



**Auditor of State  
Betty Montgomery**



**CHARDON TOWNSHIP  
GEAUGA COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Chardon Township  
Geauga County  
9949 Mentor Road  
Chardon, Ohio 44024

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Chardon Township, Geauga County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements. For the year ending December 31, 2004, we audited the Township's regulatory accounting basis financial statements. These financial statements are the responsibility of the Township'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. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the Township has prepared these financial statements for fiscal year ended December 31, 2004, using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements for the year ended December 31, 2004. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2004 or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Chardon Township, Geauga County, Ohio, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the regulatory accounting basis Note 2 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

For the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements for the year ended December 31, 2005 referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Chardon Township, Geauga County, Ohio, as of December 31, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund, Road and Bridge Fund, and Special Fire Levy Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2006, on our consideration of the Township'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



**Betty Montgomery**  
Auditor of State

June 30, 2006

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

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This discussion and analysis of the Chardon Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2005, within the limitations of the Township's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

### **Highlights**

Key highlights for 2005 are as follows:

Net assets of Township activities decreased \$282,452, or 20.45 percent in the governmental activities due to a reduction in tower lease funds and inheritance tax monies, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of increased costs in 2005; however, cost increases affected most funds.

The Township's general receipts are primarily property taxes. These receipts represent 65 percent of the total cash received for Township activities during the year. Property Taxes increased during the year by 11.10 percent over 2004.

There were extensive road projects completed in 2005. Robinson Road Phase II had additional costs due to road slippage. Woodie Glen and Hampton Ridge Subdivision required cement stabilization during the resurfacing project.

### **Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Township's cash basis of accounting.

### **Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the Township as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Township as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

### **Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Township has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the

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

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Township's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**Reporting the Township as a Whole**

The statement of net assets and the statement of activities reflect how the Township did financially during 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the Township at year end. The statement of activities compares cash disbursements with program receipts for each Township program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each Township function draws from the Township's general receipts.

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Township's financial health. Over time, increases or decreases in the Township's cash position is one indicator of whether the Township's financial health is improving or deteriorating. When evaluating the Township's financial condition, you should also consider other non-financial factors as well such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, the extent of the Township's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, the Township presents one type of activity:

Governmental activities - Township's basic services are reported here, including fire and streets. State grants and income and property taxes finance most of these activities. Benefits provided through Township activities are not necessarily paid for by the people receiving them.

**Reporting the Township's Most Significant Funds**

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. The Township establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Township are presented in one category: governmental.

Governmental Funds - All of the Township's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column.



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

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The Township's major governmental funds are the General Fund, Road and Bridge Fund, and Special Fire Levy Fund. The programs reported in governmental funds are the same as those reported in the governmental activities section of the entity-wide statements.

**The Township as a Whole**

Table 1 provides a summary of the Township's net assets for 2005 compared to 2004 on a cash basis:

	(Table 1) Net Assets	
	2005	2004
<b>Assets</b>		
Cash and Cash Equivalents	1,098,499	1,380,951
Total Assets	\$1,098,499	\$1,380,951
<b>Net Assets</b>		
Restricted for:		
Permanent Fund	991	987
Other Purposes	534,835	477,085
Unrestricted	562,673	902,879
Total Net Assets	\$1,098,499	\$1,380,951

As mentioned previously, net assets of Township activities decreased during 2005. The primary reasons contributing to the difference in cash balances are as follows:

- Increases in salaries ranging from 2% to 3% based on current negotiated agreements.
- The Township had several roads that were in very poor condition that needed extensive repairs costing in excess of \$705,797. The roads needing repairs included Robinson; Woodie Glen; Hampton Ridge Subdivision; Wisner chip and seal; East and West Mountainview culvert replacement.

Table 2 reflects the changes in net assets in 2005. Since the Township did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

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

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(Table 2)  
**Changes in Net Assets**

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$53,768
Operating Grants and Contributions	103,878
Total Program Receipts	157,646
General Receipts:	
Property and Other Local Taxes	824,533
Grants and Entitlements Not Restricted to Specific Programs	225,782
Interest	38,559
Miscellaneous	7,262
Total General Receipts	1,096,136
Total Receipts	1,253,782
Disbursements:	
General Government	410,149
Public Safety	36,211
Public Works	1,073,115
Health	8,775
Capital Outlay	7,984
Total Disbursements	1,536,234
Increase (Decrease) in Net Assets	(282,452)
Net Assets, January 1, 2005	1,380,951
Net Assets, December 31, 2005	\$1,098,499

Program receipts represent only 12.57 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges to for EMS services provided under contract.

General receipts represent 87.43 percent of the Township's total receipts. Property Taxes make up 75.22 percent of the general revenue. State grants and entitlements makes up 20.60 percent of the balance of the Township's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of administration as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs. In 2005, General Government disbursements were 26.70 percent of total expenditures.

Security of Persons and Property are the costs of fire protection. Health services and police protection are provided by Geauga County and funded through county levies. Public Works are the construction and maintenance of township roads.

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

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**Township Activities**

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The major program disbursements for the Township activities are for public works. General government also represents a significant cost, about 26.70 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

**Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
	2005	2005
General Government	\$410,149	(\$410,149)
Public Safety	36,211	(4,409)
Public Works	1,073,115	(980,235)
Health	8,775	(7,875)
Conservation-Recreation	0	19,585
Other	0	12,479
Capital Outlay	7,984	(7,984)
Total Expenses	\$1,536,234	(\$1,378,588)

The dependence upon property receipts is apparent as over 89.74 percent of governmental activities is supported through these general receipts.

**The Township's Funds**

Total Township funds had receipts of \$1,253,782 and disbursements of \$1,536,234. The greatest change within Township funds occurred within the General Fund. The fund balance of the General Fund at the end of 2005 was \$562,673. During 2005, the Township's General Fund receipts were \$340,206 less than disbursements.

**General Fund Budgeting Highlights**

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

During 2005, the Township amended some line items in the General Fund and Road and Bridge Fund Budget to reflect changing circumstances. Final budgeted receipts were the same as the original budgeted receipts. The difference between final budgeted receipts and actual receipts was not significant.

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

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Final disbursements for the General Fund were budgeted at \$1,214,478 while actual disbursements were \$664,499. The General Fund receipts were close to the Township's estimates for the year. The Township kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is a total carryover in the General Fund \$562,533 for 2005.

**Current Issues**

The challenge for all Townships is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little commercial areas to support the tax base.

**Contacting the Township's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Joan A. Windnagel, Fiscal Officer, Chardon Township, 9949 Mentor Rd, Chardon, Ohio 44024.

**CHARDON TOWNSHIP, GEAUGA COUNTY**

*Statement of Net Assets - Cash Basis*

*December 31, 2005*

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	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,098,499</u>
<i>Total Assets</i>	<u><u>\$1,098,499</u></u>
<b>Net Assets</b>	
Restricted for:	
Permanent Fund	\$991
Other Purposes	534,835
Unrestricted	<u>562,673</u>
<i>Total Net Assets</i>	<u><u>\$1,098,499</u></u>

See accompanying notes to the basic financial statements

**CHARDON TOWNSHIP, GEAUGA COUNTY**

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

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
General Government	\$410,149	\$0	\$0	(\$410,149)
Public Safety	36,211	31,802	0	(4,409)
Public Works	1,073,115	0	92,880	(980,235)
Health	8,775	900	0	(7,875)
Conservation-Recreation	0	19,585	0	19,585
Other	0	1,481	10,998	12,479
Capital Outlay	7,984	0	0	(7,984)
<b>Total</b>	<b>\$1,536,234</b>	<b>\$53,768</b>	<b>\$103,878</b>	<b>(1,378,588)</b>
<b>General Receipts</b>				
Property Taxes Levied for:				
				824,533
General Purposes				225,782
Grants and Entitlements not Restricted to Specific Programs				38,559
Interest				7,262
Miscellaneous				
<i>Total General Receipts</i>				1,096,136
Change in Net Assets				(282,452)
<i>Net Assets Beginning of Year</i>				1,380,951
<i>Net Assets End of Year</i>				<b>\$1,098,499</b>

See accompanying notes to the basic financial statements

**CHARDON TOWNSHIP, GEAUGA COUNTY***Statement of Cash Basis Assets and Fund Balances**Governmental Funds**December 31, 2005*

	<u>General</u>	<u>Road and Bridge</u>	<u>Special Fire Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	<u>\$562,673</u>	<u>\$454,701</u>	<u>\$23,878</u>	<u>\$57,247</u>	<u>\$1,098,499</u>
<i>Total Assets</i>	<u><u>\$562,673</u></u>	<u><u>\$454,701</u></u>	<u><u>\$23,878</u></u>	<u><u>\$57,247</u></u>	<u><u>\$1,098,499</u></u>
<b>Fund Balances</b>					
Reserved:					
Reserved for Encumbrances	\$140	\$200	\$0	\$12	\$352
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	562,533	0	0	0	562,533
Special Revenue Funds	0	454,501	23,878	56,244	534,623
Permanent Fund	0	0	0	991	991
<i>Total Fund Balances</i>	<u><u>\$562,673</u></u>	<u><u>\$454,701</u></u>	<u><u>\$23,878</u></u>	<u><u>\$57,247</u></u>	<u><u>\$1,098,499</u></u>

See accompanying notes to the basic financial statements

**CHARDON TOWNSHIP, GEAUGA COUNTY***Statement of Cash Receipts, Disbursements and Changes in -Cash Basis Fund Balances**Governmental Funds**For the Year Ended December 31, 2005*

	General	Road and Bridge	Special Fire Levy	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Property and Other Local Taxes	\$123,000	\$456,035	\$245,498	\$0	\$824,533
Charges for Services	0	0	0	31,802	31,802
Licenses, Permits and Fees	18,855	0	0	730	19,585
Intergovernmental	136,821	67,025	34,114	92,881	330,841
Interest	38,556	0	0	3	38,559
Other	6,921	641	0	900	8,462
<i>Total Receipts</i>	<u>324,153</u>	<u>523,701</u>	<u>279,612</u>	<u>126,316</u>	<u>1,253,782</u>
<b>Disbursements</b>					
Current:					
General Government	151,704	0	258,445	0	410,149
Public Safety	0	0	0	36,211	36,211
Public Works	502,434	472,070	0	98,611	1,073,115
Health	5,025	0	0	3,750	8,775
Capital Outlay	5,196	2,788	0	0	7,984
<i>Total Disbursements</i>	<u>664,359</u>	<u>474,858</u>	<u>258,445</u>	<u>138,572</u>	<u>1,536,234</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(340,206)</u>	<u>48,843</u>	<u>21,167</u>	<u>(12,256)</u>	<u>(282,452)</u>
<i>Net Change in Fund Balances</i>	(340,206)	48,843	21,167	(12,256)	(282,452)
<i>Fund Balances Beginning of Year</i>	<u>902,879</u>	<u>405,858</u>	<u>2,711</u>	<u>69,503</u>	<u>1,380,951</u>
<i>Fund Balances End of Year</i>	<u>\$562,673</u>	<u>\$454,701</u>	<u>\$23,878</u>	<u>\$57,247</u>	<u>\$1,098,499</u>

See accompanying notes to the basic financial statements



**CHARDON TOWNSHIP, GEAUGA COUNTY***Statement of Receipts, Disbursements and Changes**In Fund Balance - Budget and Actual -Budget Basis**General Fund**For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$119,900	\$119,900	\$123,000	\$3,100
Licenses, Permits and Fees	15,000	15,000	18,855	3,855
Intergovernmental	116,631	116,631	136,821	20,190
Interest	10,000	10,000	38,556	28,556
Other	50,150	50,150	6,921	(43,229)
<i>Total receipts</i>	<u>311,681</u>	<u>311,681</u>	<u>324,153</u>	<u>12,472</u>
<b>Disbursements</b>				
Current:				
General Government	226,618	233,243	151,844	81,399
Public Safety	5,000	4,500	0	4,500
Public Works	767,742	756,535	502,434	254,101
Health	13,200	13,200	5,025	8,175
Capital Outlay	202,000	207,000	5,196	201,804
<i>Total Disbursements</i>	<u>1,214,560</u>	<u>1,214,478</u>	<u>664,499</u>	<u>549,979</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(902,879)</u>	<u>(902,797)</u>	<u>(340,346)</u>	<u>562,451</u>
<i>Net Change in Fund Balance</i>	<u>(902,879)</u>	<u>(902,797)</u>	<u>(340,346)</u>	<u>562,451</u>
<i>Fund Balance Beginning of Year</i>	901,969	901,969	901,969	0
Prior Year Encumbrances Appropriated	<u>910</u>	<u>910</u>	<u>910</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$82</u>	<u>\$562,533</u>	<u>\$562,451</u>

See accompanying notes to the basic financial statements

**CHARDON TOWNSHIP, GEAUGA COUNTY***Statement of Receipts, Disbursements and Changes**In Fund Balance - Budget and Actual -Budget Basis**Road and Bridge Fund**For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$441,300	\$441,300	\$456,035	\$14,735
Intergovernmental	65,022	65,022	67,025	2,003
Other	858	858	641	(217)
<i>Total receipts</i>	<u>507,180</u>	<u>507,180</u>	<u>523,701</u>	<u>16,521</u>
<b>Disbursements</b>				
Current:				
Public Works	911,835	903,818	472,270	431,548
Capital Outlay	1,203	6,203	2,788	3,415
<i>Total Disbursements</i>	<u>913,038</u>	<u>910,021</u>	<u>475,058</u>	<u>434,963</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(405,858)</u>	<u>(402,841)</u>	<u>48,643</u>	<u>451,484</u>
<i>Net Change in Fund Balance</i>	<u>(405,858)</u>	<u>(402,841)</u>	<u>48,643</u>	<u>451,484</u>
<i>Fund Balance Beginning of Year</i>	400,655	400,655	400,655	0
Prior Year Encumbrances Appropriated	<u>5,203</u>	<u>5,203</u>	<u>5,203</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$3,017</u></u>	<u><u>\$454,501</u></u>	<u><u>\$451,484</u></u>

See accompanying notes to the basic financial statements

**CHARDON TOWNSHIP, GEAUGA COUNTY**

*Statement of Receipts, Disbursements and Changes*

*In Fund Balance - Budget and Actual -Budget Basis*

*Special Fire Levy Fund*

*For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$237,900	\$237,900	\$245,498	\$7,598
Intergovernmental	32,688	32,688	34,114	1,426
<i>Total receipts</i>	<u>270,588</u>	<u>270,588</u>	<u>279,612</u>	<u>9,024</u>
<b>Disbursements</b>				
Current:				
General Government	<u>273,299</u>	<u>273,299</u>	<u>258,445</u>	<u>14,854</u>
<i>Total Disbursements</i>	<u>273,299</u>	<u>273,299</u>	<u>258,445</u>	<u>14,854</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(2,711)</u>	<u>(2,711)</u>	<u>21,167</u>	<u>23,878</u>
<i>Net Change in Fund Balance</i>	(2,711)	(2,711)	21,167	23,878
<i>Fund Balance Beginning of Year</i>	2,711	2,711	2,711	0
Prior Year Encumbrances Appropriated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$23,878</u>	<u>\$23,878</u>

See accompanying notes to the basic financial statements

**CHARDON TOWNSHIP, GEAUGA COUNTY**  
*Combined Statement of Cash Receipts, Cash Disbursements, and  
 Changes in Fund Cash Balances*  
*All Governmental and Fiduciary Fund Types*  
*For the Year Ended December 31, 2004*

	<u>Governmental Fund Types</u>		<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Non-Expendable Trust</u>	
<b>Cash Receipts:</b>				
Property Taxes	\$118,682	\$623,498	\$0	\$742,180
Intergovernmental	151,335	177,849	0	329,184
Charges for Services	0	54,207	0	54,207
Licenses, Permits, and Fees	27,205	1,185	0	28,390
Earnings on Investments	18,492	0	2	18,494
Other Revenue	87,041	1,556	0	88,597
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	402,755	858,295	2	1,261,052
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>				
Current:				
General Government	171,349	222,194	0	393,543
Public Safety	17,155	29,800	0	46,955
Public Works	403,962	578,407	0	982,369
Health	8,525	237	0	8,762
Capital Outlay	1,530	317	0	1,847
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	602,521	830,955	0	1,433,476
	<hr/>	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	(199,766)	27,340	2	(172,424)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1, 2004	1,102,645	449,745	985	1,553,375
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31, 2004</b>	<b><u>\$902,879</u></b>	<b><u>\$477,085</u></b>	<b><u>\$987</u></b>	<b><u>\$1,380,951</u></b>
	<hr/>	<hr/>	<hr/>	<hr/>
Reserve for Encumbrances, December 31, 2004	<u>\$910</u>	<u>\$5,253</u>	<u>\$0</u>	<u>\$6,163</u>

*The notes to the financial statements are an integral part of this statement.*

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004**

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**Note 1 – Reporting Entity**

Chardon Township, Geauga County, Ohio (the Township), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected Fiscal Officer.

**A. Primary Government**

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. The Township contracts with the Chardon Fire Department, Inc. for fire protection. Police protection is provided by the Geauga County Sheriff's Department.

**B. Component Units**

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township. The Township does not have any component units.

The Township participates in one public entity risk pool. Notes 9 to the financial statements provides additional information for these entities. This organization is the Ohio Township Association Risk Management Authority.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

**Note 2 – Summary of Significant Accounting Policies**

As discussed further in Note 2C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Township's accounting policies.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**A. Basis of Presentation**

The Township's 2005 basic financial statements consist of government-wide financial 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 Township as a whole. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program and receipts of interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function activity is self-financing on a cash basis or draws from the Township's general receipts.

**Fund Financial Statements**

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental 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.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**B. Fund Accounting**

The Township uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The Township's funds are all classified as governmental.

**Governmental Funds**

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. For 2005, the Township's major governmental funds are the General Fund, Road and Bridge, and Fire Levy. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio. The Road and Bridge Fund is used for maintenance and up keep of roads. The Fire Levy Fund is used to account for resources received from property tax money for fire protection services provided to both residents and nonresidents. The other governmental funds of the Township account for grants and other resources whose use is restricted to a particular purpose.

**Fiduciary Fund**

For 2004, the Township had a fiduciary fund. This fund is used to account for resources restricted by legally binding trust agreement. The agreement requires the Township to maintain the corpus of the trust; the fund is classified as a non-expendable trust fund. The Township's non-expendable trust fund is the Cemetery Bequest fund. This fund receives interest which is used for maintenance of the Township's cemetery. In 2005, this fund was reclassified to a Permanent fund reported as a Governmental fund.

**C. Basis of Accounting**

For the year ending December 31, 2004, the Township's financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

For the year ended December 31, 2005, the Township's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Township's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Township are described in the appropriate section in this note.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

C. Basis of Accounting (continued)

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except 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 ordinance, 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 the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund, department, and object level, and personal services or other for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Township Fiscal Officer. 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 reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Township.

The appropriations ordinance 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 appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the 2005 final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

E. Cash and Investments

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.



**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**E. Cash and Investments (continued)**

During 2005 and 2004, the Township invested in nonnegotiable certificates of deposit, a high balance savings account, and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost. The Township's high balance savings account is recorded at the amount reported by JPMorgan Chase Bank on December 31, 2005 and December 31, 2004.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005 and December 31, 2004.

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$38,556 which includes \$18,807 assigned from other Township funds. Interest receipts credited to the General fund during 2004 was \$18,492 which includes \$6,402 assigned from other Township funds.

**F. Restricted Assets**

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts restricted for other purposes represents special revenue funds restricted to a specific use.

**G. Inventory and Prepaid Items**

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**I. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's cash basis of accounting.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**J. Employer Contributions to Cost-Sharing Pension Plans**

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**K. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for road and bridge maintenance and fire rescue.

The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

The amount of net assets restricted by enabling legislation as of December 31, 2005 is \$535,826.

**L. Fund Balance Reserves**

The Township reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved and undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**Note 3 – Change in Basis of Accounting and Restatement of Fund Equity**

For the fiscal year ending December 31, 2004, the Township reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. For fiscal year ending December 31, 2005, the Township has implemented the cash basis of accounting described in Note 2, which revised the Township's financial presentation to be comparable to the requirements of Governmental Accounting Standard Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

In accordance with this change in accounting basis for fiscal year ending December 31, 2005, the Township has reclassified the non-expendable trust fund to a Permanent fund which is presented as an other governmental fund on the fund financial statements.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

**Note 3 – Change in Basis of Accounting and Restatement of Fund Equity (Continued)**

	Other Governmental Funds	Non-expendable Trust Fund
Fund Balance January 1, 2005	\$0	\$987
Fund Reclassification	987	(987)
Adjusted Fund Balance January 1, 2005	\$987	\$0

For 2004, the Township implemented GASB Statement No. 40, “Deposits and Investment Risk Disclosures.” This statement establishes new disclosure requirements for risks associated with deposits and investments.

**Note 4 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund, Road and Bridge, and Special Fire Levy Fund for fiscal year 2005 are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end 2005 amounted to \$140 for the General Fund and \$200 for Road and Bridge Fund respectively.

For fiscal year ending December 31, 2004, the Township reported the following budgetary activity regarding budgeted receipts and appropriations.

2004 Budgeted vs. Actual Budgetary Basis Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$318,982	\$402,755	\$83,773
Special Revenue	830,533	858,295	27,762
Non-Expendable Trust	2	2	0
Total	\$1,149,517	\$1,261,052	\$111,535

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,421,627	\$603,431	\$818,196
Special Revenue	1,280,277	836,208	444,069
Non-Expendable Trust	987	0	987
Total	\$2,702,891	\$1,439,639	\$1,263,252

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 5 – Deposits and Investments**

Monies held by the Township are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Township treasury. Active monies must be maintained either as cash in the Township 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 the Trustees have 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 held by the Township can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 5 – Deposits and Investments (Continued)**

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

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end 2005, the carrying amount of the Township's deposits was \$922,941 and the bank balance was \$1,032,706. Of the bank balance \$832,706 was uninsured and uncollateralized. At fiscal year end 2004, the carrying amount of the Township's deposits was \$836,890 and the bank balance was \$859,563. Of the bank balance \$759,563 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the Township to a successful claim by the FDIC.

The Township 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 Township 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**

As of December 31, 2005 and December 31, 2004, the Township had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
December 31, 2005		
STAR Ohio	\$175,558	Less Than One Year
December 31, 2004		
STAR Ohio	\$544,061	Less Than One Year

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Township does not have an investment policy beyond the requirements of state statute. Ohio law addresses interest rate risk by requiring that the Township's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 5 – Deposits and Investments (Continued)**

STAR Ohio carries a rating of AAAm by Standard and Poor's. The Township has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**Note 6 – Property Taxes**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Real property tax receipts received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 and 2004 represents the collection of 2004 and 2003 taxes respectively. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2005, were levied after October 1, 2004, and are collected with real property taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 and 2004 (other than public utility property) represent the collection of 2005 and 2004 taxes respectively. Tangible personal property taxes received in 2005 and 2004 were levied after October 1, 2004 and October 1, 2005 respectively, on the true value as of December 31, 2004 and December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 6 – Property Taxes (Continued)**

The full tax rate for all Township operations for the year ended December 31, 2005 and December 31, 2004, was \$6.70 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 and 2004 property tax receipts were based are as follows:

	<u>2005</u>	<u>2004</u>
Real Property		
Residential	\$110,116,080	\$107,526,670
Agriculture	19,963,870	20,524,830
Commercial/Industrial/Mineral	2,034,340	1,846,080
Public Utility Property		
Personal	5,376,300	4,851,830
Tangible Personal Property	671,010	815,580
Total Assessed Value	<u>\$138,161,600</u>	<u>\$135,564,990</u>

**Note 7 – Defined Benefit Pension Plan**

**Ohio Public Employees Retirement System**

The Township 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.

For the year ended December 31, 2005 and December 31, 2004, the members of all three plans, were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 7 – Defined Benefit Pension Plan (Continued)**

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$20,498, \$21,286, and \$22,904 respectively. The full amount has been contributed for 2005, 2004 and 2003. The Township did not have any participants in the member directed plan.

**Note 8 - Postemployment Benefits**

**Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 and 2004 local government employer contribution rate was 13.55 percent of covered payroll 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 and 2004 which were used to fund postemployment benefits were \$8,586 and \$8,916 respectively. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.



**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 9 – Risk Management**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Government belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member townships pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective township.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined OTARMA. They must provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

**Chardon Township  
Geauga County**

**Notes to the Financial Statements  
For the Years Ended December 31, 2005 and December 31, 2004  
(Continued)**

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**Note 9 – Risk Management (Continued)**

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004:

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	(12,344,576)	(11,086,379)
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	(1,406,031)	(543,176)
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

The Casualty Coverage assets and retained earnings above include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment. The Township's share of these unpaid claims is approximately \$21,498.



## Auditor of State Betty Montgomery

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

Chardon Township  
Geauga County  
9949 Mentor Road  
Chardon, Ohio 44024

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Chardon Township, Geauga County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements and we have audited the regulatory accounting basis financial statements of the Township as of and for the year ended December 31, 2004, and have issued our report thereon dated June 30, 2006, wherein we noted for fiscal year ended December 31, 2005, the Township revised its financial statement presentation comparable to the requirements of Governmental Accounting Standards Board statement No. 34, *Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We also noted for fiscal year ended December 31, 2004, the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Township's management dated June 30, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### **Compliance and Other Matters**

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

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

June 30, 2006



**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CHARDON TOWNSHIP**

**GEAUGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 5, 2006**