



Dave Yost • Auditor of State

**CITY OF CHEVIOT
HAMILTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Cheviot, Hamilton County, Ohio (the City), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cheviot, Hamilton County, Ohio, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018, on our consideration of the 's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

September 21, 2018

CITY OF CHEVIOT, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2017

Unaudited

The discussion and analysis of the City of Cheviot's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2017 are as follows:

- ❑ In total, net position decreased \$323,887. Net position of governmental activities decreased \$314,599, which represents an 8% decrease from 2016. Net position of business-type activities decreased \$9,288 from 2016.
- ❑ General revenues accounted for \$4,230,446 in revenue or 74% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,485,203, or 26% of total revenues of \$5,715,649.
- ❑ The City had \$5,994,723 in expenses related to governmental activities; only \$1,452,678 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$4,230,446 were not adequate to provide for these programs.
- ❑ The City's general fund had \$4,745,456 in revenues and \$4,632,427 in expenditures. The general fund's fund balance decreased from \$1,170,906 to \$1,042,872.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF CHEVIOT, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2017*

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 position includes all of the government's assets, liabilities, and deferred outflows/inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position is 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 security of persons and property, public health and welfare, leisure time activities, community environment, public works, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's swimming pool operations are reported as business-type activities.

Fund Financial Statements

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

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 programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CITY OF CHEVIOT, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2017**

Unaudited

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The proprietary fund financial statements provide separate information for the City's swimming pool operations.

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 a separate Statement of Fiduciary Assets and Liabilities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net position for 2017 compared to 2016.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$4,642,715	\$5,097,552	\$2,998	\$4,831	\$4,645,713	\$5,102,383
Capital assets, Net	6,384,960	5,693,434	83,855	91,225	6,468,815	5,784,659
Total Assets	<u>11,027,675</u>	<u>10,790,986</u>	<u>86,853</u>	<u>96,056</u>	<u>11,114,528</u>	<u>10,887,042</u>
Deferred Outflows of Resources	1,505,015	1,593,590	0	0	1,505,015	1,593,590
Net Pension Liability	5,771,301	5,355,742	0	0	5,771,301	5,355,742
Other Long-Term Liabilities	801,851	851,375	0	0	801,851	851,375
Other Liabilities	511,137	193,241	85	0	511,222	193,241
Total Liabilities	<u>7,084,289</u>	<u>6,400,358</u>	<u>85</u>	<u>0</u>	<u>7,084,374</u>	<u>6,400,358</u>
Deferred Inflows of Resources	1,713,932	1,935,150	0	0	1,713,932	1,935,150
Net Position						
Net Investment in Capital Assets	6,128,779	5,367,588	83,855	91,225	6,212,634	5,458,813
Restricted	852,321	1,310,410	0	0	852,321	1,310,410
Unrestricted	(3,246,631)	(2,628,930)	2,913	4,831	(3,243,718)	(2,624,099)
Total Net Position	<u>\$3,734,469</u>	<u>\$4,049,068</u>	<u>\$86,768</u>	<u>\$96,056</u>	<u>\$3,821,237</u>	<u>\$4,145,124</u>

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

CITY OF CHEVIOT, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2017***

Unaudited

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2017

Unaudited

Change in Net Position – The following table shows the change in net position for 2017 compared to 2016:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services and Sales	\$926,986	\$930,815	\$32,525	\$37,060	\$959,511	\$967,875
Operating Grants and Contributions	379,392	376,876	0	0	379,392	376,876
Capital Grants and Contributions	146,300	296,300	0	0	146,300	296,300
Total Program Revenues	<u>1,452,678</u>	<u>1,603,991</u>	<u>32,525</u>	<u>37,060</u>	<u>1,485,203</u>	<u>1,641,051</u>
General revenues:						
Property Taxes	1,728,487	1,768,112	0	0	1,728,487	1,768,112
Municipal Income Taxes	2,038,221	1,582,469	0	0	2,038,221	1,582,469
Other Local Taxes	58,983	61,520	0	0	58,983	61,520
Intergovernmental Revenues, Unrestricted	301,395	309,997	0	0	301,395	309,997
Miscellaneous	103,360	81,970	0	0	103,360	81,970
Total General Revenues	<u>4,230,446</u>	<u>3,804,068</u>	<u>0</u>	<u>0</u>	<u>4,230,446</u>	<u>3,804,068</u>
Total Revenues	<u>5,683,124</u>	<u>5,408,059</u>	<u>32,525</u>	<u>37,060</u>	<u>5,715,649</u>	<u>5,445,119</u>
Program Expenses						
Security of Persons and Property	2,850,460	2,614,764	0	0	2,850,460	2,614,764
Public Health and Welfare Services	20,545	17,384	0	0	20,545	17,384
Leisure Time Activities	132,986	83,273	0	0	132,986	83,273
Community Environment	11,448	12,003	0	0	11,448	12,003
Public Works	396,189	412,447	0	0	396,189	412,447
Transportation	750,587	669,128	0	0	750,587	669,128
General Government	1,809,887	1,493,759	0	0	1,809,887	1,493,759
Interest and Fiscal Charges	22,621	25,512	0	0	22,621	25,512
Swimming Pool	0	0	44,813	43,423	44,813	43,423
Total Expenses	<u>5,994,723</u>	<u>5,328,270</u>	<u>44,813</u>	<u>43,423</u>	<u>6,039,536</u>	<u>5,371,693</u>
Change in Net Position Before Transfers	(311,599)	79,789	(12,288)	(6,363)	(323,887)	73,426
Transfers	(3,000)	(5,200)	3,000	5,200	0	0
Total Change in Net Position	(314,599)	74,589	(9,288)	(1,163)	(323,887)	73,426
Beginning Net Position	<u>4,049,068</u>	<u>3,974,479</u>	<u>96,056</u>	<u>97,219</u>	<u>4,145,124</u>	<u>4,071,698</u>
Ending Net Position	<u>\$3,734,469</u>	<u>\$4,049,068</u>	<u>\$86,768</u>	<u>\$96,056</u>	<u>\$3,821,237</u>	<u>\$4,145,124</u>

Governmental Activities

Net position of the City's governmental activities decreased \$314,599. Revenues were consistent with the prior year. An increase in expenses can be attributed to changes in the net pension liability.

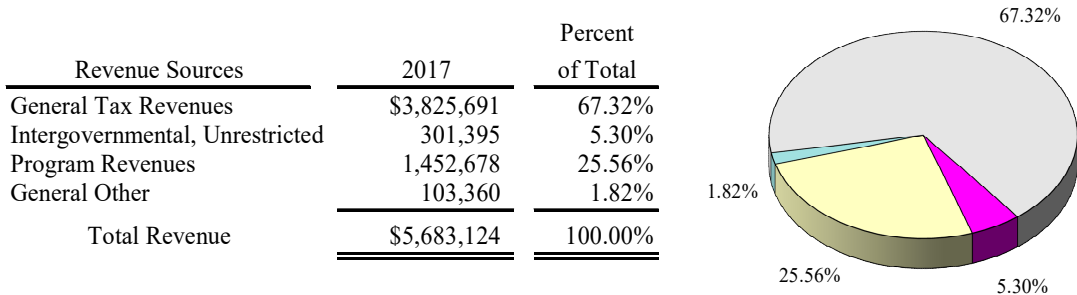
CITY OF CHEVIOT, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2017**

Unaudited

The City receives an income tax, which is based on 2.0% of all salaries, wages, commissions and other compensation and on net profits earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City.

Income taxes and property taxes made up 36% and 30% respectively, of revenues for governmental activities in 2017. The City's reliance upon tax revenues is demonstrated by the following graph indicating 67% of total revenues from general tax revenues:



Business-Type Activities

Net position of the business-type activities remained stable, decreasing \$9,288. A Duke Energy settlement reimbursement received in the prior year resulted in a decrease in revenues in 2017.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$1,773,058, which is a decrease from last year's balance of \$2,333,766. The schedule below indicates the fund balance and the total change in fund balance at December 31, 2017 and 2016:

	Fund Balance December 31, 2017	Fund Balance December 31, 2016	Increase (Decrease)
General	\$1,042,872	\$1,170,906	(\$128,034)
3 Mill Project	232,571	544,169	(311,598)
Other Governmental	497,615	618,691	(121,076)
Total	\$1,773,058	\$2,333,766	(\$560,708)

CITY OF CHEVIOT, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2017***

Unaudited

General Fund – The City’s General Fund balance change is due to several factors. The tables that follow assist in illustrating the financial activities of the General Fund:

	2017 <u>Revenues</u>	2016 <u>Revenues</u>	Increase <u>(Decrease)</u>
Property Taxes	\$1,426,598	\$1,442,682	(\$16,084)
Municipal Income Taxes	2,004,156	1,570,672	433,484
Other Local Taxes	58,983	61,520	(2,537)
Intergovernmental Revenues	295,474	300,852	(5,378)
Charges for Services	713,469	700,773	12,696
Rental Revenue	60,971	75,766	(14,795)
Licenses, Permits and Fees	25,098	13,609	11,489
Fines and Forfeitures	60,118	82,290	(22,172)
All Other Revenue	100,589	40,781	59,808
Total	<u><u>\$4,745,456</u></u>	<u><u>\$4,288,945</u></u>	<u><u>\$456,511</u></u>

General Fund revenues increased \$456,511.

	2017 <u>Expenditures</u>	2016 <u>Expenditures</u>	Increase <u>(Decrease)</u>
Security of Persons and Property	\$2,492,746	\$2,323,229	\$169,517
Public Health and Welfare Services	6,813	6,647	166
Leisure Time Activities	125,206	74,502	50,704
Public Works	371,316	388,035	(16,719)
Transportation	94,915	139,884	(44,969)
General Government	1,541,431	1,460,737	80,694
Total	<u><u>\$4,632,427</u></u>	<u><u>\$4,393,034</u></u>	<u><u>\$239,393</u></u>

General Fund expenditures increased \$239,393, or 5% when compared with the previous year. An increase in security of persons and property can be attributed to increases in police and fire wages, which can be attributed to severance payouts, overtime, and new hires. Field House improvements resulted in an increase in leisure time activities. In 2017 a larger portion of street salaries were paid from the Street Fund, resulting in lower General Fund expenditures for transportation. Increases in general government were the result of increases in employee health insurance and workers compensation costs.

CITY OF CHEVIOT, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2017**

Unaudited

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 2017 the City amended its General Fund budget several times.

For the General Fund, original, final, and actual budget basis revenues were not significantly different. Actual budget basis expenditures were approximately 3% less than final appropriations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017 the City had \$6,468,815 net of accumulated depreciation invested in land, buildings, improvements, infrastructure, furniture and equipment. Of this total, \$6,384,960 was related to governmental activities and \$83,855 to the business-type activities. The following tables show 2017 and 2016 balances:

	Governmental Activities		Increase (Decrease)
	2017	2016	
Land	\$274,086	\$275,086	(\$1,000)
Construction in Progress	536,520	0	536,520
Land Improvements	419,710	417,462	2,248
Buildings and Improvements	2,209,040	2,209,040	0
Furniture and Equipment	4,854,874	4,722,317	132,557
Infrastructure	4,928,461	4,496,440	432,021
Less: Accumulated Depreciation	(6,837,731)	(6,426,911)	(410,820)
Totals	\$6,384,960	\$5,693,434	\$691,526

	Business-Type Activities		Increase (Decrease)
	2017	2016	
Land	\$1,864	\$1,864	\$0
Buildings and Building Improvements	207,978	207,978	0
Machinery and Equipment	2,259	2,259	0
Less: Accumulated Depreciation	(128,246)	(120,876)	(7,370)
Totals	\$83,855	\$91,225	(\$7,370)

Governmental activities capital asset additions included a dump truck, mower, computer equipment, police equipment, fire equipment, and improvements to Roswell, Ruckle, and Ruth streets. Construction in progress consisted of improvements to Westwood-Northern Boulevard.

Additional information on the City's capital assets can be found in Note 8.

CITY OF CHEVIOT, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2017***

Unaudited

Debt and Other Long Term Obligations

The following table summarizes the City's long term obligations outstanding as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Governmental Activities:		
General Obligation Bonds	\$441,100	\$477,600
Capital Leases	185,081	243,246
Net Pension Liability	5,771,301	5,355,742
Compensated Absences	<u>175,670</u>	<u>130,529</u>
Total Governmental Activities	<u><u>\$6,573,152</u></u>	<u><u>\$6,207,117</u></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. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2017, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 11.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. Questions about this report or the need for additional financial information can be directed to the Auditor's Office of the City of Cheviot.

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CITY OF CHEVIOT, OHIO

Statement of Net Position December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 1,803,046	\$ 2,998	\$ 1,806,044
Receivables:			
Property Taxes	1,789,614	0	1,789,614
Income Taxes	595,032	0	595,032
Other Local Taxes	15,278	0	15,278
Accounts	30,442	0	30,442
Intergovernmental Receivable	330,000	0	330,000
Special Assessments	3,284	0	3,284
Inventory of Supplies at Cost	54,537	0	54,537
Prepaid Items	21,482	0	21,482
Non-Depreciable Capital Assets	810,606	1,864	812,470
Depreciable Capital Assets, Net	5,574,354	81,991	5,656,345
Total Assets	11,027,675	86,853	11,114,528
Deferred Outflows of Resources:			
Pension:			
OPERS	707,069	0	707,069
OP&F	797,946	0	797,946
Total Deferred Outflows of Resources	1,505,015	0	1,505,015
Liabilities:			
Accounts Payable	30,590	85	30,675
Accrued Wages and Benefits	83,200	0	83,200
Intergovernmental Payable	49,065	0	49,065
Contracts Payable	336,427	0	336,427
Unearned Revenue	7,485	0	7,485
Accrued Interest Payable	4,370	0	4,370
Noncurrent Liabilities:			
Due Within One Year	107,083	0	107,083
Due in More Than One Year:			
Net Pension Liability	5,771,301	0	5,771,301
Other Amounts Due in More Than One Year	694,768	0	694,768
Total Liabilities	7,084,289	85	7,084,374
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	1,693,873	0	1,693,873
Pension:			
OPERS	11,044	0	11,044
OP&F	9,015	0	9,015
Total Deferred Inflows of Resources	1,713,932	0	1,713,932
Net Position:			
Net Investment in Capital Assets	6,128,779	83,855	6,212,634
Restricted For:			
Capital Projects	255,794	0	255,794
Debt Service	100	0	100
Other Purposes	596,427	0	596,427
Unrestricted (Deficit)	(3,246,631)	2,913	(3,243,718)
Total Net Position	\$ 3,734,469	\$ 86,768	\$ 3,821,237

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Statement of Activities *For the Year Ended December 31, 2017*

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 2,850,460	\$ 239,077	\$ 3,520	\$ 0
Public Health and Welfare Services	20,545	0	2,731	0
Leisure Time Activities	132,986	47,721	0	0
Community Environment	11,448	0	0	0
Public Works	396,189	508,515	0	0
Transportation	750,587	9,544	373,141	146,300
General Government	1,809,887	122,129	0	0
Interest and Fiscal Charges	22,621	0	0	0
Total Governmental Activities	5,994,723	926,986	379,392	146,300
Business-Type Activities:				
Swimming Pool	44,813	32,525	0	0
Total Business-Type Activities	44,813	32,525	0	0
Totals	\$ 6,039,536	\$ 959,511	\$ 379,392	\$ 146,300

General Revenues and Transfers

Property Taxes Levied for:

General Purposes

Capital Outlay

Municipal Income Taxes

Other Local Taxes

Intergovernmental, Unrestricted

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,607,863)	\$ 0	\$ (2,607,863)
(17,814)	0	(17,814)
(85,265)	0	(85,265)
(11,448)	0	(11,448)
112,326	0	112,326
(221,602)	0	(221,602)
(1,687,758)	0	(1,687,758)
(22,621)	0	(22,621)
<u>(4,542,045)</u>	<u>0</u>	<u>(4,542,045)</u>
0	(12,288)	(12,288)
<u>0</u>	<u>(12,288)</u>	<u>(12,288)</u>
<u>\$ (4,542,045)</u>	<u>\$ (12,288)</u>	<u>\$ (4,554,333)</u>
1,416,794	0	1,416,794
311,693	0	311,693
2,038,221	0	2,038,221
58,983	0	58,983
301,395	0	301,395
103,360	0	103,360
(3,000)	3,000	0
<u>4,227,446</u>	<u>3,000</u>	<u>4,230,446</u>
(314,599)	(9,288)	(323,887)
4,049,068	96,056	4,145,124
<u>\$ 3,734,469</u>	<u>\$ 86,768</u>	<u>\$ 3,821,237</u>

CITY OF CHEVIOT, OHIO

**Balance Sheet
Governmental Funds
December 31, 2017**

	General Fund	3 Mill Project Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 813,957	\$ 567,995	\$ 421,094	\$ 1,803,046
Receivables:				
Property Taxes	1,472,022	317,592	0	1,789,614
Income Taxes	595,032	0	0	595,032
Other Local Taxes	15,278	0	0	15,278
Accounts	30,442	0	0	30,442
Intergovernmental	139,925	6,296	183,779	330,000
Special Assessments	0	0	3,284	3,284
Inventory of Supplies, at Cost	22,768	0	31,769	54,537
Prepaid Items	21,482	0	0	21,482
Total Assets	\$ 3,110,906	\$ 891,883	\$ 639,926	\$ 4,642,715
Liabilities:				
Accounts Payable	\$ 28,385	\$ 0	\$ 2,205	\$ 30,590
Accrued Wages and Benefits Payable	70,841	0	12,359	83,200
Intergovernmental Payable	48,886	0	179	49,065
Contracts Payable	0	335,424	1,003	336,427
Unearned Revenue	7,485	0	0	7,485
Total Liabilities	155,597	335,424	15,746	506,767
Deferred Inflows of Resources:				
Unavailable Amounts	519,229	23,223	126,565	669,017
Property Tax Levy for Next Fiscal Year	1,393,208	300,665	0	1,693,873
Total Deferred Inflows of Resources	1,912,437	323,888	126,565	2,362,890
Fund Balance:				
Nonspendable	47,653	0	31,769	79,422
Restricted	0	232,571	462,292	694,863
Committed	0	0	3,554	3,554
Assigned	738,864	0	0	738,864
Unassigned	256,355	0	0	256,355
Total Fund Balance	1,042,872	232,571	497,615	1,773,058
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 3,110,906	\$ 891,883	\$ 639,926	\$ 4,642,715

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Reconciliation of Total Governmental Fund Balances To Net Position of Governmental Activities December 31, 2017

Total Governmental Fund Balances		\$ 1,773,058
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		6,384,960
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		669,017
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	1,505,015	
Deferred Inflows - Pension	(20,059)	
Net Pension Liability	<u>(5,771,301)</u>	<u>(4,286,345)</u>
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds Payable	(441,100)	
Capital Leases Payable	(185,081)	
Compensated Absences Payable	(175,670)	
Accrued Interest Payable	<u>(4,370)</u>	<u>(806,221)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 3,734,469</u></u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2017

	General Fund	3 Mill Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$ 1,426,598	\$ 313,654	\$ 0	\$ 1,740,252
Municipal Income Taxes	2,004,156	0	0	2,004,156
Other Local Taxes	58,983	0	0	58,983
Intergovernmental Revenues	295,474	11,371	526,622	833,467
Charges for Services	713,469	0	28,163	741,632
Rental Revenue	60,971	0	0	60,971
Licenses, Permits and Fees	25,098	0	0	25,098
Special Assessments	0	0	9,544	9,544
Fines and Forfeitures	60,118	0	38,672	98,790
All Other Revenue	100,589	0	18,569	119,158
Total Revenue	4,745,456	325,025	621,570	5,692,051
Expenditures:				
Current:				
Security of Persons and Property	2,492,746	0	43,106	2,535,852
Public Health and Welfare Services	6,813	0	13,732	20,545
Leisure Time Activities	125,206	0	0	125,206
Community Environment	0	0	11,448	11,448
Public Works	371,316	0	0	371,316
Transportation	94,915	0	487,490	582,405
General Government	1,541,431	0	2,182	1,543,613
Capital Outlay	0	636,623	292,600	929,223
Debt Service:				
Principal Retirement	0	0	94,665	94,665
Interest and Fiscal Charges	0	0	22,935	22,935
Total Expenditures	4,632,427	636,623	968,158	6,237,208
Excess (Deficiency) of Revenues Over (Under) Expenditures	113,029	(311,598)	(346,588)	(545,157)
Other Financing Sources (Uses):				
Sale of Capital Assets	6,100	0	0	6,100
Transfers In	0	0	251,425	251,425
Transfers Out	(254,425)	0	0	(254,425)
Total Other Financing Sources (Uses)	(248,325)	0	251,425	3,100
Net Change in Fund Balance	(135,296)	(311,598)	(95,163)	(542,057)
Fund Balance at Beginning of Year	1,170,906	544,169	618,691	2,333,766
Increase (Decrease) in Inventory	7,262	0	(25,913)	(18,651)
Fund Balance End of Year	\$ 1,042,872	\$ 232,571	\$ 497,615	\$ 1,773,058

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

***Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2017***

Net Change in Fund Balances - Total Governmental Funds \$ (542,057)

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	1,151,654	
Depreciation Expense	(459,128)	692,526

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets. (1,000)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (8,927)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 428,165

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (914,493)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Capital Lease Retirement	58,165	
Bond Principal Retirement	36,500	
Change in Accrued Interest Payable	314	94,979

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	(45,141)	
Change in Inventory	(18,651)	(63,792)

Change in Net Position of Governmental Activities **\$ (314,599)**

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, 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, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 1,402,589	\$ 1,397,867	\$ 1,426,598	\$ 28,731
Municipal Income Taxes	1,947,971	1,941,412	1,975,394	33,982
Other Local Taxes	60,203	60,000	57,946	(2,054)
Intergovernmental Revenues	310,401	309,356	297,159	(12,197)
Charges for Services	599,619	680,600	810,299	129,699
Rental Revenue	75,855	75,600	76,423	823
Licenses, Permits and Fees	13,631	13,585	25,098	11,513
Fines and Forfeitures	63,213	63,000	60,118	(2,882)
All Other Revenues	41,408	41,269	108,520	67,251
Total Revenues	<u>4,514,890</u>	<u>4,582,689</u>	<u>4,837,555</u>	<u>254,866</u>
Expenditures:				
Current:				
Security of Persons and Property	2,595,809	2,570,055	2,553,082	16,973
Public Health and Welfare Services	6,977	7,000	6,813	187
Leisure Time Activities	154,541	155,059	127,720	27,339
Public Works	383,722	385,007	370,238	14,769
Transportation	94,683	95,000	94,915	85
General Government	1,690,824	1,696,486	1,612,523	83,963
Total Expenditures	<u>4,926,556</u>	<u>4,908,607</u>	<u>4,765,291</u>	<u>143,316</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(411,666)	(325,918)	72,264	398,182
Other Financing Sources (Uses):				
Sale of Capital Assets	0	0	6,100	6,100
Transfers In	223,110	223,110	245,000	21,890
Transfers Out	(511,422)	(511,422)	(499,425)	11,997
Total Other Financing Sources (Uses):	<u>(288,312)</u>	<u>(288,312)</u>	<u>(248,325)</u>	<u>39,987</u>
Net Change in Fund Balance	(699,978)	(614,230)	(176,061)	438,169
Fund Balance at Beginning of Year	786,754	786,754	786,754	0
Prior Year Encumbrances	91,575	91,575	91,575	0
Fund Balance at End of Year	<u>\$ 178,351</u>	<u>\$ 264,099</u>	<u>\$ 702,268</u>	<u>\$ 438,169</u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Statement of Net Position
Proprietary Funds
December 31, 2017

	Business-Type Activities	
	<u>Enterprise Fund</u>	
	<u>Swimming Pool</u>	
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$	2,998
Total Current Assets		<u>2,998</u>
Noncurrent Assets:		
Non-Depreciable Capital Assets		1,864
Depreciable Capital Assets, Net		<u>81,991</u>
Total Noncurrent Assets		<u>83,855</u>
Total Assets		<u>86,853</u>
Liabilities:		
Current Liabilities:		
Accounts Payable		<u>85</u>
Total Liabilities		<u>85</u>
Net Position:		
Investment in Capital Assets		83,855
Unrestricted		<u>2,913</u>
Total Net Position	\$	<u>86,768</u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Business-Type Activities	
	<u>Enterprise Fund</u>	
	<u>Swimming Pool</u>	
Operating Revenues:		
Charges for Services	\$	32,525
Total Operating Revenues		<u>32,525</u>
Operating Expenses:		
Personal Services		20,615
Contractual Services		12,477
Materials and Supplies		4,351
Depreciation		7,370
Total Operating Expenses		<u>44,813</u>
Loss Before Transfers		(12,288)
Transfers:		
Transfers In		<u>3,000</u>
Total Transfers		<u>3,000</u>
Change in Net Position		(9,288)
Net Position Beginning of Year		<u>96,056</u>
Net Position End of Year	\$	<u>86,768</u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

*Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017*

	Business-Type Activities
	<u>Enterprise Fund</u>
	<u>Swimming Pool</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$36,497
Cash Payments for Goods and Services	(16,743)
Cash Payments to Employees	(20,615)
Net Cash Used by Operating Activities	<u>(861)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers In from Other Funds	<u>3,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,000</u>
Net Increase in Cash and Cash Equivalents	2,139
Cash and Cash Equivalents at Beginning of Year	859
Cash and Cash Equivalents at End of Year	<u><u>\$2,998</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used by Operating Activities:</u>	
Operating Loss	(\$12,288)
Adjustments to Reconcile Operating Loss to	
Net Cash Used by Operating Activities:	
Depreciation Expense	7,370
Miscellaneous Nonoperating Revenue	3,972
Changes in Assets and Liabilities:	
Increase in Accounts Payable	85
Total Adjustments	<u>11,427</u>
Net Cash Used by Operating Activities	<u><u>(\$861)</u></u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

***Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2017***

	<u>Agency Funds</u>
Assets:	
Cash and Cash Equivalents	\$ 628,553
Cash and Cash Equivalents in Segregated Accounts	<u>3,355</u>
Total Assets	<u>631,908</u>
Liabilities:	
Intergovernmental Payable	517
Undistributed Monies	<u>631,391</u>
Total Liabilities	<u>\$ 631,908</u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements are presented as of December 31, 2017 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of 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 has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: police and fire protection, waste management, parks and recreation, planning, zoning, street maintenance and repair, community development, public health and welfare. A staff provides support (i.e. payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. In addition, the City swimming pool operations are reported as an enterprise fund.

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

The City participates in one organization which is defined as a jointly governed organization, the Ohio-Kentucky-Indiana Regional Council of Governments. This organization is presented in Note 14.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

Governmental Funds - Governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except the resources accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is on 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 used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the limitations of the City Charter.

3 Mill Project Fund - This fund is used to account for property taxes levied to be used for street improvement projects.

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

Proprietary Funds

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets, liabilities, and deferred outflows/inflows of resources associated with the operation of these funds are included on the balance sheet. The enterprise funds operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The City's only enterprise fund is:

Swimming Pool Fund - This fund is used to account for charges to residents to cover the cost of operating the City's swimming pool.

Fiduciary Funds - These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's only fiduciary funds are agency funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

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

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

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

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.

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

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

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. 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 considered to be 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes, interest on investments, loans and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, and miscellaneous revenues, is recorded as revenue when received in cash because generally this revenue is not measurable until received.

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred inflows of resources. Property taxes measurable as of December 31, 2017 but which are not intended to finance 2017 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the government wide financial statements, proprietary fund and fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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 legal level of budgetary control is at the major object level within each department and fund. Budgetary modifications may only be made by ordinance or resolution of the City Council.

1. Tax Budget

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 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

Prior to October 1, the City accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing 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 if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the first and final amended official certificate of estimated resources issued during 2017.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. The budgetary figures which appear in the Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual Non-GAAP Budgetary Basis for the General Fund is 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 (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities.

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.

6. Budgetary Basis of Accounting

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

CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

	Net Change in Fund Balance
	General Fund
GAAP Basis (as reported)	(\$135,296)
Increase (Decrease):	
Accrued Revenues at December 31, 2017 received during 2018	(340,262)
Accrued Revenues at December 31, 2016 received during 2017	430,609
Accrued Expenditures at December 31, 2017 paid during 2018	155,597
Accrued Expenditures at December 31, 2016 paid during 2017	(173,936)
2016 Prepays for 2017	20,398
2017 Prepays for 2018	(21,482)
Outstanding Encumbrances	(111,689)
Budget Basis	(\$176,061)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of three months or less.

The City pools a majority of its cash for investment and resource management purposes, while maintaining some segregated funds. 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 consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents that are held separately for the Mayor's court and Bail Bond Account are not held by the City Treasurer and are recorded on the financial statements as "Cash and Cash Equivalents in Segregated Accounts." See Note 4, "Cash, Cash Equivalents and Investments."

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory

On the government-wide financial statements inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental funds when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$650.

1. Property, Plant and Equipment - Governmental Activities

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

Contributed capital assets are recorded at acquisition value at the date received. Capital assets include 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. The City's infrastructure consists of streets. The City only reports infrastructure assets acquired after 2003 and does not plan to phase in prior years' amounts. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

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 acquisition value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

3. Depreciation

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

Description	Governmental and Business-Type Activities Estimated Lives (in years)
Land Improvements	20
Buildings and Building Improvements	20 – 45
Furniture and Equipment	5 – 20
Infrastructure	10 - 60

J. Long-Term Obligations

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

Obligation	Fund
Compensated Absences	General Fund, Street Construction, Maintenance and Repair Fund
General Obligation Bonds	Ambulance Fund, Energy Efficiency Project Fund

K. Compensated Absences

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

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

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

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered or to rights that vest or accumulate, and when payment of the obligation is probable and can be reasonably determined. For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. 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 government wide statement of net position, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

L. Net Position

Net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on 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 position is available.

M. Pensions

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

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Activity

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

O. Fund Balances

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

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

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted (committed, assigned and unassigned) resources as they are needed.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for swimming pool operations. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no special or extraordinary items to report during 2017.

R. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. Deferred outflows of resources are reported for pension amounts on the government-wide statement of net position. See Note 9.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. See Note 9.

S. Fair Market Value

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

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

For 2017, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” Statement No. 80, “Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14,” Statement No. 81, “Irrevocable Split-Interest Agreements,” and Statement No. 82, “Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.”

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions.

GASB Statement No. 74 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments.

GASB Statement No. 81 addresses irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68.

These changes were incorporated in the City’s 2017 financial statements; however, there was no effect on beginning net position/fund balance.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 3 – FUND BALANCE CLASSIFICATION

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

Fund Balances	General Fund	3 Mill Project Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Supplies Inventory	\$22,768	\$0	\$31,769	\$54,537
Prepaid Items	21,482	0	0	21,482
Unclaimed Funds	3,403	0	0	3,403
Total Nonspendable	<u>47,653</u>	<u>0</u>	<u>31,769</u>	<u>79,422</u>
Restricted:				
Street Improvements	0	0	259,373	259,373
Parking Lot Operations	0	0	53,934	53,934
Sidewalk Maintenance	0	0	29,928	29,928
Shade Tree Program	0	0	567	567
Law Enforcement	0	0	95,891	95,891
Court Improvements	0	0	308	308
EMS Program	0	0	1,444	1,444
Community Environment	0	0	19,510	19,510
Recycling Program	0	0	1,237	1,237
Debt Service	0	0	100	100
Capital Improvements	0	232,571	0	232,571
Total Restricted	<u>0</u>	<u>232,571</u>	<u>462,292</u>	<u>694,863</u>
Committed:				
Capital Improvements	0	0	3,554	3,554
Assigned:				
Other Purposes	738,864	0	0	738,864
Unassigned (Deficits):	<u>256,355</u>	<u>0</u>	<u>0</u>	<u>256,355</u>
Total Fund Balances	<u>\$1,042,872</u>	<u>\$232,571</u>	<u>\$497,615</u>	<u>\$1,773,058</u>

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CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds. 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 "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 no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but 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 CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial risk beyond the requirements of State statute.

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

At year end the carrying amount of the City's deposits was \$2,437,952 and the bank balance was \$2,577,046. Federal depository insurance covered \$250,000 of the bank balance and \$2,327,046 was exposed to custodial risk and was collateralized with specific pledged collateral.

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property located in the City. Real property taxes (other than public utility) collected during 2017 were levied after October 1, 2016 on assessed values as of January 1, 2016, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2017. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 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 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

CITY OF CHEVIOT, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2017***

NOTE 5 - TAXES (Continued)

A. Property Taxes (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Cheviot. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2017 was \$20.13 per \$1,000 of assessed value. The assessed value upon which the 2017 tax levy was based was \$109,441,300. This amount constitutes \$101,576,990 in real property assessed value and \$7,864,310 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of one percent of assessed value without a vote of the people. Under current procedures, the City's share is 2.013% (20.13 mills) of assessed value.

Real Estate Tax Abatements

The City provides tax incentives under one (1) program, the Community Reinvestment Area (CRA).

Pursuant to Ohio Revised Code Chapter 5709, the City established a Community Reinvestment Area. The City authorizes incentives through passage of public ordinances, based upon each businesses investment criteria and through a contractual application process with each business. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Area gave the City the ability to maintain and expand business located within the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate and includes major housing improvements in specified areas.

The City has offered the CRA abatements to encourage economic stability, maintain property values, and generate new employment opportunities and population growth.

Below is the information relevant to the disclosure of this program for the year ending December 31, 2017.

	Total Amount of Taxes Abated For the year 2017
<i>Community Reinvestment Area (CRA)</i>	
Retail/Banking	\$30,242
	<u>\$30,242</u>

CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 5 - TAXES (Continued)

B. Income Tax

The City levies a tax of two percent on all salaries, wages, and other compensation earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City. The City allows a credit for income taxes paid to another municipality up to 100 percent of the City's current tax rate. Income tax revenue is accounted for through the General Fund.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2017 consisted of taxes, accounts, 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 2017:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$0	\$254,425
Other Governmental Funds	<u>251,425</u>	<u>0</u>
Total Governmental Funds	<u>251,425</u>	<u>254,425</u>
Proprietary Funds:		
Swimming Pool Fund	<u>3,000</u>	<u>0</u>
Total Proprietary Funds	<u>3,000</u>	<u>0</u>
Totals	<u>\$254,425</u>	<u>\$254,425</u>

Transfers made during the year ended December 31, 2017 consisted of amounts transferred from the General Fund to other funds to provide additional resources for operations and debt service.

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CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2017:

Historical Cost:

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Capital assets not being depreciated:				
Land	\$275,086	\$0	(\$1,000)	\$274,086
Construction in Progress	0	536,520	0	536,520
Sub-total	275,086	536,520	(1,000)	810,606
Capital assets being depreciated:				
Land Improvements	417,462	2,248	0	419,710
Buildings and Improvements	2,209,040	0	0	2,209,040
Furniture and Equipment	4,722,317	180,865	(48,308)	4,854,874
Infrastructure	4,496,440	432,021	0	4,928,461
Total Cost	\$12,120,345	\$1,151,654	(\$49,308)	\$13,222,691

Accumulated Depreciation:

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Land Improvements	(\$375,860)	(\$3,209)	\$0	(\$379,069)
Buildings and Improvements	(1,582,633)	(38,411)	0	(1,621,044)
Furniture and Equipment	(3,366,919)	(237,913)	48,308	(3,556,524)
Infrastructure	(1,101,499)	(179,595)	0	(1,281,094)
Total Depreciation	(\$6,426,911)	(\$459,128) *	\$48,308	(\$6,837,731)
Net Value:	\$5,693,434			\$6,384,960

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$169,329
Leisure Time Activities	8,188
Public Works	23,259
Transportation	227,521
General Government	30,831
Total Depreciation Expense	<u>\$459,128</u>

CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 8 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2017:

Historical Cost:

Class	December 31, 2016	Additions	Deletions	December 31, 2017
<i>Capital assets not being depreciated:</i>				
Land	\$1,864	\$0	\$0	\$1,864
<i>Capital assets being depreciated:</i>				
Buildings and Building Improvements	207,978	0	0	207,978
Machinery and Equipment	2,259	0	0	2,259
Total Cost	<u>\$212,101</u>	<u>\$0</u>	<u>\$0</u>	<u>\$212,101</u>

Accumulated Depreciation:

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Buildings and Building Improvements	(\$120,801)	(\$7,219)	\$0	(\$128,020)
Machinery and Equipment	(75)	(151)	0	(226)
Total Accumulated Depreciation	<u>(\$120,876)</u>	<u>(\$7,370)</u>	<u>\$0</u>	<u>(\$128,246)</u>
Net Value:	<u>\$91,225</u>			<u>\$83,855</u>

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CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

	<u>State and Local</u>
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	<u>1.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$133,841 for 2017.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>Police</u>	<u>Firefighters</u>
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2017 through December 31, 2017	12.25 %	12.25 %
2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2017 through December 31, 2017	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$294,324 for 2017.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,855,764	\$3,915,537	\$5,771,301
Proportion of the Net Pension Liability-2017	0.008172%	0.061819%	
Proportion of the Net Pension Liability-2016	<u>0.007980%</u>	<u>0.061767%</u>	
Percentage Change	<u>0.000192%</u>	<u>0.000052%</u>	
Pension Expense	\$412,063	\$502,430	\$914,493

CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$276,366	\$380,768	\$657,134
Changes in assumptions	294,347	0	294,347
Differences between expected and actual experience	2,515	1,108	3,623
Change in proportionate share	0	121,746	121,746
City contributions subsequent to the measurement date	<u>133,841</u>	<u>294,324</u>	<u>428,165</u>
Total Deferred Outflows of Resources	<u>\$707,069</u>	<u>\$797,946</u>	<u>\$1,505,015</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	<u>\$11,044</u>	<u>\$9,015</u>	<u>\$20,059</u>
Total Deferred Inflows of Resources	<u>\$11,044</u>	<u>\$9,015</u>	<u>\$20,059</u>

\$428,165 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2018	\$231,890	\$173,551	\$405,441
2019	240,152	173,552	413,704
2020	98,242	139,046	237,288
2021	(8,100)	3,107	(4,993)
2022	0	5,329	5,329
2023	<u>0</u>	<u>22</u>	<u>22</u>
Total	<u>\$562,184</u>	<u>\$494,607</u>	<u>\$1,056,791</u>

Actuarial Assumptions - OPERS

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

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA (Pre 1/7/13 retirees)	3 percent simple
COLA or Ad Hoc COLA (Post 1/7/13 retirees)	3 percent simple through 2018. 2.15 percent simple, thereafter
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$2,835,092	\$1,855,764	\$1,039,665

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

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

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

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

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2016 are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected *	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

* levered 2x

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

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$5,215,031	\$3,915,537	\$2,814,198

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

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

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS may be set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2017, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

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

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%.

The City's contributions for health care to the OPERS for the years ending December 31, 2017, 2016, and 2015 were \$10,233, \$21,220 and \$20,197, respectively, which were equal to the required contributions for each year.

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2017***

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5% of covered payroll for both police officers and firefighters. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2017, 2016, and 2015 were \$4,039, \$3,574 and \$3,830 for police and \$2,954, \$2,826 and \$3,071 for firefighters, respectively, which were equal to the required contributions for each year.

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CITY OF CHEVIOT, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2017**

NOTE 11 - LONG-TERM OBLIGATIONS

Activity in Long-Term Obligations in 2017 was as follows:

	Maturity Date	Balance December 31, 2016	Additions	Deductions	Balance December 31, 2017	Amount Due Within One Year
Governmental Activities:						
General Obligation Bonds Payable:						
Energy Efficiency Improvements	3.375% 2027	\$395,000	\$0	(\$25,000)	\$370,000	\$25,000
Ambulance	3.500% 2023	82,600	0	(11,500)	71,100	11,900
Total General Obligation Bonds Payable		<u>477,600</u>	<u>0</u>	<u>(36,500)</u>	<u>441,100</u>	<u>36,900</u>
Capital Leases		243,246	0	(58,165)	185,081	59,895
Net Pension Liability:						
Ohio Public Employees Retirement System		1,382,253	473,511	0	1,855,764	0
Ohio Police and Fire Pension Fund		3,973,489	0	(57,952)	3,915,537	0
Total Net Pension Liability		<u>5,355,742</u>	<u>473,511</u>	<u>(57,952)</u>	<u>5,771,301</u>	<u>0</u>
Compensated Absences		130,529	60,509	(15,368)	175,670	10,288
Total Governmental Activities		<u>\$6,207,117</u>	<u>\$534,020</u>	<u>(\$167,985)</u>	<u>\$6,573,152</u>	<u>\$107,083</u>

The Energy Efficiency Improvement bonds were issued on October 2, 2012 in the amount of \$455,000 for the purpose of energy efficiency improvements to City facilities. The bonds carry an interest rate of 3.375 percent and reach maturity on March 1, 2027. The Ambulance bonds were issued on September 23, 2013 in the amount of \$120,000 for the purchase of an ambulance. The bonds carry an interest rate of 3.50 percent and reach maturity on June 1, 2023.

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

The City's total debt margin was \$11,050,237 at December 31, 2017. The Ohio Revised Code provides that the net debt of a municipal corporation, when approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage.

CITY OF CHEVIOT, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2017***

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2017 are as follows:

Years	General Obligation Bonds		
	Principal	Interest	Totals
2018	\$36,900	\$14,451	\$51,351
2019	42,400	13,101	55,501
2020	42,800	11,657	54,457
2021	48,200	10,102	58,302
2022	48,800	8,456	57,256
2023-2027	222,000	19,446	241,446
Totals	\$441,100	\$77,213	\$518,313

NOTE 12 - CAPITAL LEASES

The City has financed the purchase of a fire truck with a capital lease. The original cost of the equipment and the related liability are reported on the Government-wide Statement of Net Position.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of December 31, 2017:

Year Ending December 31,	Capital Leases
2018	\$65,400
2019	65,400
2020	65,400
Minimum Lease Payments	196,200
Less amount representing interest at the City's incremental borrowing rate of interest	(11,119)
Present value of minimum lease payments	\$185,081

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2017, the City contracted with Selective Insurance Company for insurance coverage as follows:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Deductible</u>
Property	\$11,305,791	\$1,000
General Liability	3,000,000	0
Automobile	1,000,000	500
Umbrella Coverage	4,000,000	0
Public Official	1,000,000	5,000
Police Professional	1,000,000	5,000

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.

There has been no significant reduction in insurance coverages from coverages in the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

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

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

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Payments to OKI are made from the General Fund. No financial contributions were made by the City during 2017. To obtain financial information, write to Ronald Kuker, Director of Finance and Administration of the Ohio-Kentucky-Indiana Regional Council of Governments at 720 East Pete Rose Way, Suite 420, Cincinnati, Ohio, 45202.

NOTE 15 – JOINT ECONOMIC DEVELOPMENT DISTRICTS

A. JEDD - Western Ridge

In 2007 a Joint Economic Development District (JEDD-WESTERN RIDGE) between the City of Cheviot and Green Township was approved by the City Council of the City of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2069, and may be extended for 2 terms of 20 years each. It sets aside 32.0635 acre of land located on Harrison Ave. and is further described by Hamilton County Auditor's Book 550, Page 320 Parcel 614. The original JEDD W-R authorized a maximum rate of 1% for persons employed in the District, with a cap on each individuals' earnings to be \$100,000 in the first year of taxation and adjusted annually on January 1st thereafter based on the Consumer Price index published by the U.S. Bureau of Labor Statistics on September 30th of each year next preceding the January 1st adjustment date. After the set aside of fees to be held by the City of Cheviot the monies are divided as follows: 20% to the City of Cheviot and 80% to Green Township. Good Samaritan Hospital will be one of the main occupants along with Wellington Orthopedic, Tri Health and Tri State Center for Sight.

B. JEDD District II

In 2012 a Joint Economic Development District (JEDD II) between the City of Cheviot and Green Township was approved by the City Council of the City of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2062 and may by mutual consent extend the Contract for 2 additional terms of 10 years each. Is sets aside 20 acres of land located on Filview Circle at Harrison Avenue and is identified in Hamilton County Auditor's Book 550, Page 183, Parcels 028 & 030 consolidated, 072,420 and 502 inclusive. The original JEDD II authorized a maximum rate of 1% based on salaries or other personal service income earned by individuals from services performed within JEDD II, with a cap on earned income at 1% per annum, which cap shall, after the first year, be adjusted annually on January 1st thereafter based on the Consumer Price index published by the U.S. Bureau of Labor Statistics on September 30th of each year next preceding the January 1st adjustment date. After the set aside of fees to be held by the City of Cheviot the monies are divided as follows: 20% to the City of Cheviot and 80% to Green Township. The main occupants are The Christ Hospital, Children's Hospital, Christ Hospital Physicians LLC and Seven Hills OB_GNY Associates, Inc.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 15 – JOINT ECONOMIC DEVELOPMENT DISTRICTS (Continued)

C. JEDD District III

In 2013 a Joint Economic Development District (JEDD III Mercy-West) between the City of Cheviot and Green Township was approved by the City Council of the City of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2065 and may by mutual consent extend the Contract for two additional terms of ten years each. The areas to be included within the Green Township Mercy Hospitals West JEDD consist of thirteen parcels that contain 70 acres (plus or minus), presently listed in Hamilton County Auditor's Book 550, Page 74, Parcels 57,60,63,64,66,70,96,147,148 & 149, less and excepting the 1.176 acre parcel that forms a part of Auditor's Book 550, Page 74, Parcel 148, and which is more particularly described in Exhibit A, and is referred to as the Mercy Hospitals West JEDD territory.

The original JEDD III Mercy – West authorized a maximum rate of 2% based on salaries or other personal service income earned by individuals from services performed within the JEDD during the first 10 years of the JEDD, and a maximum rate of 1% based on salaries or other personal service income earned by individuals from services performed within the JEDD beginning in Year Eleven of the JEDD, with a cap on earned income at \$100,000 per annum, which cap shall, after the tenth year, be adjusted annually on January 1st of each year during the existence of the JEDD, based upon the Consumer Prices Index published by the U.S. Bureau of Labor Statistics on September 30th of the preceding year. After the set aside of fees to be held by the City of Cheviot the monies are divided as follows for the first 20 years of the contract, 10% to the City of Cheviot and 90% to Green Township. Beginning with the 21st year continuing until its expiration the following formula will be used: 15% to the City of Cheviot and 85% to Green Township. The main occupant is Mercy Hospital West.

D. JEDD IV - Harrison Greene

In 2014 a Joint Economic Development District (JEDD IV—HARRISON GREENE) between the City of Cheviot and Green Township was approved by the City Council of the City of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2065, and may be extended for 2 terms of 10 years each. It sets aside 6.4 (plus or minus) acres of land located on Harrison Ave. and is further described by Hamilton County Auditor's Book 550, Page 181 Parcel 20,108,464 and 465 . The original Jedd IV authorized A. a maximum rate of 1% for persons employed in the District, with a cap on each individuals' earnings to be \$100,000 in the first year of taxation and adjusted annually on January 1st thereafter based on the Consumer Price index published by the U.S. Bureau of Labor Statistics on September 30th of each year next preceding the January 1st adjustment date. B. Net profits of businesses located within the JEDD IV (the Net Profits portion). After the set aside of fees to be held by the City of Cheviot the monies are divided as follows 10% to the City of Cheviot and 90% to Green Township.

CITY OF CHEVIOT, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 15 – JOINT ECONOMIC DEVELOPMENT DISTRICTS (Continued)

E. JEDD - Liberty Nursing Health Care

In 2013 a Joint Economic Development District (JEDD- LIBERTY NURSING HEALTH CARE) between the City of Cheviot and Colerain Township was approved by the City Council of the City of Cheviot and the Trustees of Colerain Township. This contract will remain in effect until December 31, 2043 and may by mutual consent extend the Contract for 2 additional terms of 10 years each. It sets aside 1 parcel of land located at the intersection of Livingston and Blue Rock Roads, and is identified in Hamilton County Parcel number 510-0203-0005-00. The original Jedd Liberty Nursing Health Care authorized a maximum rate of 2% based on A. salaries or other personal service income earned by individuals from services performed within Jedd Liberty Nursing Health Care, with a cap on earned income at 1% per annum, which cap shall, after the first year, be adjusted annually on January 1st thereafter based on the Consumer Price index published by the U.S. Bureau of Labor Statistics on September 30th of each year next preceding the January 1st adjustment date. B. Net profits of businesses located within the Liberty Nursing Health Care JEDD (the Net Profits portion). After the set aside of fees to be held by the City of Cheviot the monies are divided as follows 10% to the City of Cheviot and 90% to Colerain Township.

F. JEDD – UDF North Bend

In 2016 a Joint Economic Development District (JEDD V UDF NORTH BEND) between the City of Cheviot and Green Township was approved by the City Council of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2066 and may be extended for two additional terms of ten years each. It sets aside 2.21 acre (plus or minus) site located on North Bend Road and Westwood Northern Boulevard and is further described by Hamilton County Auditor's Book 550 Page 61 Parcel 161, 162, 185, 186, 187, 188, 191, 192, 263, 460. The original Jedd V authorized A. a maximum rate of 1% for persons employed in the District, with a cap on each individuals' earnings to be \$100,000 per annum in the first year of taxation and adjusted annually on January 1st thereafter based on the Consumer Prices Index published by the U.S. Bureau of Labor Statistics on September 30th of the preceding year. B. Net profits of business located within the Jedd V (the Net Profits portion). After the set aside of fees to be held by the City of Cheviot the monies are divided as follows 10% to the City of Cheviot and 90% to Green Township.

NOTE 16 - 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 on the financial condition of the City.

CITY OF CHEVIOT, OHIO

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF CHEVIOT, OHIO

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

Ohio Public Employees Retirement System

Year	2014	2015	2016	2017
City's proportion of the net pension liability (asset)	0.007864%	0.007864%	0.007980%	0.008172%
City's proportionate share of the net pension liability (asset)	\$927,063	\$948,486	\$1,382,253	\$1,855,764
City's covered-employee payroll	\$956,723	\$968,492	\$989,350	\$1,009,567
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.90%	97.93%	139.71%	183.82%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%	77.25%

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

Ohio Police and Fire Pension Fund

Year	2014	2015	2016	2017
City's proportion of the net pension liability (asset)	0.058138%	0.058138%	0.061767%	0.061819%
City's proportionate share of the net pension liability (asset)	\$2,831,518	\$3,011,806	\$3,973,489	\$3,915,537
City's covered-employee payroll	\$1,283,343	\$1,152,487	\$1,261,131	\$1,279,894
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	220.64%	261.33%	315.07%	305.93%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%	68.36%

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

Notes: The City implemented GASB Statement 68 in 2015.

The schedule is intended to show ten years of information. Additional years will be displayed as they become available. Information prior to 2014 is not available. The schedule is reported as of the measurement date of the Net Pension Liability, which is the prior year end.

CITY OF CHEVIOT, OHIO

Schedule of City Contributions Last Five Years

Ohio Public Employees Retirement System

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$124,374	\$116,219	\$118,722	\$121,148	\$133,841
Contributions in relation to the contractually required contribution	<u>124,374</u>	<u>116,219</u>	<u>118,722</u>	<u>121,148</u>	<u>133,841</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$956,723	\$968,492	\$989,350	\$1,009,567	\$1,029,546
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%

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

Ohio Police and Fire Pension Fund

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$229,294	\$242,898	\$264,651	\$268,611	\$294,324
Contributions in relation to the contractually required contribution	<u>229,294</u>	<u>242,898</u>	<u>264,651</u>	<u>268,611</u>	<u>294,324</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$1,283,343	\$1,152,487	\$1,261,131	\$1,279,894	\$1,408,692
Contributions as a percentage of covered-employee payroll	17.87%	21.08%	20.99%	20.99%	20.89%

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

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

CITY OF CHEVIOT, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2016

Unaudited

The discussion and analysis of the City of Cheviot's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the 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 2016 are as follows:

- ❑ In total, net position increased \$73,426. Net position of governmental activities increased \$74,589, which represents a 2% increase from 2015. Net position of business-type activities decreased \$1,163 from 2015.
- ❑ General revenues accounted for \$3,804,068 in revenue or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,641,051, or 30% of total revenues of \$5,445,119.
- ❑ The City had \$5,328,270 in expenses related to governmental activities; only \$1,603,991 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$3,804,068 were adequate to provide for these programs.
- ❑ The City's general fund had \$4,288,945 in revenues and \$4,393,034 in expenditures. The general fund's fund balance decreased from \$1,480,810 to \$1,170,906.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF CHEVIOT, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

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 position includes all of the government's assets, liabilities, and deferred outflows/inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position is 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 security of persons and property, public health and welfare, leisure time activities, community environment, public works, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's swimming pool operations are reported as business-type activities.

Fund Financial Statements

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

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 programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CITY OF CHEVIOT, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2016**

Unaudited

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The proprietary fund financial statements provide separate information for the City's swimming pool operations.

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 a separate Statement of Fiduciary Assets and Liabilities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net position for 2016 compared to 2015.

	Governmental Activities		Business-type Activities		Total	
	2016	Restated 2015	2016	2015	2016	2015
Current and Other Assets	\$5,097,552	\$4,860,444	\$4,831	\$2,586	\$5,102,383	\$4,863,030
Capital assets, Net	5,693,434	5,471,522	91,225	96,260	5,784,659	5,567,782
Total Assets	<u>10,790,986</u>	<u>10,331,966</u>	<u>96,056</u>	<u>98,846</u>	<u>10,887,042</u>	<u>10,430,812</u>
Deferred Outflows of Resources	1,593,590	563,787	0	0	1,593,590	563,787
Net Pension Liability	5,355,742	3,960,292	0	0	5,355,742	3,960,292
Other Long-Term Liabilities	851,375	925,119	0	0	851,375	925,119
Other Liabilities	193,241	314,005	0	1,627	193,241	315,632
Total Liabilities	<u>6,400,358</u>	<u>5,199,416</u>	<u>0</u>	<u>1,627</u>	<u>6,400,358</u>	<u>5,201,043</u>
Deferred Inflows of Resources	1,935,150	1,721,858	0	0	1,935,150	1,721,858
Net Position						
Net Investment in Capital Assets	5,367,588	5,077,991	91,225	96,260	5,458,813	5,174,251
Restricted	1,310,410	857,831	0	0	1,310,410	857,831
Unrestricted	(2,628,930)	(1,961,343)	4,831	959	(2,624,099)	(1,960,384)
Total Net Position	<u>\$4,049,068</u>	<u>\$3,974,479</u>	<u>\$96,056</u>	<u>\$97,219</u>	<u>\$4,145,124</u>	<u>\$4,071,698</u>

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

CITY OF CHEVIOT, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2016***

Unaudited

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2016**

Unaudited

Change in Net Position – The following table shows the change in net position for 2016 compared to 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services and Sales	\$930,815	\$878,228	\$37,060	\$26,420	\$967,875	\$904,648
Operating Grants and Contributions	376,876	389,290	0	19,322	376,876	408,612
Capital Grants and Contributions	296,300	290,244	0	40,678	296,300	330,922
Total Program Revenues	<u>1,603,991</u>	<u>1,557,762</u>	<u>37,060</u>	<u>86,420</u>	<u>1,641,051</u>	<u>1,644,182</u>
General revenues:						
Property Taxes	1,768,112	1,566,826	0	0	1,768,112	1,566,826
Municipal Income Taxes	1,582,469	1,823,789	0	0	1,582,469	1,823,789
Other Local Taxes	61,520	63,346	0	0	61,520	63,346
Intergovernmental Revenues, Unrestricted	309,997	348,214	0	0	309,997	348,214
Miscellaneous	81,970	25,964	0	0	81,970	25,964
Total General Revenues	<u>3,804,068</u>	<u>3,828,139</u>	<u>0</u>	<u>0</u>	<u>3,804,068</u>	<u>3,828,139</u>
Total Revenues	<u>5,408,059</u>	<u>5,385,901</u>	<u>37,060</u>	<u>86,420</u>	<u>5,445,119</u>	<u>5,472,321</u>
Program Expenses						
Security of Persons and Property	2,614,764	2,339,406	0	0	2,614,764	2,339,406
Public Health and Welfare Services	17,384	19,316	0	0	17,384	19,316
Leisure Time Activities	83,273	142,720	0	0	83,273	142,720
Community Environment	12,003	16,493	0	0	12,003	16,493
Public Works	412,447	362,506	0	0	412,447	362,506
Transportation	669,128	884,217	0	0	669,128	884,217
General Government	1,493,759	1,328,422	0	0	1,493,759	1,328,422
Interest and Fiscal Charges	25,512	17,654	0	0	25,512	17,654
Swimming Pool	0	0	43,423	59,984	43,423	59,984
Total Expenses	<u>5,328,270</u>	<u>5,110,734</u>	<u>43,423</u>	<u>59,984</u>	<u>5,371,693</u>	<u>5,170,718</u>
Change in Net Position Before Transfers	79,789	275,167	(6,363)	26,436	73,426	301,603
Transfers	(5,200)	(12,000)	5,200	12,000	0	0
Total Change in Net Position	74,589	263,167	(1,163)	38,436	73,426	301,603
Beginning Net Position - Restated	<u>3,974,479</u>	<u>3,711,312</u>	<u>97,219</u>	<u>58,783</u>	<u>4,071,698</u>	<u>3,770,095</u>
Ending Net Position	<u>\$4,049,068</u>	<u>\$3,974,479</u>	<u>\$96,056</u>	<u>\$97,219</u>	<u>\$4,145,124</u>	<u>\$4,071,698</u>

Governmental Activities

Net position of the City's governmental activities increased \$74,589. An increase in property taxes can be attributed to the approval of a new 3-mill 5 year street levy. An increase in security of persons and property can be attributed in part to a 1% wage increase.

CITY OF CHEVIOT, OHIO

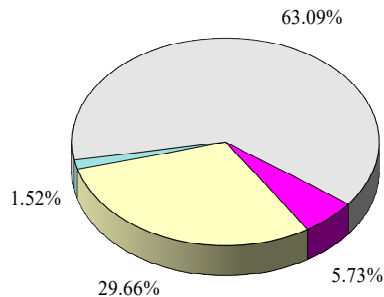
**Management's Discussion and Analysis
For the Year Ended December 31, 2016**

Unaudited

The City receives an income tax, which is based on 2.0% of all salaries, wages, commissions and other compensation and on net profits earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City.

Income taxes and property taxes made up 29% and 33% respectively, of revenues for governmental activities in 2016. The City's reliance upon tax revenues is demonstrated by the following graph indicating 63% of total revenues from general tax revenues:

Revenue Sources	2016	Percent of Total
General Tax Revenues	\$3,412,101	63.09%
Intergovernmental, Unrestricted	309,997	5.73%
Program Revenues	1,603,991	29.66%
General Other	81,970	1.52%
Total Revenue	\$5,408,059	100.00%



Business-Type Activities

Net position of the business-type activities remained stable, decreasing \$1,163.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$2,333,766, which is an increase from last year's balance of \$2,215,015. The schedule below indicates the fund balance and the total change in fund balance at December 31, 2016 and 2015:

	Fund Balance December 31, 2016	Fund Balance December 31, 2015	Increase (Decrease)
General	\$1,170,906	\$1,480,810	(\$309,904)
3 Mill Project	544,169	309,732	234,437
Other Governmental	618,691	424,473	194,218
Total	\$2,333,766	\$2,215,015	\$118,751

CITY OF CHEVIOT, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2016**

Unaudited

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

	2016 <u>Revenues</u>	2015 <u>Revenues</u>	Increase <u>(Decrease)</u>
Property Taxes	\$1,442,682	\$1,443,500	(\$818)
Municipal Income Taxes	1,570,672	2,046,385	(475,713)
Other Local Taxes	61,520	63,346	(1,826)
Intergovernmental Revenues	300,852	392,347	(91,495)
Charges for Services	700,773	620,206	80,567
Rental Revenue	75,766	75,331	435
Licenses, Permits and Fees	13,609	13,903	(294)
Fines and Forfeitures	82,290	59,701	22,589
All Other Revenue	40,781	5,914	34,867
Total	<u>\$4,288,945</u>	<u>\$4,720,633</u>	<u>(\$431,688)</u>

General Fund revenues decreased \$431,688 from the prior year.

	2016 <u>Expenditures</u>	2015 <u>Expenditures</u>	Increase <u>(Decrease)</u>
Security of Persons and Property	\$2,323,229	\$2,297,646	\$25,583
Public Health and Welfare Services	6,647	6,897	(250)
Leisure Time Activities	74,502	132,691	(58,189)
Public Works	388,035	339,797	48,238
Transportation	139,884	143,000	(3,116)
General Government	1,460,737	1,323,111	137,626
Total	<u>\$4,393,034</u>	<u>\$4,243,142</u>	<u>\$149,892</u>

General Fund expenditures increased \$149,892, or 4% when compared with the previous year. The purchase of playground equipment in the prior year resulted in the subsequent decrease in leisure time activities in the current year. An increase in public works can be attributed to waste disposal and maintenance costs. General government increased due to maintenance costs at City Hall.

CITY OF CHEVIOT, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2016**

Unaudited

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 2016 the City amended its General Fund budget several times.

For the General Fund, original, final and actual budget basis revenues were not significantly different. Actual budget basis expenditures were approximately 5% less than final appropriations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016 the City had \$5,784,659 net of accumulated depreciation invested in land, buildings, improvements, infrastructure, furniture and equipment. Of this total, \$5,693,434 was related to governmental activities and \$91,225 to the business-type activities. The following tables show 2016 and 2015 balances:

	Governmental Activities		Increase (Decrease)
	2016	Restated 2015	
	2016	2015	
Land	\$275,086	\$274,086	\$1,000
Land Improvements	417,462	417,462	0
Buildings and Improvements	2,209,040	2,168,179	40,861
Furniture and Equipment	4,722,317	4,346,159	376,158
Infrastructure	4,496,440	4,257,200	239,240
Less: Accumulated Depreciation	(6,426,911)	(5,991,564)	(435,347)
Totals	\$5,693,434	\$5,471,522	\$221,912

	Business-Type Activities		Increase (Decrease)
	2016	2015	
	2016	2015	
Land	\$1,864	\$1,864	\$0
Buildings and Building Improvements	207,978	207,978	0
Machinery and Equipment	2,259	0	2,259
Less: Accumulated Depreciation	(120,876)	(113,582)	(7,294)
Totals	\$91,225	\$96,260	(\$5,035)

Governmental activities capital asset additions included a dump truck, backhoe loader, security system upgrades at City Hall, police equipment, fire equipment, and improvements to Frances Avenue. Business-type activities capital asset additions consisted of a pool cleaner.

Additional information on the City's capital assets can be found in Note 8.

CITY OF CHEVIOT, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2016***

Unaudited

Debt and Other Long Term Obligations

The following table summarizes the City's long term obligations outstanding as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Governmental Activities:		
General Obligation Bonds	\$477,600	\$508,800
Capital Leases	243,246	299,731
Net Pension Liability	5,355,742	3,960,292
Compensated Absences	<u>130,529</u>	<u>116,588</u>
Total Governmental Activities	<u>\$6,207,117</u>	<u>\$4,885,411</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. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2016, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 11.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. Questions about this report or the need for additional financial information can be directed to the Auditor's Office of the City of Cheviot.

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CITY OF CHEVIOT, OHIO

Statement of Net Position December 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 1,935,925	\$ 859	\$ 1,936,784
Receivables:			
Property Taxes	2,004,791	0	2,004,791
Income Taxes	532,205	0	532,205
Other Local Taxes	14,241	0	14,241
Accounts	157,952	3,972	161,924
Intergovernmental Receivable	339,770	0	339,770
Special Assessments	19,082	0	19,082
Inventory of Supplies at Cost	73,188	0	73,188
Prepaid Items	20,398	0	20,398
Non-Depreciable Capital Assets	275,086	1,864	276,950
Depreciable Capital Assets, Net	5,418,348	89,361	5,507,709
Total Assets	10,790,986	96,056	10,887,042
Deferred Outflows of Resources:			
Pension:			
OPERS	527,444	0	527,444
OP&F	1,066,146	0	1,066,146
Total Deferred Outflows of Resources	1,593,590	0	1,593,590
Liabilities:			
Accounts Payable	43,197	0	43,197
Accrued Wages and Benefits	88,785	0	88,785
Intergovernmental Payable	50,842	0	50,842
Unearned Revenue	5,733	0	5,733
Accrued Interest Payable	4,684	0	4,684
Noncurrent Liabilities:			
Due Within One Year	110,033	0	110,033
Due in More Than One Year:			
Net Pension Liability	5,355,742	0	5,355,742
Other Amounts Due in More Than One Year	741,342	0	741,342
Total Liabilities	6,400,358	0	6,400,358
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	1,897,285	0	1,897,285
Pension:			
OPERS	26,708	0	26,708
OP&F	11,157	0	11,157
Total Deferred Inflows of Resources	1,935,150	0	1,935,150
Net Position:			
Net Investment in Capital Assets	5,367,588	91,225	5,458,813
Restricted For:			
Capital Projects	716,176	0	716,176
Other Purposes	594,234	0	594,234
Unrestricted (Deficit)	(2,628,930)	4,831	(2,624,099)
Total Net Position	\$ 4,049,068	\$ 96,056	\$ 4,145,124

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Statement of Activities *For the Year Ended December 31, 2016*

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 2,614,764	\$ 229,919	\$ 0	\$ 0
Public Health and Welfare Services	17,384	0	1,968	0
Leisure Time Activities	83,273	57,866	0	0
Community Environment	12,003	0	0	0
Public Works	412,447	489,361	0	0
Transportation	669,128	8,659	374,908	296,300
General Government	1,493,759	145,010	0	0
Interest and Fiscal Charges	25,512	0	0	0
Total Governmental Activities	5,328,270	930,815	376,876	296,300
Business-Type Activities:				
Swimming Pool	43,423	37,060	0	0
Total Business-Type Activities	43,423	37,060	0	0
Totals	\$ 5,371,693	\$ 967,875	\$ 376,876	\$ 296,300

General Revenues and Transfers

Property Taxes Levied for:

- General Purposes
- Capital Outlay
- Municipal Income Taxes
- Other Local Taxes
- Intergovernmental, Unrestricted
- Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,384,845)	\$ 0	\$ (2,384,845)
(15,416)	0	(15,416)
(25,407)	0	(25,407)
(12,003)	0	(12,003)
76,914	0	76,914
10,739	0	10,739
(1,348,749)	0	(1,348,749)
(25,512)	0	(25,512)
<u>(3,724,279)</u>	<u>0</u>	<u>(3,724,279)</u>
0	(6,363)	(6,363)
<u>0</u>	<u>(6,363)</u>	<u>(6,363)</u>
<u>\$ (3,724,279)</u>	<u>\$ (6,363)</u>	<u>\$ (3,730,642)</u>
1,440,420	0	1,440,420
327,692	0	327,692
1,582,469	0	1,582,469
61,520	0	61,520
309,997	0	309,997
81,970	0	81,970
(5,200)	5,200	0
<u>3,798,868</u>	<u>5,200</u>	<u>3,804,068</u>
74,589	(1,163)	73,426
3,974,479	97,219	4,071,698
<u>\$ 4,049,068</u>	<u>\$ 96,056</u>	<u>\$ 4,145,124</u>

CITY OF CHEVIOT, OHIO

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

	General Fund	3 Mill Project Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 878,329	\$ 544,169	\$ 513,427	\$ 1,935,925
Receivables:				
Property Taxes	1,676,453	328,338	0	2,004,791
Income Taxes	532,205	0	0	532,205
Other Local Taxes	14,241	0	0	14,241
Accounts	157,952	0	0	157,952
Intergovernmental	146,537	6,819	186,414	339,770
Special Assessments	0	0	19,082	19,082
Inventory of Supplies, at Cost	15,506	0	57,682	73,188
Prepaid Items	20,398	0	0	20,398
Total Assets	\$ 3,441,621	\$ 879,326	\$ 776,605	\$ 5,097,552
Liabilities:				
Accounts Payable	\$ 40,608	\$ 0	\$ 2,589	\$ 43,197
Accrued Wages and Benefits Payable	76,925	0	11,860	88,785
Intergovernmental Payable	50,670	0	172	50,842
Unearned Revenue	5,733	0	0	5,733
Total Liabilities	173,936	0	14,621	188,557
Deferred Inflows of Resources:				
Unavailable Amounts	508,944	25,707	143,293	677,944
Property Tax Levy for Next Fiscal Year	1,587,835	309,450	0	1,897,285
Total Deferred Inflows of Resources	2,096,779	335,157	143,293	2,575,229
Fund Balance:				
Nonspendable	39,259	0	57,682	96,941
Restricted	0	544,169	557,239	1,101,408
Committed	0	0	3,770	3,770
Assigned	769,406	0	0	769,406
Unassigned	362,241	0	0	362,241
Total Fund Balance	1,170,906	544,169	618,691	2,333,766
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 3,441,621	\$ 879,326	\$ 776,605	\$ 5,097,552

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

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

Total Governmental Fund Balances		\$ 2,333,766
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		5,693,434
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		677,944
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	1,593,590	
Deferred Inflows - Pension	(37,865)	
Net Pension Liability	<u>(5,355,742)</u>	<u>(3,800,017)</u>
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds Payable	(477,600)	
Capital Leases Payable	(243,246)	
Compensated Absences Payable	(130,529)	
Accrued Interest Payable	<u>(4,684)</u>	<u>(856,059)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 4,049,068</u></u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2016

	General Fund	3 Mill Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$ 1,442,682	\$ 317,430	\$ 0	\$ 1,760,112
Municipal Income Taxes	1,570,672	0	0	1,570,672
Other Local Taxes	61,520	0	0	61,520
Intergovernmental Revenues	300,852	11,977	671,953	984,782
Charges for Services	700,773	0	26,711	727,484
Rental Revenue	75,766	0	0	75,766
Licenses, Permits and Fees	13,609	0	0	13,609
Special Assessments	0	0	8,659	8,659
Fines and Forfeitures	82,290	0	13,505	95,795
All Other Revenue	40,781	0	22,107	62,888
Total Revenue	4,288,945	329,407	742,935	5,361,287
Expenditures:				
Current:				
Security of Persons and Property	2,323,229	0	119,155	2,442,384
Public Health and Welfare Services	6,647	0	10,737	17,384
Leisure Time Activities	74,502	0	0	74,502
Community Environment	0	0	12,003	12,003
Public Works	388,035	0	0	388,035
Transportation	139,884	0	375,845	515,729
General Government	1,460,737	0	156	1,460,893
Capital Outlay	0	94,970	150,000	244,970
Debt Service:				
Principal Retirement	0	0	87,685	87,685
Interest and Fiscal Charges	0	0	25,771	25,771
Total Expenditures	4,393,034	94,970	781,352	5,269,356
Excess (Deficiency) of Revenues Over (Under) Expenditures	(104,089)	234,437	(38,417)	91,931
Other Financing Sources (Uses):				
Transfers In	0	0	201,523	201,523
Transfers Out	(206,723)	0	0	(206,723)
Total Other Financing Sources (Uses)	(206,723)	0	201,523	(5,200)
Net Change in Fund Balance	(310,812)	234,437	163,106	86,731
Fund Balance at Beginning of Year	1,480,810	309,732	424,473	2,215,015
Increase (Decrease) in Inventory	908	0	31,112	32,020
Fund Balance End of Year	\$ 1,170,906	\$ 544,169	\$ 618,691	\$ 2,333,766

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

***Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2016***

Net Change in Fund Balances - Total Governmental Funds \$ 86,731

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	696,654	
Depreciation Expense	(474,742)	221,912

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		46,772
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		389,759
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(776,608)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Capital Lease Retirement	56,485	
Bond Principal Retirement	31,200	
Change in Accrued Interest Payable	259	87,944

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	(13,941)	
Change in Inventory	32,020	18,079

<i>Change in Net Position of Governmental Activities</i>		<u>\$ 74,589</u>
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See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 1,421,495	\$ 1,421,495	\$ 1,442,682	\$ 21,187
Municipal Income Taxes	1,805,016	1,805,016	2,023,220	218,204
Other Local Taxes	66,000	66,000	63,026	(2,974)
Intergovernmental Revenues	326,420	352,045	300,795	(51,250)
Charges for Services	630,000	662,667	597,333	(65,334)
Rental Revenue	78,000	93,440	61,191	(32,249)
Licenses, Permits and Fees	15,450	15,450	13,609	(1,841)
Fines and Forfeitures	63,000	63,000	82,290	19,290
All Other Revenues	5,370	5,570	35,234	29,664
Total Revenues	<u>4,410,751</u>	<u>4,484,683</u>	<u>4,619,380</u>	<u>134,697</u>
Expenditures:				
Current:				
Security of Persons and Property	2,484,917	2,492,862	2,426,405	66,457
Public Health and Welfare Services	6,457	6,647	6,647	0
Leisure Time Activities	101,457	104,438	87,927	16,511
Public Works	392,646	404,182	396,340	7,842
Transportation	138,238	142,300	139,884	2,416
General Government	1,630,864	1,678,779	1,539,621	139,158
Total Expenditures	<u>4,754,579</u>	<u>4,829,208</u>	<u>4,596,824</u>	<u>232,384</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(343,828)	(344,525)	22,556	367,081
Other Financing Sources (Uses):				
Transfers In	205,000	205,000	210,000	5,000
Transfers Out	(475,435)	(475,435)	(416,723)	58,712
Total Other Financing Sources (Uses):	<u>(270,435)</u>	<u>(270,435)</u>	<u>(206,723)</u>	<u>63,712</u>
Net Change in Fund Balance	(614,263)	(614,960)	(184,167)	430,793
Fund Balance at Beginning of Year	897,106	897,106	897,106	0
Prior Year Encumbrances	73,815	73,815	73,815	0
Fund Balance at End of Year	<u>\$ 356,658</u>	<u>\$ 355,961</u>	<u>\$ 786,754</u>	<u>\$ 430,793</u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

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

	Business-Type Activities	
	<u>Enterprise Fund</u>	
	<u>Swimming Pool</u>	
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$	859
Receivables:		
Accounts		3,972
Total Current Assets		<u>4,831</u>
Noncurrent Assets:		
Non-Depreciable Capital Assets		1,864
Depreciable Capital Assets, Net		89,361
Total Noncurrent Assets		<u>91,225</u>
Total Assets		<u>96,056</u>
Total Liabilities		<u>0</u>
Net Position:		
Investment in Capital Assets		91,225
Unrestricted		4,831
Total Net Position	\$	<u>96,056</u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-Type Activities
	Enterprise Fund
	Swimming Pool
Operating Revenues:	
Charges for Services	\$ 33,088
Total Operating Revenues	<u>33,088</u>
Operating Expenses:	
Personal Services	21,184
Contractual Services	10,658
Materials and Supplies	4,287
Depreciation	7,294
Total Operating Expenses	<u>43,423</u>
Operating Loss	(10,335)
Non-Operating Revenues (Expenses):	
Other Nonoperating Revenue	3,972
Total Non-Operating Revenues (Expenses)	<u>3,972</u>
Loss Before Transfers	(6,363)
Transfers:	
Transfers In	5,200
Total Transfers	<u>5,200</u>
Change in Net Position	(1,163)
Net Position Beginning of Year	<u>97,219</u>
Net Position End of Year	<u>\$ 96,056</u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

***Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016***

	Business-Type Activities
	<u>Enterprise Fund</u>
	<u>Swimming Pool</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$33,088
Cash Payments for Goods and Services	(16,572)
Cash Payments to Employees	(21,184)
Net Cash Used by Operating Activities	<u>(4,668)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers In from Other Funds	5,200
Net Cash Provided by Noncapital Financing Activities	<u>5,200</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(2,259)
Net Cash Used by Capital and Related Financing Activities	<u>(2,259)</u>
Net Decrease in Cash and Cash Equivalents	(1,727)
Cash and Cash Equivalents at Beginning of Year	2,586
Cash and Cash Equivalents at End of Year	<u><u>\$859</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used by Operating Activities:</u>	
Operating Loss	(\$10,335)
Adjustments to Reconcile Operating Loss to	
Net Cash Used by Operating Activities:	
Depreciation Expense	7,294
Decrease in Accounts Payable	(1,627)
Total Adjustments	<u>5,667</u>
Net Cash Used by Operating Activities	<u><u>(\$4,668)</u></u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2016

	<u>Agency Funds</u>
Assets:	
Cash and Cash Equivalents	\$ 218,615
Cash and Cash Equivalents in Segregated Accounts	<u>4,378</u>
Total Assets	<u>222,993</u>
Liabilities:	
Intergovernmental Payable	304
Undistributed Monies	<u>222,689</u>
Total Liabilities	<u>\$ 222,993</u>

See accompanying notes to the basic financial statements

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements are presented as of December 31, 2016 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of 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 has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: police and fire protection, waste management, parks and recreation, planning, zoning, street maintenance and repair, community development, public health and welfare. A staff provides support (i.e. payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. In addition, the City swimming pool operations are reported as an enterprise fund.

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

The City participates in one organization which is defined as a jointly governed organization, the Ohio-Kentucky-Indiana Regional Council of Governments. This organization is presented in Note 14.

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

Governmental Funds - Governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except the resources accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is on 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 used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the limitations of the City Charter.

3 Mill Project Fund - This fund is used to account for property taxes levied to be used for street improvement projects.

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

Proprietary Funds

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets, liabilities, and deferred outflows/inflows of resources associated with the operation of these funds are included on the balance sheet. The enterprise funds operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The City's only enterprise fund is:

Swimming Pool Fund - This fund is used to account for charges to residents to cover the cost of operating the City's swimming pool.

Fiduciary Funds - These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's only fiduciary funds are agency funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

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

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

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

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.

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

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

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. 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 considered to be 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes, interest on investments, loans and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, and miscellaneous revenues, is recorded as revenue when received in cash because generally this revenue is not measurable until received.

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred inflows of resources. Property taxes measurable as of December 31, 2016 but which are not intended to finance 2016 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the government wide financial statements, proprietary fund and fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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 legal level of budgetary control is at the major object level within each department and fund. Budgetary modifications may only be made by ordinance or resolution of the City Council.

1. Tax Budget

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 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

Prior to October 1, the City accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing 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 if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the first and final amended official certificate of estimated resources issued during 2016.

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. The budgetary figures which appear in the Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual Non-GAAP Budgetary Basis for the General Fund is 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 (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities.

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.

6. Budgetary Basis of Accounting

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

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis (as reported)	(\$310,812)
Increase (Decrease):	
Accrued Revenues at December 31, 2016 received during 2017	(430,609)
Accrued Revenues at December 31, 2015 received during 2016	758,019
Accrued Expenditures at December 31, 2016 paid during 2017	173,936
Accrued Expenditures at December 31, 2015 paid during 2016	(282,460)
2015 Prepays for 2016	19,732
2016 Prepays for 2017	(20,398)
Outstanding Encumbrances	(91,575)
Budget Basis	<u><u>(\$184,167)</u></u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of three months or less.

The City pools a majority of its cash for investment and resource management purposes, while maintaining some segregated funds. 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 consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents that are held separately for the Mayor's court and Bail Bond Account are not held by the City Treasurer and are recorded on the financial statements as "Cash and Cash Equivalents in Segregated Accounts." See Note 4, "Cash, Cash Equivalents and Investments."

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory

On the government-wide financial statements inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental funds when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$650.

1. Property, Plant and Equipment - Governmental Activities

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

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, 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. The City's infrastructure consists of streets. The City only reports infrastructure assets acquired after 2003 and does not plan to phase in prior years' amounts. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

2. Property, Plant and Equipment – Business Type Activities

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

3. Depreciation

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

Description	Governmental and Business-Type Activities Estimated Lives (in years)
Land Improvements	20
Buildings and Building Improvements	20 – 45
Furniture and Equipment	5 – 20
Infrastructure	10 - 60

J. Long-Term Obligations

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

Obligation	Fund
Compensated Absences	General Fund, Street Construction, Maintenance and Repair Fund
General Obligation Bonds	Ambulance Fund, Energy Efficiency Project Fund

K. Compensated Absences

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

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

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

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered or to rights that vest or accumulate, and when payment of the obligation is probable and can be reasonably determined. For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. 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 government wide statement of net position, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

L. Net Position

Net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on 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 position is available.

M. Pensions

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

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Activity

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

O. Fund Balances

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

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

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted (committed, assigned and unassigned) resources as they are needed.

CITY OF CHEVIOT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for swimming pool operations. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no special or extraordinary items to report during 2016.

R. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. Deferred outflows of resources are reported for pension amounts on the government-wide statement of net position. See Note 9.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. See Note 9.

S. Fair Market Value

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

CITY OF CHEVIOT, OHIO

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

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

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

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

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Certain adjustments were necessary to beginning of year net position in the Governmental Activities to account for corrections to capital asset balances. This restatement had the following effect on net position as reported December 31, 2015:

	Governmental Activities
Net Position December 31, 2015	<u>\$3,520,395</u>
Adjustments:	
Capital Asset Correction	<u>454,084</u>
Restated Net Position December 31, 2015	<u><u>\$3,974,479</u></u>

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CITY OF CHEVIOT, OHIO

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

NOTE 3 – FUND BALANCE CLASSIFICATION

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

Fund Balances	General Fund	3 Mill Project Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Supplies Inventory	\$15,506	\$0	\$57,682	\$73,188
Prepaid Items	20,398	0	0	20,398
Unclaimed Funds	3,355	0	0	3,355
Total Nonspendable	<u>39,259</u>	<u>0</u>	<u>57,682</u>	<u>96,941</u>
Restricted:				
Street Improvements	0	0	237,493	237,493
Parking Lot Operations	0	0	43,227	43,227
Sidewalk Maintenance	0	0	5,667	5,667
Shade Tree Program	0	0	567	567
Law Enforcement	0	0	97,635	97,635
Court Improvements	0	0	1,452	1,452
EMS Program	0	0	537	537
Community Environment	0	0	20,958	20,958
Recycling Program	0	0	3,403	3,403
Capital Improvements	0	544,169	146,300	690,469
Total Restricted	<u>0</u>	<u>544,169</u>	<u>557,239</u>	<u>1,101,408</u>
Committed:				
Capital Improvements	<u>0</u>	<u>0</u>	<u>3,770</u>	<u>3,770</u>
Assigned:				
Other Purposes	<u>769,406</u>	<u>0</u>	<u>0</u>	<u>769,406</u>
Unassigned (Deficits):	<u>362,241</u>	<u>0</u>	<u>0</u>	<u>362,241</u>
Total Fund Balances	<u><u>\$1,170,906</u></u>	<u><u>\$544,169</u></u>	<u><u>\$618,691</u></u>	<u><u>\$2,333,766</u></u>

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CITY OF CHEVIOT, OHIO

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds. 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 "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 no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but 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 CHEVIOT, OHIO

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (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 \$2,159,777 and the bank balance was \$2,300,982. Federal depository insurance covered \$250,000 of the bank balance and \$2,050,982 was collateralized by the financial institutions' public entity deposit pools in the manner described above.

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property located in the City. Real property taxes (other than public utility) collected during 2016 were levied after October 1, 2015 on assessed values as of January 1, 2015, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2014. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 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 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

CITY OF CHEVIOT, OHIO

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

NOTE 5 - TAXES (Continued)

A. Property Taxes (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Cheviot. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2016 was \$20.13 per \$1,000 of assessed value. The assessed value upon which the 2016 tax levy was based was \$105,656,880. This amount constitutes \$98,307,090 in real property assessed value and \$7,349,790 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of one percent of assessed value without a vote of the people. Under current procedures, the City's share is 2.013% (20.13 mills) of assessed value.

Real Estate Tax Abatements

As of December 31, 2016, the City provides tax incentives under one (1) program, the Community Reinvestment Area (CRA).

Pursuant to Ohio Revised Code Chapter 5709, the City established a Community Reinvestment Area. The City authorizes incentives through passage of public ordinances, based upon each businesses investment criteria and through a contractual application process with each business. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Area gave the City the ability to maintain and expand business located within the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate and includes major housing improvements in specified areas.

The City has offered the CRA abatements to encourage economic stability, maintain property values, and generate new employment opportunities and population growth.

Below is the information relevant to the disclosure of this program for the year ending December 31, 2016.

	Total Amount of Taxes Abated For the year 2016
<i>Community Reinvestment Area (CRA)</i>	
Retail/Banking	\$39,871
	<u>\$39,871</u>

CITY OF CHEVIOT, OHIO

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

NOTE 5 - TAXES (Continued)

B. Income Tax

The City levies a tax of two percent on all salaries, wages, and other compensation earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City. The City allows a credit for income taxes paid to another municipality up to 100 percent of the City's current tax rate. Income tax revenue is accounted for through the General Fund.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2016 consisted of taxes, accounts, 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 2016:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$0	\$206,723
Other Governmental Funds	201,523	0
Total Governmental Funds	<u>201,523</u>	<u>206,723</u>
Swimming Pool Fund	5,200	0
Total Proprietary Funds	<u>5,200</u>	<u>0</u>
Totals	<u>\$206,723</u>	<u>\$206,723</u>

Transfers made during the year ended December 31, 2016 consisted of amounts transferred from the General Fund to other funds to provide additional resources for operations and debt service.

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CITY OF CHEVIOT, OHIO

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

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

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

<i>Historical Cost:</i>	Restated December 31,			December 31,
Class	2015	Additions	Deletions	2016
<i>Capital assets not being depreciated:</i>				
Land	\$274,086	\$1,000	\$0	\$275,086
<i>Capital assets being depreciated:</i>				
Land Improvements	417,462	0	0	417,462
Buildings and Improvements	2,168,179	40,861	0	2,209,040
Furniture and Equipment	4,346,159	415,553	(39,395)	4,722,317
Infrastructure	4,257,200	239,240	0	4,496,440
Total Cost	<u>\$11,463,086</u>	<u>\$696,654</u>	<u>(\$39,395)</u>	<u>\$12,120,345</u>
 <i>Accumulated Depreciation:</i>				
Class	December 31,			December 31,
Class	2015	Additions	Deletions	2016
Land Improvements	(\$372,706)	(\$3,154)	\$0	(\$375,860)
Buildings and Improvements	(1,545,241)	(37,392)	0	(1,582,633)
Furniture and Equipment	(3,181,419)	(224,895)	39,395	(3,366,919)
Infrastructure	(892,198)	(209,301)	0	(1,101,499)
Total Depreciation	<u>(\$5,991,564)</u>	<u>(\$474,742) *</u>	<u>\$39,395</u>	<u>(\$6,426,911)</u>
<i>Net Value:</i>	<u>\$5,471,522</u>			<u>\$5,693,434</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$166,598
Leisure Time Activities	8,245
Public Works	23,260
Transportation	252,048
General Government	24,591
Total Depreciation Expense	<u>\$474,742</u>

CITY OF CHEVIOT, OHIO

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

NOTE 8 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2016:

Historical Cost:

Class	December 31, 2015	Additions	Deletions	December 31, 2016
Capital assets not being depreciated:				
Land	\$1,864	\$0	\$0	\$1,864
Capital assets being depreciated:				
Buildings and Building Improvements	207,978	0	0	207,978
Machinery and Equipment	0	2,259	0	2,259
Total Cost	<u>\$209,842</u>	<u>\$2,259</u>	<u>\$0</u>	<u>\$212,101</u>

Accumulated Depreciation:

Class	December 31, 2015	Additions	Deletions	December 31, 2016
Buildings and Building Improvements	(\$113,582)	(\$7,219)	\$0	(\$120,801)
Machinery and Equipment	0	(75)	0	(75)
Total Accumulated Depreciation	<u>(\$113,582)</u>	<u>(\$7,294)</u>	<u>\$0</u>	<u>(\$120,876)</u>
Net Value:	<u>\$96,260</u>			<u>\$91,225</u>

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CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$121,148 for 2016.

CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>Police</u>	<u>Firefighters</u>
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %
2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$268,611 for 2016.

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

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,382,253	\$3,973,489	\$5,355,742
Proportion of the Net Pension Liability-2016	0.007980%	0.061767%	
Proportion of the Net Pension Liability-2015	<u>0.007864%</u>	<u>0.058138%</u>	
Percentage Change	<u>0.0001161%</u>	<u>0.0036283%</u>	
Pension Expense	\$206,846	\$569,762	\$776,608

CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$406,296	\$646,732	\$1,053,028
Change in Proportionate Share	0	150,803	150,803
City contributions subsequent to the measurement date	121,148	268,611	389,759
Total Deferred Outflows of Resources	\$527,444	\$1,066,146	\$1,593,590
Deferred Inflows of Resources			
Differences between expected and actual experience	\$26,708	\$11,157	\$37,865
Total Deferred Inflows of Resources	\$26,708	\$11,157	\$37,865

\$389,759 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2017	\$88,861	\$197,209	\$286,070
2018	95,357	197,209	292,566
2019	103,425	197,209	300,634
2020	91,945	162,733	254,678
2021	0	26,907	26,907
2022	0	5,111	5,111
Total	\$379,588	\$786,378	\$1,165,966

Actuarial Assumptions - OPERS

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

CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$2,202,266	\$1,382,253	\$690,597

CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – OPF

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

* levered 2x

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

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City’s proportionate share of the net pension liability	\$5,240,499	\$3,973,489	\$2,900,206

CITY OF CHEVIOT, OHIO

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

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

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

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

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

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

The City's contributions for health care to the OPERS for the years ending December 31, 2016, 2015, and 2014 were \$21,220, \$20,197 and \$19,283, respectively, which were equal to the required contributions for each year.

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

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

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

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

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

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

CITY OF CHEVIOT, OHIO

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

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

The City's contributions for health care to the OP&F for the years ending December 31, 2016, 2015, and 2014 were \$3,574, \$3,830 and \$2,807 for police and \$2,826, \$3,071 and \$2,349 for firefighters, respectively, which were equal to the required contributions for each year.

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CITY OF CHEVIOT, OHIO

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

NOTE 11 - LONG-TERM OBLIGATIONS

Activity in Long-Term Obligations in 2016 was as follows:

	Maturity Date	Balance December 31, 2015	Additions	Deductions	Balance December 31, 2016	Amount Due Within One Year
Governmental Activities:						
General Obligation Bonds Payable:						
Energy Efficiency Improvements	3.375% 2027	\$415,000	\$0	(\$20,000)	\$395,000	\$25,000
Ambulance	3.500% 2023	93,800	0	(11,200)	82,600	11,500
Total General Obligation Bonds Payable		<u>508,800</u>	<u>0</u>	<u>(31,200)</u>	<u>477,600</u>	<u>36,500</u>
Capital Leases		299,731	0	(56,485)	243,246	58,165
Net Pension Liability:						
Ohio Public Employees Retirement System		948,486	433,767	0	1,382,253	0
Ohio Police and Fire Pension Fund		3,011,806	961,683	0	3,973,489	0
Total Net Pension Liability		<u>3,960,292</u>	<u>1,395,450</u>	<u>0</u>	<u>5,355,742</u>	<u>0</u>
Compensated Absences		116,588	27,341	(13,400)	130,529	15,368
Total Governmental Activities		<u>\$4,885,411</u>	<u>\$1,422,791</u>	<u>(\$101,085)</u>	<u>\$6,207,117</u>	<u>\$110,033</u>

The Energy Efficiency Improvement bonds were issued on October 2, 2012 in the amount of \$455,000 for the purpose of energy efficiency improvements to City facilities. The bonds carry an interest rate of 3.375 percent and reach maturity on March 1, 2027. The Ambulance bonds were issued on September 23, 2013 in the amount of \$120,000 for the purchase of an ambulance. The bonds carry an interest rate of 3.50 percent and reach maturity on June 1, 2023.

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

The City's total debt margin was \$10,616,372 at December 31, 2016. The Ohio Revised Code provides that the net debt of a municipal corporation, when approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage.

CITY OF CHEVIOT, OHIO

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

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

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

Years	General Obligation Bonds		
	Principal	Interest	Totals
2017	\$36,500	\$15,701	\$52,201
2018	36,900	14,451	51,351
2019	42,400	13,101	55,501
2020	42,800	11,657	54,457
2021	48,200	10,102	58,302
2022-2026	220,800	27,058	247,858
2027	50,000	844	50,844
Totals	\$477,600	\$92,914	\$570,514

NOTE 12 - CAPITAL LEASES

The City has financed the purchase of a fire truck with a capital lease. The original cost of the equipment and the related liability are reported on the Government – wide Statement of Net Position.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of December 31, 2016:

Year Ending December 31,	Capital Leases
2017	\$65,400
2018	65,400
2019	65,400
2020	65,400
Minimum Lease Payments	261,600
Less amount representing interest at the City's incremental borrowing rate of interest	(18,354)
Present value of minimum lease payments	\$243,246

CITY OF CHEVIOT, OHIO

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

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2016, the City contracted with Selective Insurance Company for insurance coverage as follows:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Deductible</u>
Property	\$7,850,477	\$1,000
General Liability	3,000,000	0
Automobile	1,000,000	500
Umbrella Coverage	4,000,000	0
Public Official	2,000,000	0
Police Professional	1,000,000	0

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.

There has been no significant reduction in insurance coverages from coverages in the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

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

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

CITY OF CHEVIOT, OHIO

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

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Payments to OKI are made from the General Fund. No financial contributions were made by the City during 2016. To obtain financial information, write to Ronald Kuker, Director of Finance and Administration of the Ohio-Kentucky-Indiana Regional Council of Governments at 720 East Pete Rose Way, Suite 420, Cincinnati, Ohio, 45202.

NOTE 15 – JOINT ECONOMIC DEVELOPMENT DISTRICTS

A. JEDD - Western Ridge

In 2007 a Joint Economic Development District (JEDD-WESTERN RIDGE) between the City of Cheviot and Green Township was approved by the City Council of the City of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2069, and may be extended for 2 terms of 20 years each. It sets aside 32.0635 acre of land located on Harrison Ave. and is further described by Hamilton County Auditor's Book 550, Page 320 Parcel 614. The original JEDD W-R authorized a maximum rate of 1% for persons employed in the District, with a cap on each individuals' earnings to be \$100,000 in the first year of taxation and adjusted annually on January 1st thereafter based on the Consumer Price index published by the U.S. Bureau of Labor Statistics on September 30th of each year next preceding the January 1st adjustment date. After the set aside of fees to be held by the City of Cheviot the monies are divided as follows: 20% to the City of Cheviot and 80% to Green Township. Good Samaritan Hospital will be one of the main occupants along with Wellington Orthopedic, Tri Health and Tri State Center for Sight.

B. JEDD District II

In 2012 a Joint Economic Development District (JEDD II) between the City of Cheviot and Green Township was approved by the City Council of the City of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2062 and may by mutual consent extend the Contract for 2 additional terms of 10 years each. Is sets aside 20 acres of land located on Filview Circle at Harrison Avenue and is identified in Hamilton County Auditor's Book 550, Page 183, Parcels 028 & 030 consolidated, 072,420 and 502 inclusive. The original JEDD II authorized a maximum rate of 1% based on salaries or other personal service income earned by individuals from services performed within JEDD II, with a cap on earned income at 1% per annum, which cap shall, after the first year, be adjusted annually on January 1st thereafter based on the Consumer Price index published by the U.S. Bureau of Labor Statistics on September 30th of each year next preceding the January 1st adjustment date. After the set aside of fees to be held by the City of Cheviot the monies are divided as follows: 20% to the City of Cheviot and 80% to Green Township. The main occupants are The Christ Hospital, Children's Hospital, Christ Hospital Physicians LLC and Seven Hills OB_GNY Associates, Inc.

CITY OF CHEVIOT, OHIO

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

NOTE 15 – JOINT ECONOMIC DEVELOPMENT DISTRICTS (Continued)

C. JEDD District III

In 2013 a Joint Economic Development District (JEDD III Mercy-West) between the City of Cheviot and Green Township was approved by the City Council of the City of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2065 and may by mutual consent extend the Contract for two additional terms of ten years each. The areas to be included within the Green Township Mercy Hospitals West JEDD consist of thirteen parcels that contain 70 acres (plus or minus), presently listed in Hamilton County Auditor's Book 550, Page 74, Parcels 57,60,63,64,66,70,96,147,148 & 149, less and excepting the 1.176 acre parcel that forms a part of Auditor's Book 550, Page 74, Parcel 148, and which is more particularly described in Exhibit A, and is referred to as the Mercy Hospitals West JEDD territory.

The original JEDD III Mercy – West authorized a maximum rate of 2% based on salaries or other personal service income earned by individuals from services performed within the JEDD during the first 10 years of the JEDD, and a maximum rate of 1% based on salaries or other personal service income earned by individuals from services performed within the JEDD beginning in Year Eleven of the JEDD, with a cap on earned income at \$100,000 per annum, which cap shall, after the tenth year, be adjusted annually on January 1st of each year during the existence of the JEDD, based upon the Consumer Prices Index published by the U.S. Bureau of Labor Statistics on September 30th of the preceding year. After the set aside of fees to be held by the City of Cheviot the monies are divided as follows for the first 20 years of the contract, 10% to the City of Cheviot and 90% to Green Township. Beginning with the 21st year continuing until its expiration the following formula will be used: 15% to the City of Cheviot and 85% to Green Township. The main occupant is Mercy Hospital West.

D. JEDD IV - Harrison Greene

In 2014 a Joint Economic Development District (JEDD IV—HARRISON GREENE) between the City of Cheviot and Green Township was approved by the City Council of the City of Cheviot and the Trustees of Green Township. This contract will remain in effect until December 31, 2065, and may be extended for 2 terms of 10 years each. It sets aside 6.4 (plus or minus) acres of land located on Harrison Ave. and is further described by Hamilton County Auditor's Book 550, Page 181 Parcel 20,108,464 and 465 . The original Jedd IV authorized A. a maximum rate of 1% for persons employed in the District, with a cap on each individuals' earnings to be \$100,000 in the first year of taxation and adjusted annually on January 1st thereafter based on the Consumer Price index published by the U.S. Bureau of Labor Statistics on September 30th of each year next preceding the January 1st adjustment date. B. Net profits of businesses located within the JEDD IV (the Net Profits portion). After the set aside of fees to be held by the City of Cheviot the monies are divided as follows 10% to the City of Cheviot and 90% to Green Township.

CITY OF CHEVIOT, OHIO

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

NOTE 15 – JOINT ECONOMIC DEVELOPMENT DISTRICTS (Continued)

E. JEDD - Liberty Nursing Health Care

In 2013 a Joint Economic Development District (JEDD- LIBERTY NURSING HEALTH CARE) between the City of Cheviot and Colerain Township was approved by the City Council of the City of Cheviot and the Trustees of Colerain Township. This contract will remain in effect until December 31, 2043 and may by mutual consent extend the Contract for 2 additional terms of 10 years each. It sets aside 1 parcel of land located at the intersection of Livingston and Blue Rock Roads, and is identified in Hamilton County Parcel number 510-0203-0005-00. The original Jedd Liberty Nursing Health Care authorized a maximum rate of 2% based on A. salaries or other personal service income earned by individuals from services performed within Jedd Liberty Nursing Health Care, with a cap on earned income at 1% per annum, which cap shall, after the first year, be adjusted annually on January 1st thereafter based on the Consumer Price index published by the U.S. Bureau of Labor Statistics on September 30th of each year next preceding the January 1st adjustment date. B. Net profits of businesses located within the Liberty Nursing Health Care JEDD (the Net Profits portion). After the set aside of fees to be held by the City of Cheviot the monies are divided as follows 10% to the City of Cheviot and 90% to Colerain Township.

NOTE 16 - 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 on the financial condition of the City.

CITY OF CHEVIOT, OHIO

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF CHEVIOT, OHIO

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

Ohio Public Employees Retirement System

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.007864%	0.007864%	0.007980%
City's proportionate share of the net pension liability (asset)	\$927,063	\$948,486	\$1,382,253
City's covered-employee payroll	\$956,723	\$968,492	\$989,350
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.90%	97.93%	139.71%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%

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

Ohio Police and Fire Pension Fund

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.058138%	0.058138%	0.061767%
City's proportionate share of the net pension liability (asset)	\$2,831,518	\$3,011,806	\$3,973,489
City's covered-employee payroll	\$1,283,343	\$1,152,487	\$1,261,131
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	220.64%	261.33%	315.07%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%

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

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

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

CITY OF CHEVIOT, OHIO

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

Ohio Public Employees Retirement System

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$124,374	\$116,219	\$118,722	\$121,148
Contributions in relation to the contractually required contribution	<u>124,374</u>	<u>116,219</u>	<u>118,722</u>	<u>121,148</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$956,723	\$968,492	\$989,350	\$1,009,567
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%

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

Ohio Police and Fire Pension Fund

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$229,294	\$242,898	\$264,651	\$268,611
Contributions in relation to the contractually required contribution	<u>229,294</u>	<u>242,898</u>	<u>264,651</u>	<u>268,611</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$1,283,343	\$1,152,487	\$1,261,131	\$1,279,894
Contributions as a percentage of covered-employee payroll	17.87%	21.08%	20.99%	20.99%

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

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.



Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Cheviot, Hamilton County, Ohio (the City) as of and for the ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the 's basic financial statements and have issued our report thereon dated September 21, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the City's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

September 21, 2018

**CITY OF CHEVIOT
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2017-001

Material Weakness

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

We identified the following conditions related to the above criteria:

- The City included in error Municipal Income Taxes received and posted as revenue in December 2016 and 2017 as Income Taxes Receivable at December 31, 2016 and 2017.
- The City included the five Joint Economic Development Districts' (JEDD) Income Taxes received in December 2016 and 2017, and JEDD collections for January through April of the subsequent fiscal years as General Fund Income Tax Revenue and Income Taxes Receivable in the City's financial statements. Since the JEDDs are considered separate entities, these JEDD receipts should not have been included in the City's General Fund Income Taxes Receivable and Revenue.
- The City understated General Fund Deferred Inflows of Resources for Unavailable Amounts at December 31, 2016 and 2017 recognizing in error amounts collected after the available period.

As a result of these errors, the City's financial statements were misstated as follows:

- 2016 Governmental Activities: Income Taxes Receivable, Municipal Income Taxes Revenue and Net Position – Unrestricted were all overstated by \$489,410
- 2016 General Fund: Income Taxes Receivable was over stated by \$489,410, Deferred Inflows of Resources – Unavailable Amounts was overstated by \$62,194, Municipal Income Taxes Revenue was overstated by \$427,216, and Fund Balance was overstated by \$427,216.
- 2017 Governmental Activities: Income Taxes Receivable, Municipal Income Taxes Revenue, and Net Position – Unrestricted were all overstated by \$461,649.
- 2017 General Fund: Income Taxes Receivable was over stated by \$461,649, Deferred Inflows of Resources – Unavailable Amounts was overstated by \$97,051, Municipal Income Taxes Revenue was overstated by \$364,598, and Fund Balance was overstated by \$364,598.

These errors resulted in material misstatements in the financial statements submitted for audit. The financial statements were corrected for these errors.

We recommend the city exclude the five JEDD collections and December revenues posted prior to the balance sheet date from the Governmental Activities and General Fund financial statements. We also recommend that the City accurately reflect deferred inflows for unavailable amounts.

**FINDING NUMBER 2017-001
(Continued)**

Officials' Response:

The City of Cheviot along with Schonhardt and Associates, our Financial Reporter, have spoken and made the necessary adjustments to our audit report.

City of Cheviot
Big City Spirit, Small Town Charm

3814 Harrison Avenue Cheviot, Ohio 45211 (513) 661-2700

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Status	Additional Information
2015-001	ORC §5705.39 – Appropriations exceed Estimated Revenues	Partially Corrected	Will repeat issue as Management Letter Citation for Fund 226 only.

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Dave Yost • Auditor of State

CITY OF CHEVIOT

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 18, 2018