863,846	0	70,666
Receivables:				
Taxes	815,522	460,141	516,003	419,705
Accounts	38,768	0	0	0
Intergovernmental	291,505	0	29,208	25,470
Interest	0	0	0	0
Special Assessments	0	0	0	0
Inventory of Supplies, at Cost	865	0	0	0
Prepaid Items	11,269	0	0	4,875
Restricted Assets:				
Cash and Cash Equivalents	0	0	0	0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0
Total Assets	\$ 1,157,929	\$ 2,643,096	\$ 566,067	\$ 532,815
Liabilities:				
Accounts Payable	\$ 175,387	\$ 15,660	\$ 827	\$ 7,848
Accrued Wages and Benefits Payable	159,744	13,614	0	0
Matured Bonds and Interest Payable	0	0	0	0
Deferred Revenue	936,114	0	542,294	442,916
Total Liabilities	1,271,245	29,274	543,121	450,764
Fund Balances:				
Reserved for Encumbrances	0	0	0	0
Reserved for Prepaid Items	11,269	0	0	4,875
Reserved for Supplies Inventory	865	0	0	0
Reserved for Debt Service	0	0	0	0
Unreserved, Undesignated in:				
General Fund (Deficit)	(125,450)	0	0	0
Special Revenue Funds	0	2,613,822	22,946	77,176
Capital Projects Funds	0	0	0	0
Total Fund Balances (Deficits)	(113,316)	2,613,822	22,946	82,051
Total Liabilities and Fund Balances	\$ 1,157,929	\$ 2,643,096	\$ 566,067	\$ 532,815

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Fire Protection Fund	General Bond Fund	Issue Two Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 33,456	\$ 17,860	\$ 0	\$ 171,658	\$ 575,038
0	0	0	777,041	2,711,553
384,486	0	0	0	2,595,857
0	0	0	45,000	83,768
21,386	0	676,580	225,241	1,269,390
0	0	0	15,430	15,430
0	0	0	72,650	72,650
0	0	0	23,008	23,873
0	0	0	2,550	18,694
0	0	0	267,027	267,027
0	18,677	0	0	18,677
<u>\$ 439,328</u>	<u>\$ 36,537</u>	<u>\$ 676,580</u>	<u>\$ 1,599,605</u>	<u>\$ 7,651,957</u>
\$ 500	\$ 0	\$ 282,783	\$ 44,323	\$ 527,328
0	0	0	29,883	203,241
0	18,677	0	0	18,677
<u>403,410</u>	<u>0</u>	<u>676,580</u>	<u>228,889</u>	<u>3,230,203</u>
<u>403,910</u>	<u>18,677</u>	<u>959,363</u>	<u>303,095</u>	<u>3,979,449</u>
0	0	0	62,583	62,583
0	0	0	4,000	20,144
0	0	0	23,008	23,873
0	17,860	0	0	17,860
0	0	0	0	(125,450)
35,418	0	0	619,034	3,368,396
0	0	(282,783)	587,885	305,102
<u>35,418</u>	<u>17,860</u>	<u>(282,783)</u>	<u>1,296,510</u>	<u>3,672,508</u>
<u>\$ 439,328</u>	<u>\$ 36,537</u>	<u>\$ 676,580</u>	<u>\$ 1,599,605</u>	<u>\$ 7,651,957</u>

CITY OF LOVELAND, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2004***

Total Governmental Fund Balances	\$ 3,672,508
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	21,369,767
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	1,311,442
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds Payable	(3,585,000)
OPWC Public Works Commission Loans	(2,458,099)
Capital Leases	(301,589)
Compensated Absences Payable	(775,337)
Police/Fire Accrued Pension Liability	(36,622)
Accrued Interest Payable	(40,191)
	<u>(7,196,838)</u>
 <i>Net Assets of Governmental Activities</i>	 <u>\$ 19,156,879</u>

See accompanying notes to the basic financial statements

This Page Intentionally Left Blank

CITY OF LOVELAND, OHIO

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

	General Fund	Income Tax Fund	Paramedic Fund	Fire and EMS Fund
Revenues:				
Property Taxes	\$ 706,621	\$ 0	\$ 553,942	\$ 446,789
Municipal Income Tax	0	2,713,016	0	0
Intergovernmental Revenues	1,406,851	0	56,738	49,823
Charges for Services	439,130	0	60,000	0
Licenses and Permits	98,771	0	0	0
Investment Earnings	0	0	0	0
Fines and Forfeitures	160,072	0	0	0
All Other Revenue	18,132	9,633	401	50,584
Total Revenue	2,829,577	2,722,649	671,081	547,196
Expenditures:				
Current:				
Security of Persons and Property	2,149,320	0	670,356	459,276
Leisure Time Activities	0	0	0	0
Community Environment	212,333	0	0	0
Transportation	0	0	0	0
General Government	1,490,662	613,528	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	34,000	6,361	0	100,187
Interest & Fiscal Charges	34,815	2,269	0	95,559
Total Expenditures	3,921,130	622,158	670,356	655,022
Excess (Deficiency) of Revenues Over Expenditures	(1,091,553)	2,100,491	725	(107,826)
Other Financing Sources (Uses):				
Sale of Capital Assets	0	0	0	0
Issuance of OPWC Loans	0	0	0	0
Other Financing Sources - Capital Leases	46,725	35,446	0	52,875
Transfers In	995,214	0	0	0
Transfers Out	0	(1,387,617)	0	0
Total Other Financing Sources (Uses)	1,041,939	(1,352,171)	0	52,875
Net Change in Fund Balances	(49,614)	748,320	725	(54,951)
Fund Balances (Deficits) at Beginning of Year	(63,722)	1,865,502	22,221	137,002
Increase (Decrease) in Inventory Reserve	20	0	0	0
Fund Balances (Deficits) End of Year	\$ (113,316)	\$ 2,613,822	\$ 22,946	\$ 82,051

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Fire Protection Fund	General Bond Fund	Issue Two Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 421,249	\$ 0	\$ 0	\$ 95,491	\$ 2,224,092
0	0	0	0	2,713,016
41,867	0	372,557	542,910	2,470,746
0	0	0	0	499,130
0	0	0	55,550	154,321
0	0	0	92,287	92,287
0	0	0	450	160,522
17,692	426	113,146	382,047	592,061
<u>480,808</u>	<u>426</u>	<u>485,703</u>	<u>1,168,735</u>	<u>8,906,175</u>
890,171	0	0	381	4,169,504
0	0	0	286,076	286,076
0	0	0	0	212,333
0	0	0	638,273	638,273
0	0	0	587,145	2,691,335
0	0	1,435,974	519,532	1,955,506
0	147,399	0	52,635	340,582
0	27,994	0	89,147	249,784
<u>890,171</u>	<u>175,393</u>	<u>1,435,974</u>	<u>2,173,189</u>	<u>10,543,393</u>
(409,363)	(174,967)	(950,271)	(1,004,454)	(1,637,218)
0	0	0	3,231,848	3,231,848
0	0	398,002	0	398,002
0	0	0	0	135,046
0	174,967	8,828	392,403	1,571,412
0	0	0	0	(1,387,617)
<u>0</u>	<u>174,967</u>	<u>406,830</u>	<u>3,624,251</u>	<u>3,948,691</u>
(409,363)	0	(543,441)	2,619,797	2,311,473
444,781	17,860	260,658	(1,325,833)	1,358,469
0	0	0	2,546	2,566
<u>\$ 35,418</u>	<u>\$ 17,860</u>	<u>\$ (282,783)</u>	<u>\$ 1,296,510</u>	<u>\$ 3,672,508</u>

CITY OF LOVELAND, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2004***

Net Change in Fund Balances - Total Governmental Funds \$ 2,311,473

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

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

Capital Outlay	3,349,293	
Depreciation Expense	<u>(824,912)</u>	2,524,381

The statement of activities reports gains arising from the disposal of capital assets. Conversely, the governmental funds do not report any gain on the disposal of capital assets. (2,420,778)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (66,834)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. (559,523)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	180,992	
Ohio Public Works Commission Loans	159,590	
Police/Fire Accrued Pension Payment	580	
Capital Leases Payable	<u>128,267</u>	469,429

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (11,035)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	(82,556)	
Change in Inventory	<u>2,566</u>	<u>(79,990)</u>

Change in Net Assets of Governmental Activities **\$ 2,167,123**

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 772,000	\$ 764,520	\$ 750,195	\$ (14,325)
Intergovernmental Revenue	649,600	1,071,750	1,311,141	239,391
Charges for Services	15,000	15,000	13,200	(1,800)
Licenses and Permits	80,000	110,000	98,771	(11,229)
Fines and Forfeitures	150,000	160,000	160,072	72
All Other Revenues	11,500	15,500	15,714	214
Total Revenues	<u>1,678,100</u>	<u>2,136,770</u>	<u>2,349,093</u>	<u>212,323</u>
Expenditures:				
Current:				
Security of Persons and Property	2,155,220	2,171,520	2,121,808	49,712
Community Environment	184,350	212,112	212,112	0
General Government	1,517,600	1,402,523	1,359,772	42,751
Total Expenditures	<u>3,857,170</u>	<u>3,786,155</u>	<u>3,693,692</u>	<u>92,463</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,179,070)	(1,649,385)	(1,344,599)	304,786
Other Financing Sources (Uses):				
Transfers In	2,179,070	1,718,200	1,413,414	(304,786)
Transfers Out	0	(68,815)	(68,815)	0
Total Other Financing Sources (Uses):	<u>2,179,070</u>	<u>1,649,385</u>	<u>1,344,599</u>	<u>(304,786)</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance at Beginning of Year	0	0	0	0
Fund Balance at End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - Income Tax Fund
For the Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Municipal Income Tax	\$ 2,400,000	\$ 2,500,000	\$ 2,520,994	\$ 20,994
All Other Revenues	0	8,621	9,633	1,012
Total Revenues	2,400,000	2,508,621	2,530,627	22,006
Expenditures:				
Current:				
General Government	1,856,972	2,572,590	735,490	1,837,100
Total Expenditures	1,856,972	2,572,590	735,490	1,837,100
Excess (Deficiency) of Revenues Over (Under) Expenditures	543,028	(63,969)	1,795,137	1,859,106
Other Financing Sources (Uses):				
Other Financing Sources - Capital Leases	175,000	150,000	150,196	196
Transfers Out	(2,304,147)	(1,719,900)	(1,396,247)	323,653
Total Other Financing Sources (Uses):	(2,129,147)	(1,569,900)	(1,246,051)	323,849
Net Change in Fund Balance	(1,586,119)	(1,633,869)	549,086	2,182,955
Fund Balance at Beginning of Year	1,633,869	1,633,869	1,633,869	0
Fund Balance at End of Year	\$ 47,750	\$ 0	\$ 2,182,955	\$ 2,182,955

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Paramedic Fund
For the Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 552,500	\$ 550,800	\$ 551,418	\$ 618
Intergovernmental Revenue	54,000	56,000	56,738	738
Charges for Services	60,000	60,000	60,000	0
All Other Revenues	0	0	401	401
Total Revenues	666,500	666,800	668,557	1,757
Expenditures:				
Current:				
Security of Persons and Property	681,614	691,200	672,523	18,677
Total Expenditures	681,614	691,200	672,523	18,677
Excess (Deficiency) of Revenues Over (Under) Expenditures	(15,114)	(24,400)	(3,966)	20,434
Fund Balance at Beginning of Year	24,822	24,822	24,822	0
Fund Balance at End of Year	\$ 9,708	\$ 422	\$ 20,856	\$ 20,434

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Fire and EMS Fund
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 451,000	\$ 444,800	\$ 444,530	\$ (270)
Intergovernmental Revenue	53,000	50,000	49,823	(177)
All Other Revenues	<u>0</u>	<u>47,797</u>	<u>50,584</u>	<u>2,787</u>
Total Revenues	<u>504,000</u>	<u>542,597</u>	<u>544,937</u>	<u>2,340</u>
Expenditures:				
Current:				
Security of Persons and Property	<u>423,189</u>	<u>446,958</u>	<u>366,763</u>	<u>80,195</u>
Total Expenditures	<u>423,189</u>	<u>446,958</u>	<u>366,763</u>	<u>80,195</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	80,811	95,639	178,174	82,535
Other Financing Sources (Uses):				
Transfers Out	<u>(184,976)</u>	<u>(231,076)</u>	<u>(230,846)</u>	<u>230</u>
Total Other Financing Sources (Uses):	<u>(184,976)</u>	<u>(231,076)</u>	<u>(230,846)</u>	<u>230</u>
Net Change in Fund Balance	(104,165)	(135,437)	(52,672)	82,765
Fund Balance at Beginning of Year	<u>135,437</u>	<u>135,437</u>	<u>135,437</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 31,272</u>	<u>\$ 0</u>	<u>\$ 82,765</u>	<u>\$ 82,765</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Fire Protection Fund
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 414,500	\$ 418,500	\$ 419,076	\$ 576
Intergovernmental Revenue	42,000	42,000	41,867	(133)
All Other Revenues	<u>0</u>	<u>17,600</u>	<u>17,692</u>	<u>92</u>
Total Revenues	<u>456,500</u>	<u>478,100</u>	<u>478,635</u>	<u>535</u>
Expenditures:				
Current:				
Security of Persons and Property	<u>895,980</u>	<u>916,300</u>	<u>894,054</u>	<u>22,246</u>
Total Expenditures	<u>895,980</u>	<u>916,300</u>	<u>894,054</u>	<u>22,246</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(439,480)	(438,200)	(415,419)	22,781
Fund Balance at Beginning of Year	<u>448,875</u>	<u>448,875</u>	<u>448,875</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 9,395</u>	<u>\$ 10,675</u>	<u>\$ 33,456</u>	<u>\$ 22,781</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Net Assets Proprietary Funds December 31, 2004

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
Assets:					
<i>Current Assets:</i>					
Cash and Cash Equivalents	\$ 312,956	\$ 45,483	\$ 89,602	\$ 25,962	\$ 474,003
Investments	1,827,912	265,654	523,350	151,641	2,768,557
<i>Receivables:</i>					
Accounts	254,897	321,136	74,624	187,819	838,476
Inventory of Supplies at Cost	15,370	0	0	0	15,370
Prepaid Items	3,875	0	0	550	4,425
<i>Restricted Assets:</i>					
Cash and Cash Equivalents	209,675	0	0	0	209,675
Total Current Assets	2,624,685	632,273	687,576	365,972	4,310,506
<i>Non Current Assets:</i>					
<i>Capital Assets:</i>					
Capital Assets Not Being Depreciated	581,052	63,118	0	4,000	648,170
Capital Assets Being Depreciated	7,717,416	1,705,049	2,012,529	6,930	11,441,924
Total Assets	10,923,153	2,400,440	2,700,105	376,902	16,400,600
Liabilities:					
<i>Current Liabilities:</i>					
Accounts Payable	15,072	22,877	13,915	66,540	118,404
Accrued Wages and Benefits	23,734	2,240	6,006	13,013	44,993
Accrued Interest Payable	7,790	63	3,902	1,606	13,361
Total Current Liabilities	46,596	25,180	23,823	81,159	176,758
<i>Long Term Liabilities:</i>					
Compensated Absences Payable	52,531	8,524	1,168	33,339	95,562
Capital Leases Payable	14,438	6,873	76,063	74,965	172,339
General Obligation Bonds Payable	1,960,000	0	975,000	0	2,935,000
Total Liabilities	2,073,565	40,577	1,076,054	189,463	3,379,659
Net Assets:					
Invested in Capital Assets, Net of Related Debt	6,324,030	1,761,294	961,466	0	9,046,790
Unrestricted	2,525,558	598,569	662,585	187,439	3,974,151
Total Net Assets	\$ 8,849,588	\$ 2,359,863	\$ 1,624,051	\$ 187,439	\$ 13,020,941

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Business-Type Activities				Total
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	
Operating Revenues:					
Charges for Services	\$ 1,354,531	\$ 1,467,664	\$ 342,988	\$ 839,416	\$ 4,004,599
Other Operating Revenue	253,180	0	0	51	253,231
Total Operating Revenues	1,607,711	1,467,664	342,988	839,467	4,257,830
Operating Expenses:					
Personal Services	305,072	26,922	24,407	54,979	411,380
Contractual Services	319,052	1,158,088	628,645	757,807	2,863,592
Materials and Supplies	46,570	8,022	9,976	2,693	67,261
Basic Utility Services	104,364	407,746	0	0	512,110
Depreciation	222,665	63,128	61,188	917	347,898
Total Operating Expenses	997,723	1,663,906	724,216	816,396	4,202,241
Operating Income (Loss)	609,988	(196,242)	(381,228)	23,071	55,589
Nonoperating Revenue (Expenses):					
Intergovernmental Grants	0	0	80,661	26,744	107,405
Investment Earnings	51,867	0	0	0	51,867
Interest Expense	(98,651)	(63)	(55,983)	0	(154,697)
Loss on Disposal of Capital Assets	0	0	0	(1,850)	(1,850)
Total Nonoperating Revenues (Expenses)	(46,784)	(63)	24,678	24,894	2,725
Income (Loss) Before Transfers	563,204	(196,305)	(356,550)	47,965	58,314
Transfers Out	(182,938)	0	(857)	0	(183,795)
Change in Net Assets	380,266	(196,305)	(357,407)	47,965	(125,481)
Net Assets Beginning of Year	8,469,322	2,556,168	1,981,458	139,474	13,146,422
Net Assets End of Year	\$ 8,849,588	\$ 2,359,863	\$ 1,624,051	\$ 187,439	\$ 13,020,941

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2004

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
<u>Cash Flows from Operating Activities:</u>					
Cash Received from Customers	\$1,693,389	\$1,597,715	\$371,531	\$934,789	\$4,597,424
Cash Payments for Goods and Services	(459,583)	(1,550,979)	(628,590)	(753,485)	(3,392,637)
Cash Payments to Employees	(299,256)	(25,825)	(41,156)	(80,424)	(446,661)
Net Cash Provided (Used) by Operating Activities	<u>934,550</u>	<u>20,911</u>	<u>(298,215)</u>	<u>100,880</u>	<u>758,126</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Transfers Out to Other Funds	(182,938)	0	(857)	0	(183,795)
Net Cash Used by Noncapital Financing Activities	<u>(182,938)</u>	<u>0</u>	<u>(857)</u>	<u>0</u>	<u>(183,795)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Acquisition and Construction of Assets	(410,367)	(400,368)	0	(15,807)	(826,542)
Intergovernmental Grants	0	0	80,661	26,252	106,913
Principal Paid on General Obligation Bonds	(100,000)	0	(25,000)	0	(125,000)
Interest Paid on All Debt	(99,167)	0	(54,486)	0	(153,653)
Net Cash Used for Capital and Related Financing Activities	<u>(609,534)</u>	<u>(400,368)</u>	<u>1,175</u>	<u>10,445</u>	<u>(998,282)</u>
<u>Cash Flows from Investing Activities:</u>					
Receipts of Interest	50,000	0	0	0	50,000
Purchase of Investments	(614,365)	0	0	(110,368)	(724,733)
Sale of Investments	0	164,392	43,853	0	208,245
Net Cash Provided by Investing Activities	<u>(564,365)</u>	<u>164,392</u>	<u>43,853</u>	<u>(110,368)</u>	<u>(466,488)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(422,287)	(215,065)	(254,044)	957	(890,439)
Cash and Cash Equivalents at Beginning of Year	735,243	260,548	343,646	25,005	1,364,442
Cash and Cash Equivalents at End of Year	<u>\$312,956</u>	<u>\$45,483</u>	<u>\$89,602</u>	<u>\$25,962</u>	<u>\$474,003</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>					
Operating Income (Loss)	\$609,988	(\$196,242)	(\$381,228)	\$23,071	\$55,589
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	222,665	63,128	61,188	917	347,898
Changes in Assets and Liabilities:					
Decrease in Accounts Receivable	85,678	130,051	28,543	95,322	339,594
(Increase) in Inventory	(576)	0	0	0	(576)
Decrease in Prepaid Items	9,149	0	0	1,607	10,756
Increase in Accounts Payable	1,830	22,877	10,031	5,408	40,146
Increase (Decrease) in Accrued Wages and Benefits	4,798	(1,482)	3,894	4,921	12,131
Increase (Decrease) in Compensated Absences	1,018	2,579	(20,643)	(30,366)	(47,412)
Total Adjustments	<u>324,562</u>	<u>217,153</u>	<u>83,013</u>	<u>77,809</u>	<u>702,537</u>
Net Cash Provided (Used) by Operating Activities	<u>\$934,550</u>	<u>\$20,911</u>	<u>(\$298,215)</u>	<u>\$100,880</u>	<u>\$758,126</u>

Schedule of Noncash Investing, Capital and Financing Activities:

The Sewer and Stormwater Funds each incurred a new lease liability of \$7,575, in 2004.

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2004

	<u>Agency</u>
Assets:	
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	\$ 4,384
Total Assets	<u>\$ 4,384</u>
Liabilities:	
Due to Others	\$ 4,384
Total Liabilities	<u>\$ 4,384</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Loveland, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Manager form of government, was adopted on July 25, 1961.

The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: police protection, parks and recreation, planning, zoning, street maintenance, and other governmental services. The City also provides refuse collection services (on a contractual basis) and owns and operates a water treatment and distribution system and a wastewater treatment and collection system (which is operated by the Metropolitan Sewer District), each of which is reported as an enterprise fund. In addition, the City has included the Community Improvement Corporation of Loveland (CIC) as a blended component unit.

The Community Improvement Corporation of Loveland (CIC), a non-profit organization, is an eleven-member board comprised of one City official, seven council members and three community representatives. Although it is legally separate from the City, the CIC is reported as if it were part of the primary government because the City can impose its will on the CIC. The CIC is responsible for research and development of the City, including the assurance that mortgage payments will be made to foster such development, the acquisition, construction, equipment and improvement of buildings, structures and other properties, the acquisition of sites for such development, the lease, sale and subdivision of such sites and incurring of debt in order to carry out such development, and to make loans to any individual or business entity in order to carry out such development purpose for the City. Funding to finance the CIC comes from the sale of properties owned by the CIC and contributions from the City and private sources.

B. Basis of Presentation - Fund Accounting

The City uses funds 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 certain City functions or activities.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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. The following fund types are used by the City:

Governmental Funds - are those funds 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 liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Principal sources of revenue are municipal income taxes and shared tax revenues. Primary expenditures are for police protection, community environment and general government.

Income Tax - This fund is used to account for the receipts and distribution of the City's income tax collections.

Paramedic - This fund is used to account for the City's paramedic services.

Fire & EMS - This fund is used to account for the operation of the City's fire and EMS department.

Fire Protection - This fund is used to account for the activities provided by the City's fire protection service.

General Bond - This fund is used to account for the accumulation of resources for, and the payment of, the City's long-term debt obligations.

Issue Two Projects - This fund is used to account for Issue Two funds from the State of Ohio for Capital Projects.

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

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are the City's major enterprise funds:

Water - This fund is used to account for the operation of the City's water treatment and distribution systems.

Sewer - This fund is used to account for the operation of the City's sewage treatment and collection systems.

Stormwater - This fund is used to account for the operation of the City's stormwater system.

Sanitation - This fund is used to account for the operation of the City's refuse collection system.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City's fiduciary funds are agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Basis of Presentation - Financial Statements

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds, the expendable trust fund, and the agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because generally these revenues are not measurable until received.

Special assessments receivable, which are measurable, but not available at December 31, are recorded as deferred revenue. Property taxes which are measurable at December 31, 2004 but which are not intended to finance 2004 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses recognized when incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual—All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year end, however, are reported as reservations of fund balances for subsequent year expenditures in the accompanying basic financial statements.

5. Lapsing of Appropriations

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

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" for the General Fund and the Major Special Revenue Funds:

	Net Change in Fund Balance				
	General Fund	Income Tax Fund	Paramedic Fund	Fire & EMS Fund	Fire Protection Fund
GAAP Basis (as reported)	(\$49,614)	\$748,320	\$725	(\$54,951)	(\$409,363)
Increase (Decrease):					
Accrued Revenues at December 31, 2004 received during 2005	(209,681)	(460,141)	(2,917)	(2,259)	(2,462)
Accrued Revenues at December 31, 2003 received during 2004	147,397	268,119	393	0	289
Accrued Expenditures at December 31, 2004 paid during 2005	335,131	29,274	827	7,848	500
Accrued Expenditures at December 31, 2003 paid during 2004	(244,885)	(36,486)	(2,994)	(14,815)	(4,383)
2004 Prepays for 2005	(11,269)	0	0	(4,875)	0
2003 Prepays for 2004	32,921	0	0	16,380	0
Budget Basis	<u>\$0</u>	<u>\$549,086</u>	<u>(\$3,966)</u>	<u>(\$52,672)</u>	<u>(\$415,419)</u>

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and the State Treasurer's Asset Reserve (STAR Ohio). STAR Ohio is considered a cash equivalent because it is a highly liquid investment with an original maturity date of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled deposits and investments are considered to be cash equivalents. See Note 4 "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts which are reported at cost, which approximates fair value. Fair value is determined by quoted market prices. See Note 4, "Cash, Cash Equivalents and Investments."

The City has invested funds in STAR Ohio during 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2004.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life threshold of three or more years.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business-type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, improvements to land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined at December 31, 1987 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (Years)</u>
Land Improvements	20
Buildings	25 – 50
Building Improvements	20 – 30
Infrastructure	10 – 20
Machinery, Equipment, Furniture, Fixtures and Vehicles	3 – 30

CITY OF LOVELAND, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2004***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Bond Fund Water Fund Stormwater Fund
Ohio Public Works Commission Loans	General Bond Fund
Capital Leases	General Fund Fire and EMS Fund Street Maintenance Fund Recreation Capital Improvement Fund Water Fund Sanitation Fund Stormwater Fund
Police/Fire Pension Accrued Liability	General Fund
Compensated Absences	General Fund Water Fund Sewer Fund Sanitation Fund Stormwater Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

Compensated absences are expensed in the water, sewer, and refuse collection enterprise funds when earned. The related liability is reported within the fund.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Restricted Assets

Certain cash and cash equivalents are classified as restricted on the balance sheet because these funds are being held by a trustee, an agent or by the City for specified purposes.

M Intergovernmental Revenues

In governmental funds, grants awarded on a non-reimbursement basis, entitlements and shared revenues are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursable grants are recorded as intergovernmental receivables and revenues when the related expenditures are made.

Grants received for proprietary fund operations are recognized as revenues when measurable and earned. Such resources restricted for the construction of capital assets are recorded as contributed capital.

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

O. Interfund Activity

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

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for supplies inventory, prepaid items, debt service and encumbered amounts that are not accrued at year end.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

S. Estimates

The preparation of the 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.

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/RETAINED EARNINGS

A. Changes in Accounting Principles

For fiscal year 2004, the City has implemented GASB Statement No. 34, "*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*"; GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*"; GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*"; and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement.*" At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37 and 38, or Interpretation No. 6.

GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City’s programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/RETAINED EARNINGS (Continued)

B. Prior Period Adjustments

The retained earnings of the enterprise funds at December 31, 2003 were restated to correct an error in the accounting for capital leases and capital assets.

	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Stormwater Fund</u>
Net Assets at December 31, 2003 (Reported)	\$8,498,517	\$227,782	(\$19,773)
Prior Period Adjustments:			
Restate Capital Leases	0	0	(84,933)
Restate Capital Assets	<u>(29,195)</u>	<u>(88,308)</u>	<u>2,086,164</u>
Net Assets at December 31, 2003 (Restated)	<u>\$8,469,322</u>	<u>\$139,474</u>	<u>\$1,981,458</u>

C. Restatement of Fund Balance/Retained Earnings

The changes to the beginning fund balance/retained earnings, as well as the transition from fund balance/retained earnings to net assets of the governmental activities and the business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Fund Balance/Retained Earnings at December 31, 2003	\$1,358,469	\$7,846,892
Prior Period Adjustments:		
Restate Capital Leases	0	(84,933)
Restate Capital Assets	<u>0</u>	<u>1,968,661</u>
Total Prior Period Adjustments	<u>0</u>	<u>1,883,728</u>
GASB 34 Adjustments:		
Capital Assets	21,266,164	0
Contributed Capital	0	3,415,802
Long-Term Liabilities	(7,013,153)	0
Long-Term (Deferred) Assets	<u>1,378,276</u>	<u>0</u>
Total GASB 34 Adjustments	<u>15,631,287</u>	<u>3,415,802</u>
Net Assets at December 31, 2003	<u>\$16,989,756</u>	<u>\$13,146,422</u>

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at December 31, 2004 of \$113,316 in the General Fund and \$282,783 in the Issue Two Projects Fund (Major Capital Project fund) arose from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis. Transfers are provided when cash is required, not when accruals occur.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Statutes require the classification of funds held by the City into three categories.

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

- Category 1 Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

At year end the carrying amount of the City's deposits was \$1,815,875 and the bank balance was \$2,305,591. Federal depository insurance covered \$1,992,882 of the bank balance. All remaining deposits were classified as Category 3.

B. Investments

The City's investments at December 31, 2004 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Fair Value</u>
U.S. Government Securities	\$3,717,110	\$0	\$3,717,110
Repurchase Agreement	0	310,075	310,075
Total Categorized Investments	3,717,110	310,075	4,027,185
 <u>Noncategorized Investments</u>			
STAR Ohio	N/A	N/A	1,185,854
Total Investments	\$3,717,110	\$310,075	\$5,213,039

C. Reconciliation of Cash, Cash Equivalents and Investments

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

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

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Financial Statements	\$1,548,804	\$5,480,110
Certificates of Deposit		
(with maturities of more than 3 months	1,763,000	(1,763,000)
Investments:		
Repurchase Agreements	(310,075)	310,075
STAR Ohio	(1,185,854)	1,185,854
Per GASB Statement No. 3	\$1,815,875	\$5,213,039

* Includes Cash with Fiscal Agent of \$23,061.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 2002 for Clermont County, 2000 for Warren County, and 1999 for Hamilton County. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25%. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the counties including the City of Loveland. The County Auditors periodically remit to the City its portion of the taxes collected.

The assessed values upon which the 2004 property tax receipts were based were as follows:

	County		
	Hamilton	Clermont	Warren
Real Property:			
Residential/Agricultural	\$183,987,730	\$27,550,410	\$12,269,410
Personal Property:			
Tangible Personal Property	13,750,310	1,574,094	124,380
Public Utility Personal Property	4,766,590	1,386,790	152,750
Total Assessed Value	<u>\$202,504,630</u>	<u>\$30,511,294</u>	<u>\$12,546,540</u>
Tax Rate/Assessed Value	\$12.00/\$1,000	\$11.55/\$1,000	\$11.72/\$1,000

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 5 – TAXES (Continued)

B. Income Tax

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

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

NOTE 6 - RECEIVABLES

Receivables at December 31, 2004 consisted of income taxes, accounts receivable, interest, special assessments, and intergovernmental receivables arising from shared revenues.

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2004:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$995,214	\$0
Income Tax Fund	0	1,387,617
General Bond Fund	174,967	0
Issue Two Projects Fund	8,828	0
Nonmajor Governmental Funds	392,403	0
Total Governmental Funds	1,571,412	1,387,617
Enterprise Fund:		
Water	0	182,938
Stormwater	0	857
Total Enterprise Funds	0	183,795
Totals	<u>\$1,571,412</u>	<u>\$1,571,412</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The Enterprise funds provided transfers to the debt service fund during the year to retire a portion of related debt paid by governmental activities. Transfers out of the Income tax fund were made in accordance with City ordinances.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2004:

<i>Historical Cost:</i>	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Class				
<i>Capital assets not being depreciated:</i>				
Land	\$5,039,697	\$437,000	(\$2,407,445)	\$3,069,252
Construction in Progress	1,261,271	0	(1,261,271)	0
<i>Capital assets being depreciated:</i>				
Buildings	5,081,024	742,463	0	5,823,487
Improvements other than Buildings	1,229,553	28,355	0	1,257,908
Machinery and Equipment	3,040,191	986,186	(91,168)	3,935,209
Infrastructure	16,061,585	2,604,847	0	18,666,432
Total Cost	<u>\$31,713,321</u>	<u>\$4,798,851</u>	<u>(\$3,759,884)</u>	<u>\$32,752,288</u>
 <i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Buildings	(793,291)	(114,197)	0	(907,488)
Improvements other than Buildings	(830,750)	(37,717)	0	(868,467)
Machinery and Equipment	(1,878,130)	(352,857)	77,835	(2,153,152)
Infrastructure	(7,133,273)	(320,141)	0	(7,453,414)
Total Depreciation	<u>(\$10,635,444)</u>	<u>(\$824,912) *</u>	<u>\$77,835</u>	<u>(\$11,382,521)</u>
 <i>Net Value:</i>	 <u>\$21,077,877</u>			 <u>\$21,369,767</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$299,541
Leisure Time Activities	110,369
Transportation	357,897
General Government	57,105
Total Depreciation Expense	<u>\$824,912</u>

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 8 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by category of changes in business-type activities capital assets at December 31, 2004:

<i>Historical Cost:</i>	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Class				
<i>Capital assets not being depreciated:</i>				
Land	\$250,168	\$0	\$0	\$250,168
Construction In Progress	0	398,002	0	398,002
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	1,449,145	0	0	1,449,145
Utility Structures in Service	12,387,228	407,745	0	12,794,973
Infrastructure	3,174,844	0	0	3,174,844
Machinery and Equipment	252,197	25,677	(2,500)	275,374
Total Cost	<u>\$17,513,582</u>	<u>\$831,424</u>	<u>(\$2,500)</u>	<u>\$18,342,506</u>
<i>Accumulated Depreciation:</i>	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Class				
Buildings and Improvements	(\$864,188)	(\$23,003)	\$0	(\$887,191)
Utility Structures in Service	(3,779,272)	(245,337)	0	(4,024,609)
Infrastructure	(1,155,499)	(18,371)	0	(1,173,870)
Machinery and Equipment	(106,205)	(61,187)	650	(166,742)
Total Depreciation	<u>(\$5,905,164)</u>	<u>(\$347,898)</u>	<u>\$650</u>	<u>(\$6,252,412)</u>
<i>Net Value:</i>	<u>\$11,608,418</u>	<u>\$483,526</u>	<u>(\$1,850)</u>	<u>\$12,090,094</u>

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 - DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2004 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2004, 2003 and 2002 were \$397,779, \$228,927 and \$217,843, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2004 employer contribution rate (identified above) that was used to fund health care for the year 2004 was 5.0% of covered payroll, which amounted to \$146,782.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the "Ohio PERS") (Continued)

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2003 is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

B. Ohio Police and Fire Pension Fund (the "OP&F Fund")

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2004, 2003 and 2002 were \$199,641 \$185,486 and \$172,861 for police, which were equal to the required contributions for each year.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the "OP&F Fund") (Continued)

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2004 covered payroll that was used to fund postemployment health care benefits was \$79,345 representing 7.75% of covered payroll. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2003, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,527 for police and 10,396 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2003 were \$141,028,006, which was net of member contributions of \$12,623,875.

NOTE 10 – COMPENSATED ABSENCES

All full-time City employees earn sick leave at the rate of 10 hours per calendar month of active service, up to a limit of 1,424 hours. Upon retirement from the City any employee, with 15 years of active service, receives one hour of monetary compensation for every two hours of unused sick leave. A retiring employee's payout may not exceed 1,248 hours of unused sick leave. The monetary compensation is the hourly rate of compensation of the employee at the time of retirement.

All full-time City employees earn vacation at varying rates based upon length of service. An employee may carry forward up to one year of vacation credit, plus six days, to the next year. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance, which is not to exceed the carryover for one year.

The City records a liability for accumulated unpaid vacation and sick leave benefits when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the Long-Term Obligations on the Entity Wide Statement of Net Assets. The amount increased \$82,556 from a beginning year balance of \$692,781 to a year-end balance of \$775,337.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 10 – COMPENSATED ABSENCES (Continued)

At December 31, 2004 the total accumulated unpaid sick leave time recorded in the Governmental Activities was as follows:

	Hours	Amount
Sick Leave	25,841	\$683,647
Vacation	3,499	91,690
Total	29,340	\$775,337

Compensated absences attributable to the Enterprise Funds of \$95,562 have been recorded within the Enterprise Funds and are not included in the above figures.

NOTE 11 - NOTES PAYABLE

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

The City retired its notes in accordance with the above provisions.

	Balance January 1, 2004	Issued	(Retired)	Balance December 31, 2004
Capital Projects Funds Notes Payable:				
1.30% Real Estate Bond Anticipation Note	\$2,225,000	\$0	(\$2,225,000)	\$0
Total Notes Payable	\$2,225,000	\$0	(\$2,225,000)	\$0

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS

Long-term obligations of the City at December 31, 2004 were as follows:

		Balance December 31, 2003	Issued	(Retired)	Balance December 31, 2004	Amount Due Within One Year
Business-Type Activities:						
General Obligation Bonds:						
1998 Water System Improvement	4.57%	\$2,060,000	\$0	(\$100,000)	\$1,960,000	\$105,000
2003 Stormwater System	3.00%	1,000,000	0	(25,000)	975,000	35,000
Total General Obligation Bonds		<u>3,060,000</u>	<u>0</u>	<u>(125,000)</u>	<u>2,935,000</u>	<u>140,000</u>
Other Long-Term Obligations:						
Compensated Absences		145,251	95,562	(145,251)	95,562	13,680
Capital Leases		209,534	15,150	(52,345)	172,339	55,779
Total Other Long-Term Obligations		<u>354,785</u>	<u>110,712</u>	<u>(197,596)</u>	<u>267,901</u>	<u>69,459</u>
Total Business-Type Activities		<u>\$3,414,785</u>	<u>\$110,712</u>	<u>(\$322,596)</u>	<u>\$3,202,901</u>	<u>\$209,459</u>
Governmental Activities:						
General Obligation Bonds:						
1997 Various Purpose Bonds	4.55%	\$1,975,000	\$0	(\$100,000)	\$1,875,000	\$105,000
2002 Various Purpose Bonds	3.25%	1,065,000	0	(35,000)	1,030,000	40,000
2003 City Hall-HVAC System	3.00%	70,000	0	(5,000)	65,000	5,000
2003 Fire Truck Acquisition	3.00%	655,992	0	(40,992)	615,000	60,000
Total General Obligation Bonds		<u>3,765,992</u>	<u>0</u>	<u>(180,992)</u>	<u>3,585,000</u>	<u>210,000</u>
Ohio Public Works Commission Loans:						
1993 Hanna Avenue Waterline	0.00%	103,457	0	(11,495)	91,962	11,495
1993 State Route 48 Waterline	3.00%	76,456	0	(16,116)	60,340	16,603
1994 Park Avenue Waterline	3.00%	54,145	0	(10,194)	43,951	10,502
1994 East Loveland Avenue	3.00%	200,426	0	(15,631)	184,795	16,104
1994 West Booster	3.00%	157,085	0	(12,935)	144,150	13,327
1995 Lever Water Tower	3.00%	439,121	0	(28,077)	411,044	28,926
1996 Maderia Road Waterline	0.00%	365,933	0	(28,148)	337,785	28,149
1999 State Route 48 North	3.00%	212,171	0	(13,659)	198,512	17,897
2002 West Loveland Waterline	0.00%	277,500	0	(15,000)	262,500	15,000
2003 West Loveland Avenue	0.00%	306,722	26,671	(8,335)	325,058	16,670
2004 Elyson Extension	0.00%	0	398,002	0	398,002	23,835
Total Ohio Public Works Commission Loans		<u>2,193,016</u>	<u>424,673</u>	<u>(159,590)</u>	<u>2,458,099</u>	<u>198,508</u>
Other Long-Term Obligations:						
Compensated Absences		692,781	775,337	(692,781)	775,337	79,963
Capital Leases		295,006	134,850	(128,267)	301,589	146,901
Police and Firemen's Pension Accrued Liability		37,202	0	(580)	36,622	605
Total Other Long-Term Obligations		<u>1,024,989</u>	<u>910,187</u>	<u>(821,628)</u>	<u>1,113,548</u>	<u>227,469</u>
Total Governmental Activities		<u>\$6,983,997</u>	<u>\$1,334,860</u>	<u>(\$1,162,210)</u>	<u>\$7,156,647</u>	<u>\$635,977</u>

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

A. Police and Firemen's Pension Fund

The City's liability for past service costs relating to the Police and Firemen's Pension Fund at December 31, 2004 was \$64,793 in principal and interest payments through the year 2035. Only the principal amount due of \$36,622 is included in the Governmental Activities.

B. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2004, follows:

Years	General Obligation Bonds		OPWC Loans		Police Pension Accrued Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$350,000	\$299,279	\$194,274	\$24,751	\$605	\$1,550
2006	360,000	285,847	196,858	22,163	631	1,524
2007	380,000	271,514	199,526	19,497	659	1,497
2008	395,000	256,087	193,122	16,753	687	1,469
2009	410,000	239,790	174,565	14,426	716	1,439
2010-2014	2,265,000	905,106	872,150	41,037	4,066	6,706
2015-2019	1,850,000	360,504	355,440	3,033	5,020	5,755
2020-2024	510,000	60,049	231,687	0	6,197	3,649
2025-2029	0	0	40,477	0	7,644	3,220
2030-2034	0	0	0	0	9,445	1,342
2035-2036	0	0	0	0	952	20
Totals	<u>\$6,520,000</u>	<u>\$2,678,176</u>	<u>\$2,458,099</u>	<u>\$141,660</u>	<u>\$36,622</u>	<u>\$28,171</u>

NOTE 13 - CAPITAL LEASE COMMITMENTS

Under several capital leases the City leases phone and computer equipment, a public safety radio communication system, an ambulance, three trucks, and a street sweeper for the police, fire, street and recreation departments. The cost of the leased assets and the related liability are accounted for in the Governmental Activities and Business-type funds capital assets and long-term debt accounts. The original cost of the assets under capital lease is \$734,540.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 13 - CAPITAL LEASE COMMITMENTS (Continued)

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2004:

<u>Year Ending December 31,</u>	<u>Governmental Capital Leases</u>	<u>Business-Type Capital Leases</u>
2005	\$158,040	\$62,264
2006	60,215	41,264
2007	60,215	41,264
2008	29,534	41,264
2009	14,767	1,658
Minimum Lease Payments	322,771	187,714
Less: Amount representing interest at the City's incremental borrowing rate of interest	<u>(21,182)</u>	<u>(15,375)</u>
Present value of minimum lease payments	<u><u>\$301,589</u></u>	<u><u>\$172,339</u></u>

NOTE 14 - INSURANCE AND RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1997, the City joined the Ohio Government Risk Management Plan (OGRMP), a public entity risk plan formed under 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The City pays an annual premium to OGRMP for its general insurance coverage. The agreement for formation of OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure through commercial insurance and reinsurance companies.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 15 - CONTINGENCIES

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

Bastin & Company, LLC

Certified Public Accountants

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

To the Members of City Council
City of Loveland, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Loveland, Ohio (the City) as of and for the year ended December 31, 2005 and 2004, which collectively comprise the City's basic financial statements, and have issued our reports thereon dated September 1, 2006. For the year ended December 31, 2004, our report noted that the City revised its financial presentation to conform to the requirements of Governmental Accounting Standard No. 34. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated September 1, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving compliance that we have reported to management of the City in a separate letter dated September 1, 2006.

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

Bastin & Company, LLC

Cincinnati, Ohio
September 1, 2006

**CITY OF LOVELAND
SCHEDULE OF PRIOR YEAR FINDINGS**

Finding Number	Finding Summary	Fully Corrected?	Explanation:
2003-1	The City did not adopt the reporting requirements required by GASB 34.	Yes	During 2004 and 2005, the City adopted the reporting requirements of GASB 34.



Mary Taylor, CPA
Auditor of State

CITY OF LOVELAND

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
FEBRUARY 13, 2007**