

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

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

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



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the City of Cheviot, Hamilton County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 19, 2009

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CITY OF CHEVIOT, OHIO
AUDIT REPORT
For the Year Ended December 31, 2006

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cheviot, Hamilton County, Ohio (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cheviot, Hamilton County, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Charles E. Harris & Associates, Inc.

December 15, 2008

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the City of Cheviot's financial performance provides an overview of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole, and readers are encouraged to review the basic financial statements and notes to enhance their understanding of the City's overall financial performance.

FINANCIAL HIGHLIGHTS

- The City's total net assets related to governmental activities increased \$560,752 during 2006.
- For governmental activities, general revenues accounted for \$3,871,049 or 78.85 percent of total revenues. Program specific revenues in the form of charges for services, grants, contributions and interest accounted for \$1,038,028 or 21.15 percent of total revenues of \$4,909,077.
- The City had \$4,348,325 in expenses related to governmental activities. Only \$1,038,028 of these expenses were offset by program specific charges for services, grants, contributions and interest. General revenues (primarily property and income taxes) of \$3,871,049 were adequate to provide for the remaining cost of these programs.

USING THIS ANNUAL FINANCIAL REPORT

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

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

REPORTING THE CITY AS A WHOLE

Statement of Net Assets and Statement of Activities

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

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

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

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

Business-type Activity – This service consists of charges from residents to cover the cost of operating the City's swimming pool.

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the City's major funds begins on page 9. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the City Auditor, with the approval of the City Council, to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The City of Cheviot's major fund is the General Fund.

Governmental Funds

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

Proprietary Fund

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

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

Fiduciary Funds

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

THE CITY AS A WHOLE

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2006 compared to 2005.

Table 1
Net Assets
Governmental Activities

	Governmental Activities		Business-Type Activity		Totals	
	2006	2005 Restated	2006	2005	2006	2005 Restated
Assets:						
Current and Other Assets	\$3,448,826	\$3,257,053	\$16,697	\$20,972	\$3,465,523	\$3,278,025
Capital Assets	<u>2,339,201</u>	<u>1,712,150</u>	<u>89,044</u>	<u>92,762</u>	<u>2,428,245</u>	<u>1,804,912</u>
Total Assets	<u>5,788,027</u>	<u>4,969,203</u>	<u>105,741</u>	<u>113,734</u>	<u>5,893,768</u>	<u>5,082,937</u>
Liabilities:						
Long-Term Liabilities	316,471	170,452	-	-	316,471	170,452
Other Liabilities	<u>1,589,159</u>	<u>1,477,106</u>	<u>-</u>	<u>66</u>	<u>1,589,159</u>	<u>1,477,172</u>
Total Liabilities	<u>1,905,630</u>	<u>1,647,558</u>	<u>-</u>	<u>66</u>	<u>1,905,630</u>	<u>1,647,624</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	2,134,521	1,632,150	89,044	92,762	2,223,565	1,724,912
Restricted	813,991	867,211	-	-	813,991	867,211
Unrestricted	<u>933,885</u>	<u>822,284</u>	<u>16,697</u>	<u>20,906</u>	<u>950,582</u>	<u>843,190</u>
Total Net Assets	<u>\$3,882,397</u>	<u>\$3,321,645</u>	<u>\$105,741</u>	<u>\$113,668</u>	<u>\$3,988,138</u>	<u>\$3,435,313</u>

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

Net assets of the City's governmental activities increased \$560,752 during 2006. Unrestricted net assets increased \$111,601 during 2006. This was due to the receipt of an unusually large inheritance tax settlement. In addition, the majority of the City's additions to governmental capital assets in the amount of \$784,746 offset by net deletions of \$867 and depreciation expense of \$156,828 resulted in an overall increase in invested in capital assets, net of related debt of \$502,371.

Net assets of the City's business-type activity only decreased by \$7,927, which was mainly due to consistent amounts of revenues and expenses.

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

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

Table 2 shows the changes in net assets for the year ended December 31, 2006 compared to 2005.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$398,396	\$746,191	\$37,019	\$46,337	\$435,415	\$792,528
Operating Grants, Contributions and Interest	400,980	427,735	-	-	400,980	427,735
Capital Grants and Contributions	238,652	65,816	-	-	238,652	65,816
Total Program Revenues	<u>1,038,028</u>	<u>1,239,742</u>	<u>37,019</u>	<u>46,337</u>	<u>1,075,047</u>	<u>1,286,079</u>
General Revenues:						
Property and Other Local Taxes	1,457,214	949,525	-	-	1,457,214	949,525
Municipal Income Tax	1,726,821	1,773,069	-	-	1,726,821	1,773,069
Grants and Entitlements not Restricted to Specific Programs	623,669	604,551	-	-	623,669	604,551
Investment Income	50,650	32,685	-	-	50,650	32,685
Other	12,695	13,215	-	-	12,695	13,215
Total General Revenues	<u>3,871,049</u>	<u>3,373,045</u>	<u>-</u>	<u>-</u>	<u>3,871,049</u>	<u>3,373,045</u>
Total Revenues	<u>4,909,077</u>	<u>4,612,787</u>	<u>37,019</u>	<u>46,337</u>	<u>4,946,096</u>	<u>4,659,124</u>
Program Expenses:						
Security of Persons and Property	1,938,633	1,587,396	-	-	1,938,633	1,587,396
Public Health	6,960	6,868	-	-	6,960	6,868
Leisure Time Activities	147,970	132,503	-	-	147,970	132,503
Public Works	467,583	407,147	-	-	467,583	407,147
Transportation	298,040	752,521	-	-	298,040	752,521
General Government	1,333,228	1,246,251	-	-	1,333,228	1,246,251
Intergovernmental	145,385	-	-	-	145,385	-
Interest and Fiscal Charges	10,526	12,783	-	-	10,526	12,783
Swimming Pool	-	-	44,946	48,251	44,946	48,251
Total Expenses	<u>4,348,325</u>	<u>4,145,469</u>	<u>44,946</u>	<u>48,251</u>	<u>4,393,271</u>	<u>4,193,720</u>
Increase (Decrease) in Net Assets	560,752	467,318	(7,927)	(1,914)	552,825	465,404
Net Assets at Beginning of Year - (Restated - See Note 3)	<u>3,321,645</u>	<u>2,854,327</u>	<u>113,668</u>	<u>115,582</u>	<u>3,435,313</u>	<u>2,969,909</u>
Net Assets at End of Year	<u>\$3,882,397</u>	<u>\$3,321,645</u>	<u>\$105,741</u>	<u>\$113,668</u>	<u>\$3,988,138</u>	<u>\$3,435,313</u>

Changes in governmental activities included a decrease in charges for services of \$347,795 due to the receipt of a one-time waste collection fee in 2005. Capital grants and contributions increased \$172,836 due to the receipt of intergovernmental revenues from the Ohio Public Works Commission for infrastructure projects. Property and other local taxes increased \$507,689 due to the receipt of a replacement levy with a 2.25 mill increase.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

Security of persons and property expenses increased \$351,237 during 2006 due mainly to salary increases and the purchase of supplies and materials that were not capitalized. Transportation expenses in the governmental activities decreased by \$454,481 due mainly to depreciation expense on infrastructure being overstated in 2005.

Governmental Activities

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

When looking at the sources of income to support governmental activities, it should be noted that charges for services are 8.12 percent of total revenues. Revenues provided by sources other than City residents in the form of operating and capital grants, contributions and interest restricted to a certain program comprise another 13.03 percent. The remaining revenues are primarily generated locally through property and income taxes. City Council relies on these taxes to furnish the quality of life to businesses and citizens to which they and previous Councils have always been committed.

Business-Type Activity

The net assets of the City's business-type activity only decreased by \$7,927. The City strives to control operation expenses for its business-type activity in order to maintain stability in charges for services.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

THE CITY'S FUNDS

Information about the City's major governmental funds begins on page 15. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,820,316 and expenditures of \$5,027,645. As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$1,172,861, a decrease of \$2,649 in comparison with the prior year. Unreserved, undesignated fund balance equals \$1,129,218. The remaining fund balance of \$43,643 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year or a variety of other restricted purposes. While the bulk of the governmental fund balances are not reserved in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the State or Federal Government.

The General Fund balance of \$493,188 continues to rely heavily on the City's income tax as its primary source of revenue for operations, which kept the balance and activity of the fund consistent. The General Fund balance increased by \$40,067 from 2005 due mainly to the receipt of a replacement levy with a 2.25 mill increase.

General Fund Budgeting Highlights

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

During 2006, there were various revisions to the General Fund budget. Original appropriations were \$3,707,750 and final appropriations were \$4,035,906, an 8.85 percent increase. This was primarily due to increases in expenditures for security of persons and property and capital outlay during the year. While final appropriations were \$4,035,906, actual expenditures were \$3,990,277, a one percent decrease.

Original General Fund budgeted revenues were \$3,711,134 and final budgeted revenues were \$3,902,857. The difference between original and final budgeted revenues was \$191,723, a 5 percent increase related to increases in anticipated property taxes. Actual revenues were \$3,950,720. The difference between actual revenues and final budgeted revenues amounted to \$47,863, a one percent increase.

City of Cheviot, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activity	
	2005		2006	2005
	2006	Restated		
Land	\$143,466	\$143,466	\$1,864	\$1,864
Land Improvements	38,539	32,488	-	-
Buildings and Building Improvements	970,430	1,011,495	87,180	90,898
Furniture and Equipment	615,325	376,251	-	-
Infrastructure	571,441	148,450	-	-
Totals	<u>\$2,339,201</u>	<u>\$1,712,150</u>	<u>\$89,044</u>	<u>\$92,762</u>

The primary increases in governmental capital assets occurred due to the completion of infrastructure projects and the purchase of a garbage truck and ambulance. There were no additions or deletions for business-type activity; the majority of the decrease occurred in current year depreciation expense. See Note 9 of the Notes to the Basic Financial Statements for more detailed information.

Debt

At December 31, 2006, the City of Cheviot had \$204,680 in debt outstanding.

Table 4
Outstanding Debt at Year-End
Governmental Activities

	2006	2005
Municipal Building Bonds	\$ -	\$80,000
Equipment Acquisition Notes	204,680	-
Totals	<u>\$204,680</u>	<u>\$80,000</u>

City of Cheviot, Ohio
Management's Discussion and Analysis
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(Unaudited)

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

The Equipment Acquisition Notes were issued on May 23, 2006, in the amount of \$204,680 for the purchase of a garbage truck and an ambulance. The notes were issued at a 3.75 percent interest rate and will reach maturity on May 23, 2011. The notes will be paid from the Equipment Acquisition Fund.

The City's overall 10.5 percent legal debt margin was \$13,913,385 as of December 31, 2006. The more restrictive unvoted legal debt margin within 5.5 percent was \$7,199,822 as of the same date. See Note 14 of the Notes to the Basic Financial Statements for information on the City's debt.

CONTACTING THE CITY'S FINANCE DEPARTMENT

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

City of Cheviot, Ohio
Statement of Net Assets
December 31, 2006

	Primary Government		
	Governmental Activities	Business-Type Activity	Total
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$920,049	\$16,697	\$936,746
Accounts Receivable	33,286	-	33,286
Due from Other Governments	492,355	-	492,355
Prepaid Items	21,355	-	21,355
Materials and Supplies Inventory	53,634	-	53,634
Municipal Income Tax Receivable	586,041	-	586,041
Other Local Taxes Receivable	71,975	-	71,975
Property Taxes Receivable	1,270,131	-	1,270,131
Nondepreciable Capital Assets	143,466	1,864	145,330
Depreciable Capital Assets, Net	2,195,735	87,180	2,282,915
<i>Total Assets</i>	<u>5,788,027</u>	<u>105,741</u>	<u>5,893,768</u>
Liabilities:			
Accounts Payable	144,107	-	144,107
Accrued Wages Payable	75,751	-	75,751
Contracts Payable	15,759	-	15,759
Due to Other Governments	149,600	-	149,600
Accrued Interest Payable	7,575	-	7,575
Vacation Leave Payable	7,727	-	7,727
Deferred Revenue	1,188,640	-	1,188,640
Long-Term Liabilities:			
Due Within One Year	37,979	-	37,979
Due in More Than One Year	278,492	-	278,492
<i>Total Liabilities</i>	<u>1,905,630</u>	<u>-</u>	<u>1,905,630</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,134,521	89,044	2,223,565
Restricted for:			
Other Purposes	672,671	-	672,671
Debt Service	12,509	-	12,509
Capital Projects	128,811	-	128,811
Unrestricted	933,885	16,697	950,582
<i>Total Net Assets</i>	<u>\$3,882,397</u>	<u>\$105,741</u>	<u>\$3,988,138</u>

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$1,938,633	\$188,520	\$3,173	\$ -
Public Health	6,960	-	-	-
Leisure Time Activities	147,970	75,119	740	-
Public Works	467,583	-	6,578	-
Transportation	298,040	50,707	390,489	238,652
General Government	1,333,228	84,050	-	-
Intergovernmental	145,385	-	-	-
Interest and Fiscal Charges	10,526	-	-	-
Total Governmental Activities	4,348,325	398,396	400,980	238,652
Business-Type Activity:				
Swimming Pool	44,946	37,019	-	-
Total Primary Government	\$4,393,271	\$435,415	\$400,980	\$238,652

General Revenues:

Property and Other Local Taxes Levied for:
General Purposes
Capital Outlay
Municipal Income Tax
Grants and Entitlements not Restricted
to Specific Programs
Investment Income
Other

Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year (Restated - See Note 3)

Net Assets at End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activity	Total
(\$1,746,940)	\$ -	(\$1,746,940)
(6,960)	-	(6,960)
(72,111)	-	(72,111)
(461,005)	-	(461,005)
381,808	-	381,808
(1,249,178)	-	(1,249,178)
(145,385)	-	(145,385)
(10,526)	-	(10,526)
(3,310,297)	-	(3,310,297)
-	(7,927)	(7,927)
(3,310,297)	(7,927)	(3,318,224)
1,320,341	-	1,320,341
136,873	-	136,873
1,726,821	-	1,726,821
623,669	-	623,669
50,650	-	50,650
12,695	-	12,695
3,871,049	-	3,871,049
560,752	(7,927)	552,825
3,321,645	113,668	3,435,313
\$3,882,397	\$105,741	\$3,988,138

City of Cheviot, Ohio
Balance Sheet
Governmental Funds
December 31, 2006

	General	Nonmajor Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$215,922	\$704,127	\$920,049
Receivables:			
Property Taxes	1,131,797	138,334	1,270,131
Municipal Income Taxes	586,041	-	586,041
Other Local Taxes	71,975	-	71,975
Accounts	19,008	14,278	33,286
Due from Other Governments	294,611	197,744	492,355
Materials and Supplies Inventory	12,113	41,521	53,634
Prepaid Items	21,355	-	21,355
<i>Total Assets</i>	<u>\$2,352,822</u>	<u>\$1,096,004</u>	<u>\$3,448,826</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$26,731	\$117,376	\$144,107
Contracts Payable	12,387	3,372	15,759
Accrued Wages Payable	66,133	9,618	75,751
Due to Other Governments	148,155	1,445	149,600
Deferred Revenue	1,606,228	284,520	1,890,748
<i>Total Liabilities</i>	<u>1,859,634</u>	<u>416,331</u>	<u>2,275,965</u>
Fund Balances:			
Reserved for Encumbrances	41,621	2,022	43,643
Unreserved, Undesignated, Reported in:			
General Fund	451,567	-	451,567
Special Revenue Funds	-	545,876	545,876
Debt Service Funds	-	19,583	19,583
Capital Projects Funds	-	112,192	112,192
<i>Total Fund Balances</i>	<u>493,188</u>	<u>679,673</u>	<u>1,172,861</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,352,822</u>	<u>\$1,096,004</u>	<u>\$3,448,826</u>

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2006*

Total Governmental Fund Balances	\$1,172,861
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	143,466
Land Improvements	373,885
Buildings and Building Improvements	2,168,179
Furniture and Equipment	3,430,403
Infrastructure	624,268
Accumulated Depreciation	<u>(4,401,000)</u>
Total	2,339,201
 Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property and Other Local Taxes	160,297
Municipal Income Tax	282,891
Intergovernmental	244,642
Accounts Receivable	<u>14,278</u>
Total	702,108
 Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Accrued Interest	(7,575)
Equipment Acquisition Notes	(204,680)
Vacation Leave Payable	(7,727)
Compensated Absences	<u>(111,791)</u>
Total	<u>(331,773)</u>
 <i>Net Assets of Governmental Activities</i>	 <u><u>\$3,882,397</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, 2006

	General	Nonmajor Funds	Total Governmental Funds
Revenues:			
Property and Other Local Taxes	\$1,222,697	\$138,559	\$1,361,256
Municipal Income Tax	1,752,722	-	1,752,722
Intergovernmental	562,606	655,689	1,218,295
Charges for Services	117,738	23,026	140,764
Licenses and Permits	60,011	25,115	85,126
Fines and Forfeitures	96,318	5,412	101,730
Rent	90,869	-	90,869
Contributions and Donations	-	1,015	1,015
Investment Income	50,650	5,194	55,844
Other	11,250	1,445	12,695
<i>Total Revenues</i>	<u>3,964,861</u>	<u>855,455</u>	<u>4,820,316</u>
Expenditures:			
Current:			
Security of Persons and Property	1,849,453	27,091	1,876,544
Public Health	6,960	-	6,960
Leisure Time Activities	148,546	-	148,546
Public Works	435,629	12,339	447,968
Transportation	75,656	318,411	394,067
General Government	1,308,198	3,341	1,311,539
Capital Outlay	95,552	660,569	756,121
Debt Service:			
Principal Retirement	-	80,000	80,000
Interest and Fiscal Charges	-	5,900	5,900
<i>Total Expenditures</i>	<u>3,919,994</u>	<u>1,107,651</u>	<u>5,027,645</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>44,867</u>	<u>(252,196)</u>	<u>(207,329)</u>
Other Financing Sources (Uses):			
Notes Issued	-	204,680	204,680
Transfers - In	-	4,800	4,800
Transfers - Out	(4,800)	-	(4,800)
<i>Total Other Financing Sources (Uses)</i>	<u>(4,800)</u>	<u>209,480</u>	<u>204,680</u>
<i>Net Change in Fund Balances</i>	40,067	(42,716)	(2,649)
<i>Fund Balances at Beginning of Year</i>	<u>453,121</u>	<u>722,389</u>	<u>1,175,510</u>
<i>Fund Balances at End of Year</i>	<u>\$493,188</u>	<u>\$679,673</u>	<u>\$1,172,861</u>

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006*

Net Change in Fund Balances - Total Governmental Funds (\$2,649)

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

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

Capital Outlay	784,746	
Depreciation	<u>(156,828)</u>	
Excess of Depreciation Expense over Capital Outlay		627,918

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

Loss on Disposal of Capital Assets		(867)
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Repayment of long-term obligations is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

General Obligation Bonds Principal Payments		80,000
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Some revenues that will not be collected for several months after the City's year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by these amounts:

Property and Other Local Taxes	95,958	
Municipal Income Tax	(25,901)	
Intergovernmental	38,797	
Charges for Services	<u>(20,093)</u>	
		88,761

The issuance of long-term debt provides current financial resources to governmental funds, but in the Statement of Net Assets, the debt is reported as a liability.

Equipment Acquisition Notes		(204,680)
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

Increase in Accrued Interest		(4,626)
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Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:

Increase in Vacation Leave Payable	(1,766)	
Increase in Compensated Absences	<u>(21,339)</u>	

(23,105)

Change in Net Assets of Governmental Activities \$560,752

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$976,458	\$1,294,017	\$1,294,017	\$ -
Municipal Income Tax	1,834,410	1,750,000	1,768,568	18,568
Intergovernmental	400,153	381,740	456,394	74,654
Charges for Services	141,407	134,900	123,900	(11,000)
Licenses and Permits	36,164	34,500	60,011	25,511
Fines and Forfeitures	118,975	113,500	96,318	(17,182)
Rent	73,376	70,000	89,612	19,612
Investment Income	27,254	26,000	50,650	24,650
Other	102,937	98,200	11,250	(86,950)
<i>Total Revenues</i>	3,711,134	3,902,857	3,950,720	47,863
Expenditures:				
Current:				
Security of Persons and Property	1,571,680	1,863,076	1,848,331	14,745
Public Health	7,000	7,000	6,960	40
Leisure Time Activities	208,000	200,636	192,381	8,255
Public Works	462,900	440,046	436,900	3,146
Transportation	76,800	76,800	75,779	1,021
General Government	1,381,370	1,343,116	1,332,209	10,907
Capital Outlay	-	105,232	97,717	7,515
<i>Total Expenditures</i>	3,707,750	4,035,906	3,990,277	45,629
<i>Excess of Revenues Over (Under) Expenditures</i>	3,384	(133,049)	(39,557)	93,492
Other Financing Sources (Uses):				
Transfers - In	-	180,000	-	(180,000)
Transfers - Out	(170,000)	(171,100)	(4,800)	166,300
<i>Total Other Financing Sources (Uses)</i>	(170,000)	8,900	(4,800)	(13,700)
<i>Net Change in Fund Balance</i>	(166,616)	(124,149)	(44,357)	79,792
<i>Fund Balance at Beginning of Year</i>	181,167	181,167	181,167	-
Prior Year Encumbrances Appropriated	32,435	32,435	32,435	-
<i>Fund Balance at End of Year</i>	\$46,986	\$89,453	\$169,245	\$79,792

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2006

	Swimming Pool
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$16,697
Non-current Assets:	
Nondepreciable Capital Assets	1,864
Depreciable Capital Assets, Net	87,180
<i>Total Assets</i>	105,741
Net Assets:	
Invested in Capital Assets	89,044
Unrestricted	16,697
<i>Total Net Assets</i>	\$105,741

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
*Statement of Revenues, Expenses and
 Changes in Fund Net Assets
 Enterprise Fund
 For the Year Ended December 31, 2006*

	Swimming Pool
Operating Revenues:	
Charges for Services	\$37,019
Operating Expenses:	
Personal Services	20,880
Contractual Services	11,822
Materials and Supplies	8,526
Depreciation	3,718
<i>Total Operating Expenses</i>	44,946
<i>Change in Net Assets</i>	(7,927)
<i>Net Assets at Beginning of Year</i>	113,668
<i>Net Assets at End of Year</i>	\$105,741

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2006

	Swimming Pool
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received From Customers	\$37,019
Cash Payments for Employee Services and Benefits	(20,946)
Cash Payments to Suppliers	(20,348)
<i>Net Decrease in Cash and Cash Equivalents</i>	(4,275)
<i>Cash and Cash Equivalents at Beginning of Year</i>	20,972
<i>Cash and Cash Equivalents at End of Year</i>	\$16,697
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(\$7,927)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	3,718
Changes in Assets and Liabilities:	
Decrease in Accounts Payable	(66)
<i>Net Cash Used for Operating Activities</i>	(\$4,275)
See accompanying notes to the basic financial statements	

City of Cheviot, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2006

Assets:	
Equity in Pooled Cash and Cash Equivalents	\$8
Cash and Cash Equivalents in Segregated Accounts	907
	<hr/>
<i>Total Assets</i>	<u><u>\$915</u></u>
 Liabilities:	
Due to Other Governments	\$8
Undistributed Monies	907
	<hr/>
<i>Total Liabilities</i>	<u><u>\$915</u></u>

See accompanying notes to the basic financial statements

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Cheviot (the “City”) is a non-chartered municipal corporation operating under the laws of the State of Ohio. The community was established in 1818 as part of Green Township; it then became a village on July 1, 1901, before becoming a city on January 1, 1932. The municipal government is known as a Council/Mayor form of government. The Mayor is elected to a four-year term. The President of Council and seven council members (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.

Reporting Entity

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

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

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

The City participates in three organizations which are defined as jointly governed organizations. These organizations are the Center for Local Government, the Ohio-Kentucky-Indiana Regional Council of Governments and the Hamilton County Municipal League. These organizations are presented in Note 15.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis Of Presentation

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

Government-Wide Financial Statements

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

The Statement of Net Assets presents the financial condition of the governmental and business-type activity of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activity of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business segment is self-financing or draws from the general revenues of the City.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

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

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

Proprietary Fund

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

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fiduciary Funds

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

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, municipal income taxes, grants, entitlements, shared revenues, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from municipal income taxes is recognized in the year in which the income is earned. Revenue from grants, entitlements, shared revenues, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but were levied to finance 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

Cash and Cash Equivalents

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

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

During 2006, the City did not have any investments.

The City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during 2006 amounted to \$50,650 which includes \$34,661 assigned from other funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Materials and Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed when used.

Capital Assets

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

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

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

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

The City's infrastructure consists of streets. The City only reports the amounts acquired after 2003 and does not plan to phase in prior years' amounts.

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

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

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

Accrued Liabilities And Long-Term Obligations

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

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

Reservations Of Fund Balance

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

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

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

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

The government-wide Statement of Net Assets reports \$813,991 of restricted net assets, none of which are restricted by enabling legislation.

Internal Activity

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

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

Operating Revenues and Expenses

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

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

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

Budgetary Process

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

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

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET ASSETS

Change in Accounting Principle

For 2006, the City has implemented *GASB Statement No. 47, "Accounting for Termination Benefits."*

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS (continued)

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the City's financial statements for 2006.

Restatement of Net Assets

During 2006, it was determined that capital assets were overstated at December 31, 2005. This resulted in a restatement of capital assets at December 31, 2005, which had the following effect on the net assets of the City's governmental activities:

Net Assets, December 31, 2005, as reported	\$3,707,522
Restatement of Capital Assets	<u>(385,877)</u>
Net Assets, December 31, 2005, as restated	<u><u>\$3,321,645</u></u>

NOTE 4 - BUDGET TO GAAP RECONCILIATION

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

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

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

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 4 - BUDGET TO GAAP RECONCILIATION (continued)

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$40,067
Revenue Accruals	(14,141)
Expenditure Accruals	(23,606)
Encumbrances	<u>(46,677)</u>
Budget Basis	<u><u>(\$44,357)</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

City of Cheviot, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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;
6. The State Treasurer's investment pool (STAROhio); and
7. Bankers' acceptances.

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$956,583 of the City's bank balance of \$1,065,801 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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 and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

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

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 6 - PROPERTY TAXES (continued)

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. In prior years, tangible personal property assessments were 25 percent of true value for capital assets and 23 percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009.

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

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

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Cheviot. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2006, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations, and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

The full tax rate for all City operations for the year ended December 31, 2006, was \$14.52 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>	<u>Percentage</u>
Real Property	\$127,385,330	94.87%
General Business Personal	1,489,300	1.11
Public Utility Personal	5,396,630	4.02
Totals	<u>\$134,271,260</u>	<u>100.00%</u>

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 7 – MUNICIPAL INCOME TAX

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

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

Income tax proceeds are distributed to the General Fund.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006, consisted of property taxes, municipal income taxes, other local taxes, accounts and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible. A summary of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Liquor Licensing Fees	\$133
Homestead and Rollback	50,528
Local Government Revenue Assistance	10,989
Undivided Local Government	17,303
Inheritance Tax	216,793
Personal Property Exemption	6,831
Motor Vehicle Registration	23,456
Gasoline Cents Per Gallon	43,518
Permissive Motor Vehicle Tax	41,574
State Gasoline Excise Tax	<u>81,230</u>
Total	<u><u>\$492,355</u></u>

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 9 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006, was as follows:

	Restated Balance At 12/31/2005	Additions	Deletions	Balance At 12/31/2006
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$143,466	\$ -	\$ -	\$143,466
Depreciable Capital Assets:				
Land Improvements	362,519	11,366	-	373,885
Buildings and Building Improvements	2,168,179	-	-	2,168,179
Furniture and Equipment	3,173,580	339,037	(82,214)	3,430,403
Infrastructure	189,925	434,343	-	624,268
Total Depreciable Capital Assets	<u>5,894,203</u>	<u>784,746</u>	<u>(82,214)</u>	<u>6,596,735</u>
Less Accumulated Depreciation:				
Land Improvements	(330,031)	(5,315)	-	(335,346)
Buildings and Building Improvements	(1,156,684)	(41,065)	-	(1,197,749)
Furniture and Equipment	(2,797,329)	(99,096)	81,347	(2,815,078)
Infrastructure	(41,475)	(11,352)	-	(52,827)
Total Accumulated Depreciation	<u>(4,325,519)</u>	<u>(156,828) *</u>	<u>81,347</u>	<u>(4,401,000)</u>
Depreciable Capital Assets, Net	<u>1,568,684</u>	<u>627,918</u>	<u>(867)</u>	<u>2,195,735</u>
Governmental Activities Capital Assets, Net	<u>\$1,712,150</u>	<u>\$627,918</u>	<u>(\$867)</u>	<u>\$2,339,201</u>

A summary of the changes in the business-type activity capital assets at December 31, 2006, follows:

	Balance at 12/31/05	Additions	Deletions	Balance at 12/31/06
<u>Business-Type Activity:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$1,864	\$0	\$0	\$1,864
Depreciable Capital Assets:				
Buildings and Building Improvements	167,300	0	0	167,300
Less Accumulated Depreciation:				
Buildings and Building Improvements	(76,402)	(3,718)	0	(80,120)
Depreciable Capital Asset, Net	<u>90,898</u>	<u>(3,718)</u>	<u>0</u>	<u>87,180</u>
Business-Type Activity Capital Assets, Net	<u>\$92,762</u>	<u>(\$3,718)</u>	<u>\$0</u>	<u>\$89,044</u>

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental programs as follows:

Security of Persons and Property	\$56,076
Leisure Time Activities	12,049
Public Works	16,837
Transportation	49,608
General Government	<u>22,258</u>
Total Depreciation Expense	<u><u>\$156,828</u></u>

NOTE 10 – DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2006 was 9.2 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.43 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$93,476, \$89,326, and \$109,434 respectively; 70.59 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$661 made by the City and \$434 made by the plan members.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters for the years ended December 31, 2006, 2005, and 2004 were \$172,115, \$155,786, and \$150,585 respectively. The full amount has been contributed for 2005 and 2004. 66.91 percent for police officers and 67.08 percent for firefighters has been contributed for 2006.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 11 – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between 0.50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual City contributions for 2006 which were used to fund postemployment benefits were \$45,722. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 11 – POSTEMPLOYMENT BENEFITS (continued)

Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment health care benefits were \$51,417 for police and \$44,907 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

NOTE 12 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. City employees earn vacation leave at varying rates based upon length of service. Accumulated unused vacation time is paid to fire and administrative employees by year-end. Balances are not carried forward. Accumulated unused vacation time for police, public works, and street employees can either be paid by year-end or carried over to the next year. The maximum amount that can be carried over is ten days. The liability for vacation benefits is recorded as "Vacation Leave Payable", rather than long-term liabilities, as the balances are to be used by employees in the year following the year earned.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 12 - OTHER EMPLOYEE BENEFITS (continued)

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

Insurance Benefits

The City has elected to provide employee medical/surgical and life insurance benefits through United Health Care for all full-time employees. The City pays 100 percent of the monthly premium for administrative employees. The City pays 91 percent of the monthly premium for union employees under the family plan, and 100 percent of the monthly premium for union employees under the non-family plan, up to an annual cap of \$5,829.84 per employee. After surpassing the cap, the City pays 85 percent and the union employees pay 15 percent.

Deferred Compensation

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

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City contracted with Arch Insurance Company for municipal general liability, municipal automotive liability, public official, law enforcement liability, boiler and machinery, and buildings insurance. Coverage is as follows:

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

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 13 - RISK MANAGEMENT (continued)

Settled claims have not exceeded this commercial coverage in any of the last five years. Coverage has increased significantly since 2005 for municipal general liability, municipal automotive liability, public official, and law enforcement liability. The City contracted with a new insurance company and increased the levels of coverage.

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

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2006 were as follows:

	Balance at December 31, 2005	Increases	Decreases	Balance at December 31, 2006	Due Within One Year
<u>General Obligation Bonds:</u>					
1986 Municipal Building Bonds 7.38% (Voted)	\$80,000	\$ -	\$80,000	\$ -	\$ -
<u>Other Long-Term Obligations:</u>					
2006 Equipment Acquisition Notes, 3.75%	-	204,680	-	204,680	37,979
Compensated Absences Payable	90,452	64,473	43,134	111,791	-
Total - General Long-Term Obligations	<u>\$170,452</u>	<u>\$269,153</u>	<u>\$123,134</u>	<u>\$316,471</u>	<u>\$37,979</u>

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

The Equipment Acquisition Notes were issued on May 23, 2006, in the amount of \$204,680 for the purchase of a garbage truck and an ambulance. The notes were issued at a 3.75 percent interest rate and will reach maturity on May 23, 2011. The notes will be paid from the Equipment Acquisition Fund.

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

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

As of December 31, 2006, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$13,913,385, and the unvoted legal debt margin was \$7,199,822.

Principal and interest requirements to retire the City's outstanding obligations at December 31, 2006, were:

Year	Equipment Acquisition Notes	
	Principal	Interest
2007	\$37,979	\$7,676
2008	39,403	6,251
2009	40,880	4,774
2010	42,414	3,241
2011	44,004	1,650
Totals	<u>\$204,680</u>	<u>\$23,592</u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

Center for Local Government

The Center for Local Government (the Center) was established to improve public service delivery by the cities, townships and villages in the Greater Cincinnati metropolitan area, especially among its member jurisdictions, through improved information exchange, cost reductions, shared resources, interjurisdictional collaboration, and new approaches to capital equipment and skills acquisition. The Center is governed by a Board of Trustees consisting of five members. The City does not have any financial interest in or responsibility for the Center. The City's financial contribution during 2006 was \$3,700. Information can be obtained from the Center by writing to Robert Johnson, Executive Director of the Center for Local Government, 10979 Reed Hartman Highway, Suite 301, Cincinnati, Ohio, 45242.

Ohio-Kentucky-Indiana Regional Council of Governments

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

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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

Payments to OKI are made from the General Fund. No financial contributions were made by the City during 2006. To obtain financial information, write to Ronald Kuker, Director of Finance and Administration of the Ohio-Kentucky-Indiana Regional Council of Governments at 720 East Pete Rose Way, Suite 420, Cincinnati, Ohio, 45202.

The Hamilton County Municipal League

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

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

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

Payments to the HCML are made from the General Fund. No financial contributions were made by the City during 2006. To obtain financial information, write to Curt Paddock, Director of the Hamilton County Municipal League at 5725 Dragon Way, Suite 219, Cincinnati, Ohio, 45227.

City of Cheviot
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 16 - TRANSFERS

Transfers made during the year ended December 31, 2006 included \$4,800 from the General Fund to Nonmajor Funds to provide additional resources for waste collection operations.

NOTE 17 - CONTINGENT LIABILITIES

Federal and State Grants

For the period January 1, 2006, to December 31, 2006, the City received federal and State grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

Litigation

The City is not party to any legal proceedings.

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

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cheviot, Hamilton County (the City) as of and for the year ended December 31, 2006, and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2006-CHEV-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-CHEV-01.

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

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

Charles E. Harris and Associates, Inc.

December 15, 2008

**CITY OF CHEVIOT
HAMILTON COUNTY, OHIO
SCHEDULE OF FINDINGS
For The Year Ended December 31, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Material Weakness/Non-Compliance

Finding Number 2006-CHEV-01-Infrastructure Management

Ohio Admin. Code Section 117-2-02(A) provides that all local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

A fixed assets management system ensures that policies and procedures are in place to safeguard assets and maintains the integrity of financial statement information. These procedures should include: authorizing and recording disposals and transfers of assets; recording purchases as additions at the time items are received and in the correct year; tagging assets to ensure that each asset is in the appropriate location and described accurately in the City's inventory list. The serial numbers, along with item description and location, will be added to an equipment register which will be updated annually.

Contrary to this requirement, material errors were made in the recording of capital asset additions related to infrastructure resulting in a prior period adjustment. City officials agreed with the adjustments and are reflected in the accompanying financial statements.

To ensure the City is maintaining adequate safeguards over their infrastructure capital assets and to reduce the risk that the City's capital assets will be misstated, the City should establish an updated listing of all infrastructure owned and develop and implement appropriate procedures to maintain the capital asset listing throughout the year. These procedures should include posting all infrastructure meeting the City's capitalization criteria when constructed, recording the infrastructure in the capital asset inventory ledger, and development of infrastructure addition and disposal procedures to be completed by the project manager when infrastructure is constructed or disposed. Additionally, the equipment addition and disposal form should record such information as description, cost, acquisition date, and a reference identifier for supporting documentation such as an invoice.

Management's Response

Management concurred with the finding and is reviewing it's procedures for capital asset additions.

**CITY OF CHEVIOT
HAMILTON COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2006**

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



Mary Taylor, CPA
Auditor of State

**CITY OF CHEVIOT
HAMILTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 5, 2009**