

City of Chardon, Ohio

Basic Financial Statements

December 31, 2005 and December 31, 2004



**Auditor of State
Betty Montgomery**

City Council
City of Chardon
111 Water Street
Chardon, Ohio 44024

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

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 21, 2006

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City of Chardon, Ohio

For The Year Ended December 31, 2005

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City of Chardon, Ohio

For The Year Ended December 31, 2005

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Independent Auditors' Report

Honorable Mayor and Members of
the Legislative Body
City of Chardon
Chardon, Ohio

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Chardon, Ohio as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Chardon, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

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

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

As described in Note 3, during the year ended December 31, 2005, the City of Chardon, Ohio implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

Honorable Mayor and Members of
The Legislative Body
Chardon, Ohio

As described in Note 17, during the year ended December 31, 2004, the City of Chardon, Ohio has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements", and GASB Technical Bulletin 2004-2, "Recognition of Pension and other Postemployment Benefit Expenditures/Expense and Liability by Cost-Sharing Employers."

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2006 on our consideration of the City of Chardon, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis 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.

Ciuni & Paricki, Inc.

Cleveland, Ohio
October 25, 2006

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

The discussion and analysis of the City of Chardon's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2005 are as follows:

- ◆ The assets of the City of Chardon exceeded its liabilities at the close of the most recent fiscal year by \$26,062,475. Of this amount, \$7,525,122 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$3,586,030, which represents an increase of approximately 9 percent over 2004. The biggest changes were an increase in cash of \$567,440, and an increase in capital assets of \$2,197,479.
- ◆ Total liabilities decreased by \$883,441, which represents a decrease of 5 percent over 2004. The main factor contributing to this decrease was a decrease of \$780,406 in long-term liabilities.
- ◆ In total, net assets of the City increased by \$4,469,471 during 2005. This represents a 21% percent increase from 2004.

Using this Annual Financial Report

This discussion and analysis are intended to serve as an introduction to the City of Chardon's basic financial statements. The City of Chardon's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – Reporting the City of Chardon as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Chardon's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Chardon is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities: most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- Business-type activities: the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer and water systems are reported here.

Fund Financial Statements - Reporting the City of Chardon's Most Significant Funds

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City of Chardon, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Chardon can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. 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. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

The City of Chardon maintains 24 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, and other major funds.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

Proprietary Funds

The City of Chardon maintains 2 different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found starting on page 23 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 29 of this report.

Government-wide Financial Analysis - City of Chardon as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

The Statement of Net Assets and the Statement of Activities are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning and End of Year

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

Table 1 provides a summary of the City's net assets for 2005 as compared to 2004.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 6,033,513	\$ 4,356,788	\$ 2,791,132	\$ 3,079,306	\$ 8,824,645	\$ 7,436,094
Capital assets, net	<u>12,780,913</u>	<u>11,174,787</u>	<u>21,154,724</u>	<u>20,563,371</u>	<u>33,935,637</u>	<u>31,738,158</u>
<i>Total assets</i>	<u>18,814,426</u>	<u>15,531,575</u>	<u>23,945,856</u>	<u>23,642,677</u>	<u>42,760,282</u>	<u>39,174,252</u>
Liabilities						
Current liabilities	1,614,300	1,577,218	78,775	218,892	1,693,075	1,796,110
Long-term liabilities						
Due within one year	357,530	330,021	591,832	572,901	949,362	902,922
Due in more than one year	<u>3,869,695</u>	<u>4,141,500</u>	<u>10,185,675</u>	<u>10,740,716</u>	<u>14,055,370</u>	<u>14,882,216</u>
<i>Total liabilities</i>	<u>5,841,525</u>	<u>6,048,739</u>	<u>10,856,282</u>	<u>11,532,509</u>	<u>16,697,807</u>	<u>17,581,248</u>
Net assets						
Invested in capital assets,						
Net of related debt	7,293,131	7,038,037	10,509,718	9,269,326	17,802,849	16,307,363
Restricted for:						
Debt service	53,876	33,900	-	-	53,876	33,900
Other purposes	702,161	804,059	-	-	702,161	804,059
Unrestricted	<u>4,923,733</u>	<u>1,606,840</u>	<u>2,579,856</u>	<u>2,840,842</u>	<u>7,503,589</u>	<u>4,447,682</u>
<i>Total net assets</i>	\$ <u>12,972,901</u>	\$ <u>9,482,836</u>	\$ <u>13,089,574</u>	\$ <u>12,110,168</u>	\$ <u>26,062,475</u>	\$ <u>21,593,004</u>

Total assets increased \$3,586,030, mainly by an increase in capital assets of \$2,197,479 which was primarily due to the addition of City wide improvements and new development.

The total net assets of the City increased by \$4,469,471. The following factors were responsible for this increase:

- During 2005, the City's charges for services increased by \$547,766 from 2004.
- Cash and cash equivalents showed an increase of \$567,440 over 2004.
- A reduction in accounts payable of \$135,162.
- An increase of \$2,197,479 in the capital assets.

The City has tried to make concerted efforts to maximize the return on investments of its cash and cash equivalents and use these funds to provide liquidity for planned future capital purchases. Due to the interest rates in the past year, the investments have shifted from short term CD's and government notes and bills to longer-term federal government agency issues. However, even though the State code allows for investments with maturities of five years or less, the City has not invested in any instrument with a maturity of more than two years in compliance with the City's investment policy.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

The City of Chardon is also part of the Gates McDonald workers' compensation pool, which helped save approximately \$79,653 in premiums for the year as compared to being strictly a State funded employer. The City has established a Safety and Health Program in compliance with the Ohio Department of Industrial Relations Public Employment Risk Reduction Program. In addition, the City of Chardon provides the employees with safety equipment to enable them to perform their tasks safely and efficiently and also is committed to providing a healthy work environment free from any recognized hazard to all employees. A random drug testing policy for employees with CDL licenses also affords an added measure of achieving this goal.

The net assets of the City's business-type activities increased by 38 percent in 2005. The City generally can only use these net assets to finance the continuing operations of the sewer and water systems operations.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

Table 2 below, indicates the changes in net assets for the year ended December 31, 2005 as compared to 2004.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program revenues						
Charges for services	\$ 2,091,638	\$ 1,691,372	\$ 2,538,938	\$ 2,220,010	\$ 4,630,576	\$ 3,911,382
Operating grants and contributions	13,926	18,835	-	-	13,926	18,835
Capital grants and contributions	-	-	741,671	-	741,671	-
Total program revenues	<u>2,105,564</u>	<u>1,710,207</u>	<u>3,280,609</u>	<u>2,220,010</u>	<u>5,386,173</u>	<u>3,930,217</u>
General revenues						
Property taxes	1,283,179	1,081,848	-	-	1,283,179	1,081,848
Income taxes	4,890,872	2,429,903	-	-	4,890,872	2,429,903
Grants and entitlements	2,326,310	710,659	-	-	2,326,310	710,659
Investment earnings	117,029	54,367	63,592	39,580	180,621	93,947
Miscellaneous	<u>202,642</u>	<u>166,373</u>	<u>175,449</u>	<u>218,412</u>	<u>378,091</u>	<u>384,785</u>
Total revenues	<u>10,925,596</u>	<u>6,153,357</u>	<u>3,519,650</u>	<u>2,478,002</u>	<u>14,445,246</u>	<u>8,631,359</u>
Program expenses						
General government	4,190,881	2,446,054	-	-	4,190,881	2,446,054
Security of persons and property	1,581,229	2,137,777	-	-	1,581,229	2,137,777
Public health services	56,883	60,461	-	-	56,883	60,461
Leisure time activities	204,539	193,722	-	-	204,539	193,722
Community environment	217,272	192,954	-	-	217,272	192,954
Basic utility service	18,640	-	-	-	18,640	-
Transportation	955,381	761,232	-	-	955,381	761,232
Interest and fiscal charges	210,706	128,367	-	-	210,706	128,367
Sewer	-	-	1,769,429	1,674,368	1,769,429	1,674,368
Water	-	-	770,815	682,223	770,815	682,223
Total program expenses	<u>7,435,531</u>	<u>5,920,567</u>	<u>2,540,244</u>	<u>2,356,591</u>	<u>9,975,775</u>	<u>8,277,158</u>
Transfers	<u>-</u>	<u>645,000</u>	<u>-</u>	<u>(645,000)</u>	<u>-</u>	<u>-</u>
Change in net assets	\$ <u>3,490,065</u>	\$ <u>877,790</u>	\$ <u>979,406</u>	\$ <u>(523,589)</u>	\$ <u>4,469,471</u>	\$ <u>354,201</u>

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is two percent on gross income effective January 1, 2005. Residents of the City who work in another community and pay the withholding tax for that community receive a 50 percent tax credit on their City tax.

During 2005 the revenues generated from this tax amounted to \$4,890,872. The increase in revenues from 2004 was 101 percent, resulting from an improved economy and doubling of the tax rate. The City continues to enforce the delinquent letter program and the subpoena program to ensure compliance with the local tax laws. As expected, investment earnings continued to increase as rates begin to climb.

Security of persons and property and general government are the major activities of the City generating 78 percent of the governmental expenses. Currently, there are 10 full-time sworn officers in the police department. During 2005, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology.

Business-Type Activities

The Business-Type activities of the City, which include the City's sewer and water operations, increased the City's net assets by \$979,406.

Net expense exceeded revenue in the amount of \$52,623 for the sewer operations for 2005. This is due to decreased contributions required to cover the City's share of operating expenses of the Sewer Fund. Net program revenue exceeded program expense in the amount of \$1,032,029 for the Water Fund operations for 2005. This is due to receipt of Ohio Public Works Commission grant and loan.

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$15,444,519 and expenditures and other financing uses of \$14,045,759. The net change in fund balance for the year was most significant in the General Fund showing an increase in fund balance of \$1,603,937. The Capital Improvement Capital Projects Fund reflected a decrease of \$625,855. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted by City council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the General Fund, final budget basis revenue was \$843,998 over the original budget estimates of \$5,951,572. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The final appropriation of \$6,139,328 was sufficient to meet the expenditures for the year, which ended up at \$5,878,192.

The City's ending un-obligated budgetary fund balance was \$283,812 higher than the final budgeted amount.

Business-Type Funds

The City's major Enterprise funds consist of the Sewer Fund, and Water Fund. The basic financial statements for the major funds are included in this report.

Proprietary Funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the Sewer, and Water Funds. The basic proprietary fund financial statements can be found on page 23 through 26 of this report.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the City of Chardon had \$33,935,637 invested in land, buildings, equipment and infrastructure.

Table 3 shows fiscal 2005 balances of Capital Assets as compared to 2004:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land and Land Improvements	\$ 1,658,071	\$ 1,658,071	\$ 360,819	\$ 360,819	\$ 2,018,890	\$ 2,018,890
Buildings	8,540,744	8,540,744	10,321,086	10,198,778	18,861,830	18,739,522
Machinery and Equipment	199,125	126,208	4,038,206	4,038,206	4,237,331	4,164,414
Vehicles	1,339,168	1,357,550	294,387	294,387	1,633,555	1,651,937
Infrastructure						
Streets	1,232,272	55,612	-	-	1,232,272	55,612
Water lines	-	-	5,318,715	5,318,715	5,318,715	5,318,715
Sewer lines	-	-	7,218,567	6,773,731	7,218,567	6,773,731
Construction in progress	2,784,156	2,050,833	952,556	362,062	3,736,712	2,412,895
Less: Accumulated Depreciation	<u>(2,972,623)</u>	<u>(2,614,231)</u>	<u>(7,349,612)</u>	<u>(6,783,327)</u>	<u>(10,322,235)</u>	<u>(9,397,558)</u>
Total Capital Assets	\$ <u>12,780,913</u>	\$ <u>11,174,787</u>	\$ <u>21,154,724</u>	\$ <u>20,563,371</u>	\$ <u>33,935,637</u>	\$ <u>31,738,158</u>

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as trucks for snow plowing and police cruisers are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City's service department maintains a comprehensive listing of all the streets, bridges, culverts, storm sewer, water lines and sewer lines in the City. As part of the City's annual road maintenance program, the City's Service Director, Street Superintendent, and Engineer evaluate the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the General Fund or Street Construction Maintenance and Repair Fund of the City. Capital assets for business-type activities increased by \$591,353 due to the City's additions to sewer lines and construction in progress and the offset of depreciation expense.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2005

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. We have a five-year capital plan in place that provides for street improvements and adding additional facilities to complement our current structures.

Debt

At December 31, 2005, the City of Chardon had \$15,004,732 in outstanding debt and compensated absences, of which \$1,695,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
Outstanding Debt at Year End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General Obligation Bonds	\$ 1,695,000	\$ 1,715,000	\$ -	\$ -	\$ 1,695,000	\$ 1,715,000
Notes payable	1,200,000	1,600,000	-	-	1,200,000	1,600,000
OPWC loans	680,465	437,500	30,600	43,200	711,065	480,700
OWDA loan	-	-	10,614,406	11,146,499	10,614,406	11,146,499
Capital lease	312,318	384,251	-	-	312,318	384,251
Compensated Absences	<u>339,442</u>	<u>334,770</u>	<u>132,501</u>	<u>123,918</u>	<u>471,943</u>	<u>458,688</u>
Total	\$ <u>4,227,225</u>	\$ <u>4,471,521</u>	\$ <u>10,777,507</u>	\$ <u>11,313,617</u>	\$ <u>15,004,732</u>	\$ <u>15,785,138</u>

Other obligations include accrued vacation pay and sick leave, capital lease and OPWC and OWDA loans. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Current Related Financial Activities

The City of Chardon is strong financially. In addition, the City of Chardon's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Chardon with full disclosure of the financial position of the City.

Contacting the City of Chardon's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Jeffrey Smock, City of Chardon, 111 Water Street, Chardon, Ohio 44024, telephone (440) 286-2470, or web site at www.chardon.cc.

City of Chardon, Ohio

Statement of Net Assets

December 31, 2005

	Governmental Activities	Business - Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 3,146,514	\$ 1,993,620	\$ 5,140,134
Accounts receivable	94,376	444,015	538,391
Accrued interest receivable	29,442	17,377	46,819
Intergovernmental receivable	267,862	181,433	449,295
Materials and supplies inventory	146,558	154,687	301,245
Taxes receivable	2,348,761	-	2,348,761
Non-depreciable capital assets	3,891,487	1,204,353	5,095,840
Depreciable capital assets, net	<u>8,889,426</u>	<u>19,950,371</u>	<u>28,839,797</u>
 Total assets	 <u>18,814,426</u>	 <u>23,945,856</u>	 <u>42,760,282</u>
 Liabilities:			
Accounts payable	246,107	33,785	279,892
Accrued wages and benefits	36,513	12,696	49,209
Intergovernmental payable	15,381	4,188	19,569
Deferred revenue	1,173,459	-	1,173,459
Accrued interest payable	40,277	-	40,277
Accrued pension	102,563	28,106	130,669
Long term liabilities:			
Due within one year	357,530	591,832	949,362
Due in more than one year	<u>3,869,695</u>	<u>10,185,675</u>	<u>14,055,370</u>
 Total liabilities	 <u>5,841,525</u>	 <u>10,856,282</u>	 <u>16,697,807</u>
 Net assets:			
Invested in capital assets, net of related debt	7,293,131	10,509,718	17,802,849
Restricted for:			
Debt service	53,876	-	53,876
Other purposes	702,161	-	702,161
Unreserved	<u>4,923,733</u>	<u>2,579,856</u>	<u>7,503,589</u>
 Total net assets	 <u>\$ 12,972,901</u>	 <u>\$ 13,089,574</u>	 <u>\$ 26,062,475</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Activities

For the Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Government activities:				
General government	\$ 4,190,881	\$ 1,690,009	\$ 11,040	\$ -
Security of persons and property	1,581,229	300,362	2,886	-
Public health and welfare	56,883	-	-	-
Leisure time activities	204,539	-	-	-
Community environment	217,272	98,657	-	-
Basic utility services	18,640	-	-	-
Transportation	955,381	2,610	-	-
Interest and fiscal charges	210,706	-	-	-
Total governmental activities	<u>7,435,531</u>	<u>2,091,638</u>	<u>13,926</u>	<u>-</u>
Business-type activities:				
Water	770,815	1,083,342	-	719,502
Sewer	1,769,429	1,455,596	-	22,169
Total business type activities	<u>2,540,244</u>	<u>2,538,938</u>	<u>-</u>	<u>741,671</u>
Total	<u>\$ 9,975,775</u>	<u>\$ 4,630,576</u>	<u>\$ 13,926</u>	<u>\$ 741,671</u>

General revenues:
 Property taxes levied for:
 General purposes
 Other purposes
 Municipal income taxes levied for:
 General purposes
 Grants and entitlements not restricted to
 specific programs
 Investment income
 Miscellaneous income

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental</u>	<u>Business</u>	
<u>Activities</u>	<u>Type</u>	<u>Total</u>
<u>Activities</u>	<u>Activities</u>	
\$ (2,489,832)	\$ -	\$ (2,489,832)
(1,277,981)	-	(1,277,981)
(56,883)	-	(56,883)
(204,539)	-	(204,539)
(118,615)	-	(118,615)
(18,640)	-	(18,640)
(952,771)	-	(952,771)
<u>(210,706)</u>	<u>-</u>	<u>(210,706)</u>
<u>(5,329,967)</u>	<u>-</u>	<u>(5,329,967)</u>
-	1,032,029	1,032,029
<u>-</u>	<u>(291,664)</u>	<u>(291,664)</u>
-	740,365	740,365
<u>(5,329,967)</u>	<u>740,365</u>	<u>(4,589,602)</u>
399,452	-	399,452
883,727	-	883,727
4,890,872	-	4,890,872
2,326,310	-	2,326,310
117,029	63,592	180,621
<u>202,642</u>	<u>175,449</u>	<u>378,091</u>
<u>8,820,032</u>	<u>239,041</u>	<u>9,059,073</u>
3,490,065	979,406	4,469,471
<u>9,482,836</u>	<u>12,110,168</u>	<u>21,593,004</u>
\$ <u>12,972,901</u>	\$ <u>13,089,574</u>	\$ <u>26,062,475</u>

City of Chardon, Ohio

Balance Sheet Governmental Funds

December 31, 2005

	General	Street Construction Maintenance and Repair	General Obligation Debt Service Fund	Other Capital Improvement	Total Governmental Funds	Governmental Funds
Assets:						
Cash and cash equivalents	\$ 1,623,777	\$ 278,510	\$ 53,611	\$ 27,591	\$ 1,163,025	\$ 3,146,514
Accounts receivable	75,409	-	-	-	18,967	94,376
Interest receivable	24,708	4,304	265	-	165	29,442
Intergovernmental receivable	86,572	162,168	-	-	19,122	267,862
Material and supplies inventory	146,558	-	-	-	-	146,558
Taxes receivable	<u>1,520,953</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>827,808</u>	<u>2,348,761</u>
Total assets	\$ <u>3,477,977</u>	\$ <u>444,982</u>	\$ <u>53,876</u>	\$ <u>27,591</u>	\$ <u>2,029,087</u>	\$ <u>6,033,513</u>
Liabilities and fund balances:						
Liabilities:						
Accounts payable	\$ 77,359	\$ 7,229	\$ -	\$ 147,450	\$ 14,069	\$ 246,107
Accrued wages	35,501	-	-	-	1,012	36,513
Intergovernmental payable	14,547	-	-	-	834	15,381
Accrued pension	71,957	-	-	-	30,606	102,563
Deferred revenue	<u>1,001,420</u>	<u>98,311</u>	<u>-</u>	<u>-</u>	<u>835,781</u>	<u>1,935,512</u>
Total liabilities	<u>1,200,784</u>	<u>105,540</u>	<u>-</u>	<u>147,450</u>	<u>882,302</u>	<u>2,336,076</u>
Fund balances:						
Reserve for encumbrances	251,869	103,063	-	85,205	31,909	472,046
Reserve for inventory	146,558	-	-	-	-	146,558
Unreserved;						
Undesignated, reported in:						
General fund	1,878,766	-	-	-	-	1,878,766
Debt service fund	-	-	53,876	-	(30,342)	23,534
Capital projects fund	-	-	-	(205,064)	-	(205,064)
Special revenue funds	<u>-</u>	<u>236,379</u>	<u>-</u>	<u>-</u>	<u>1,145,218</u>	<u>1,381,597</u>
Total fund balances	<u>2,277,193</u>	<u>339,442</u>	<u>53,876</u>	<u>(119,859)</u>	<u>1,146,785</u>	<u>3,697,437</u>
Total liabilities and Fund balances	\$ <u>3,477,977</u>	\$ <u>444,982</u>	\$ <u>53,876</u>	\$ <u>27,591</u>	\$ <u>2,029,087</u>	\$ <u>6,033,513</u>

The accompanying notes are an integral part of these financial statements

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City of Chardon, Ohio

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

December 31, 2005

Total Governmental Funds Balances \$ 3,697,437

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. 12,780,913

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Property and other taxes	\$ 40,336
Municipal income taxes	568,151
Intergovernmental	<u>153,566</u>

Total 762,053

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental Funds, an interest expenditure is reported when due. (40,277)

Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.

General obligation bonds	(1,695,000)
Notes payable	(1,200,000)
OPWC loan	(680,465)
Capital lease payable	(312,318)
Compensated absences	<u>(339,442)</u>

Total (4,227,225)

Net Assets of Governmental Activities \$ 12,972,901

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Year Ended December 31, 2005

	General	Street Construction Maintenance and Repair	General Obligation Debt Service Fund	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 398,582	\$ -	\$ -	\$ -	\$ 880,710	\$ 1,279,292
Municipal income taxes	4,640,316	-	-	-	-	4,640,316
Other local taxes	870	-	-	-	-	870
Intergovernmental	476,819	1,144,631	-	600,000	107,669	2,329,119
Charges for services	744,325	-	-	-	269,544	1,013,869
Licenses and permits	43,113	-	-	-	-	43,113
Fines and forfeitures	94,932	-	-	-	242,574	337,506
Special assessments	352	-	-	-	164,766	165,118
Investment income	97,290	17,910	1,153	-	676	117,029
Miscellaneous income	<u>674,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,365</u>	<u>748,952</u>
Total revenues	<u>7,171,186</u>	<u>1,162,541</u>	<u>1,153</u>	<u>600,000</u>	<u>1,740,304</u>	<u>10,675,184</u>
Expenditures:						
Current operations and maintenance:						
Security of persons and property	1,057,030	-	-	-	1,080,512	2,137,542
Public health services	-	-	-	-	57,126	57,126
Leisure time activities	-	-	-	-	188,103	188,103
Community environment	160,508	-	-	-	57,207	217,715
Transportation	812,844	7,229	-	95,592	25,000	940,665
Basic utility service	18,640	-	-	-	-	18,640
General government	2,467,232	-	-	-	127,208	2,594,440
Capital outlay	57,095	1,288,658	-	1,398,228	-	2,743,981
Debt service:						
Principal retirement	25,000	-	1,740,000	1,600,000	-	3,365,000
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>175,149</u>	<u>26,028</u>	<u>-</u>	<u>201,177</u>
Total expenditures	<u>4,598,349</u>	<u>1,295,887</u>	<u>1,915,149</u>	<u>3,119,848</u>	<u>1,535,156</u>	<u>12,464,389</u>
Excess of revenues over (under) expenditures	<u>2,572,837</u>	<u>(133,346)</u>	<u>(1,913,996)</u>	<u>(2,519,848)</u>	<u>205,148</u>	<u>(1,789,205)</u>
Other financing sources (uses):						
Issuance of debt	-	-	-	1,467,965	-	1,467,965
Refunding bonds issued	-	-	1,720,000	-	-	1,720,000
Transfers-in	-	-	670,342	426,028	485,000	1,581,370
Transfers-out	<u>(968,900)</u>	<u>-</u>	<u>(426,028)</u>	<u>-</u>	<u>(186,442)</u>	<u>(1,581,370)</u>
Total other financing sources (uses)	<u>(968,900)</u>	<u>-</u>	<u>1,964,314</u>	<u>1,893,993</u>	<u>298,558</u>	<u>3,187,965</u>
Net change in fund balances	1,603,937	(133,346)	50,318	(625,855)	503,706	1,398,760
Fund balances (deficit) at beginning of year	<u>673,256</u>	<u>472,788</u>	<u>3,558</u>	<u>505,996</u>	<u>643,079</u>	<u>2,298,677</u>
Fund balances (deficit) at end of year	\$ <u>2,277,193</u>	\$ <u>339,442</u>	\$ <u>53,876</u>	\$ <u>(119,859)</u>	\$ <u>1,146,785</u>	\$ <u>3,697,437</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, 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, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 1,398,760

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

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

	\$	
Capital outlay		1,982,900
Depreciation		<u>(376,773)</u>
Total		1,606,127

In the Statement of Activities, the loss on disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. This is the amount by which the cost of the assets disposed of exceeds the related accumulated depreciation. (1)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property and other taxes		3,017
Municipal income taxes		250,556
Intergovernmental		<u>(3,161)</u>
Total		250,412

Repayment of bond and note principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 3,365,000

Bond and note proceeds, reported as an other financing source, provide current financial resources to governmental funds, but have no effect on net assets. (3,187,965)

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

Capital lease payable		71,933
Compensated absences		(4,672)
Accrued interest on debt		<u>(9,529)</u>
Total		<u>57,732</u>

Change in Net Assets of Governmental Activities \$ 3,490,065

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement Of Revenues, Expenditures and Changes In Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - General Fund

For The Year Ended December 31, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 347,918	\$ 398,530	\$ 398,582	\$ 52
Municipal income tax	3,791,869	4,344,000	4,344,045	45
Other local taxes	759	800	870	70
Intergovernmental	415,759	475,000	476,302	1,302
Charges for services	1,114,425	1,269,510	1,276,709	7,199
Licenses and permits	47,394	52,480	54,295	1,815
Fines and forfeitures	61,284	70,000	70,208	208
Special assessments	307	300	352	52
Investment income	55,308	53,800	63,362	9,562
Miscellaneous income	116,549	131,150	133,521	2,371
Total revenues	<u>5,951,572</u>	<u>6,795,570</u>	<u>6,818,246</u>	<u>22,676</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	1,084,113	1,112,334	1,091,329	21,005
Community environment	245,442	276,793	247,076	29,717
Basic utility services	18,517	18,640	18,640	-
Transportation	842,338	876,778	847,945	28,833
General government	2,600,920	2,771,065	2,618,231	152,834
Capital outlay	60,667	89,818	61,071	28,747
Debt service:				
Principal retirement	<u>24,835</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Total expenditures	<u>4,876,832</u>	<u>5,170,428</u>	<u>4,909,292</u>	<u>261,136</u>
Excess of revenues over (under) expenditures	1,074,740	1,625,142	1,908,954	283,812
Other financing sources (uses):				
Transfers-out	<u>(962,494)</u>	<u>(968,900)</u>	<u>(968,900)</u>	<u>-</u>
Net change in fund balance	112,246	656,242	940,054	283,812
Outstanding encumbrances at year end	278,504	278,504	278,504	-
Fund balance at beginning of year	<u>385,739</u>	<u>385,739</u>	<u>385,739</u>	<u>-</u>
Fund balance at end of year	\$ <u>776,489</u>	\$ <u>1,320,485</u>	\$ <u>1,604,297</u>	\$ <u>283,812</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement Of Revenues, Expenditures and Changes In Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - Street Construction Maintenance and Repair Fund

For The Year Ended December 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive <u>(Negative)</u>
Revenues:				
Intergovernmental	\$ 310,605	\$ 307,400	\$ 308,985	\$ 1,585
Investment income	<u>11,095</u>	<u>9,300</u>	<u>11,037</u>	<u>1,737</u>
Total revenues	<u>321,700</u>	<u>316,700</u>	<u>320,022</u>	<u>3,322</u>
Expenditures:				
Current operations and maintenance:				
Capital outlay	<u>701,234</u>	<u>701,234</u>	<u>591,613</u>	<u>109,621</u>
Net change in fund balance	(379,534)	(384,534)	(271,591)	112,943
Outstanding encumbrances at year end	110,292	110,292	110,292	-
Fund balance at beginning of year	<u>436,416</u>	<u>436,416</u>	<u>436,416</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>167,174</u></u>	\$ <u><u>162,174</u></u>	\$ <u><u>275,117</u></u>	\$ <u><u>112,943</u></u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Fund Net Assets Proprietary Funds

December 31, 2005

	Water Fund	Sewer Fund	Business-Type Activities
Assets:			
Current assets:			
Cash and cash equivalents	\$ 766,548	\$ 1,227,072	\$ 1,993,620
Accounts receivable	271,562	172,453	444,015
Intergovernmental receivable	171,428	10,005	181,433
Interest receivable	-	17,377	17,377
Material and supplies inventory	134,936	19,751	154,687
Total current assets	<u>1,344,474</u>	<u>1,446,658</u>	<u>2,791,132</u>
Noncurrent assets:			
Nondepreciable capital assets	1,006,834	197,519	1,204,353
Depreciable capital assets, net	4,155,274	15,795,097	19,950,371
Total noncurrent assets	<u>5,162,108</u>	<u>15,992,616</u>	<u>21,154,724</u>
Total assets	<u>6,506,582</u>	<u>17,439,274</u>	<u>23,945,856</u>
Liabilities:			
Current liabilities:			
Accounts payable	19,379	14,406	33,785
Accrued wages	8,129	4,567	12,696
Intergovernmental payable	1,895	2,293	4,188
Accrued pension	18,998	9,108	28,106
OWDA loan payable	-	548,041	548,041
OPWC loan payable	12,600	-	12,600
Accrued compensated absences	20,914	10,277	31,191
Total current liabilities	<u>81,915</u>	<u>588,692</u>	<u>670,607</u>
Long term liabilities (net of current portion):			
OWDA loan payable	-	10,066,365	10,066,365
OPWC loan payable	18,000	-	18,000
Compensated absences payable	69,106	32,204	101,310
Total noncurrent liabilities	<u>87,106</u>	<u>10,098,569</u>	<u>10,185,675</u>
Total liabilities	<u>169,021</u>	<u>10,687,261</u>	<u>10,856,282</u>
Net Assets:			
Invested in capital assets, net of related debt	5,131,508	5,378,210	10,509,718
Unrestricted	1,206,053	1,373,803	2,579,856
Total net assets	<u>\$ 6,337,561</u>	<u>\$ 6,752,013</u>	<u>\$ 13,089,574</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Fund

For The Year Ended December 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Business-Type Activities</u>
Operating revenues:			
Charges for services	\$ 896,557	\$ 1,455,596	\$ 2,352,153
Miscellaneous income	<u>186,785</u>	<u>179,248</u>	<u>366,033</u>
Total operating revenues	<u>1,083,342</u>	<u>1,634,844</u>	<u>2,718,186</u>
Operating expenses:			
Personal services	420,715	499,140	919,855
Supplies and materials	91,609	98,593	190,202
Travel and education	3,526	3,509	7,035
Contractual services	86,875	129,615	216,490
Utilities	81,063	165,718	246,781
Depreciation	62,124	504,161	566,285
Capital outlay	<u>24,903</u>	<u>41,013</u>	<u>65,916</u>
Total operating expenses	<u>770,815</u>	<u>1,441,749</u>	<u>2,212,564</u>
Operating income	<u>312,527</u>	<u>193,095</u>	<u>505,622</u>
Non-operating revenues (expenses):			
Investment income	-	63,592	63,592
Miscellaneous non-operating expenses	-	(3,799)	(3,799)
Interest and fiscal charges	<u>-</u>	<u>(327,680)</u>	<u>(327,680)</u>
Total non-operating revenues (expenses)	<u>-</u>	<u>(267,887)</u>	<u>(267,887)</u>
Income (loss) before operating contributions	312,527	(74,792)	237,735
Contributions	<u>719,502</u>	<u>22,169</u>	<u>741,671</u>
Change in net assets	1,032,029	(52,623)	979,406
Net assets at beginning of year	<u>5,305,532</u>	<u>6,804,636</u>	<u>12,110,168</u>
Net assets at end of year	\$ <u><u>6,337,561</u></u>	\$ <u><u>6,752,013</u></u>	\$ <u><u>13,089,574</u></u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Cash Flows Proprietary Fund

For The Year Ended December 31, 2005

	Water Fund	Sewer Fund	Total
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities			
Cash received from customers	\$ 801,686	\$ 1,557,484	\$ 2,359,170
Cash payments for personal services	(428,270)	(510,509)	(938,779)
Cash payments for travel and education	(3,526)	(3,509)	(7,035)
Cash payments for contractual services	(77,369)	(152,642)	(230,011)
Cash payments for vendors for supplies and materials	(89,546)	(101,916)	(191,462)
Cash payments for utilities	(82,636)	(170,189)	(252,825)
Other operating revenues	15,357	25,469	40,826
Net cash provided by operating activities	<u>135,696</u>	<u>644,188</u>	<u>779,884</u>
Cash flows from capital and related financing activities			
Principal paid on OWDA loan	-	(532,093)	(532,093)
Interest paid on OWDA loan	-	(327,680)	(327,680)
Principal paid on OPWC loan	(12,600)	-	(12,600)
Acquisition of capital assets	(91,886)	(327,880)	(419,766)
Net cash used for noncapital financing	<u>(104,486)</u>	<u>(1,187,653)</u>	<u>(1,292,139)</u>
Cash flows from investing activities			
Interest received	<u>-</u>	<u>58,263</u>	<u>58,263</u>
Net increase (decrease) in cash and cash equivalents	31,210	(485,202)	(453,992)
Cash and cash equivalents, beginning of year	<u>735,338</u>	<u>1,712,274</u>	<u>2,447,612</u>
Cash and cash equivalents, end of year	\$ <u>766,548</u>	\$ <u>1,227,072</u>	\$ <u>1,993,620</u>

(Continued)

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Cash Flows (continued) Proprietary Fund

For The Year Ended December 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Business-Type Activities</u>
Reconciliation of net income to net cash provided by operating activities:			
Operating income	\$ 312,527	\$ 193,095	\$ 505,622
Adjustments:			
Depreciation	62,124	504,161	566,285
Changes in assets/liabilities:			
(Increase) decrease in accounts receivable	(94,871)	111,894	17,023
(Increase) decrease in intergovernmental receivable	(171,428)	(10,005)	(181,433)
Decrease in inventory	2,940	982	3,922
Increase (decrease) in accounts payable	11,066	(155,969)	(144,903)
Increase (decrease) in compensated absences payable	9,623	(1,041)	8,582
Increase (decrease) in accrued pension	1,924	(172)	1,752
Increase in intergovernmental payable	765	710	1,475
Increase in accrued wages and benefits	<u>1,026</u>	<u>533</u>	<u>1,559</u>
Net cash provided by operating activities:	\$ <u>135,696</u>	\$ <u>644,188</u>	\$ <u>779,884</u>

Schedule of non-cash investing, capital, and financing activities:

As of December 31, 2005, the Water and Sewer Funds received \$719,502 and \$22,169, respectively, as contributions to capital assets from other governmental funds.

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2005

	Private Purpose Trust <u>Cemetery</u>	<u>Agency</u>
Assets:		
Cash and cash equivalents	\$ 19,276	\$ 378,096
Interest receivable	32	-
Due from others	<u>-</u>	<u>2,108</u>
Total assets	<u>19,308</u>	\$ <u><u>380,204</u></u>
Liabilities:		
Accounts payable	-	\$ 303,212
Intergovernmental payable	-	3,559
Due to others	<u>-</u>	<u>73,433</u>
Total liabilities	<u>-</u>	\$ <u><u>380,204</u></u>
Net assets:		
Held in trust for cemetery	\$ <u><u>19,308</u></u>	

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

For the Year Ended December 31, 2005

	Private Purpose Trust <u>Cemetery</u>
Additions:	
Interest	\$ 122
Deductions:	
Supplies and materials	<u>230</u>
Change in net assets	(108)
Net assets at beginning of year	<u>19,416</u>
Net assets at end of year	\$ <u><u>19,308</u></u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Notes to Basic Financial Statements

December 31, 2005

Note 1: The Reporting Entity

The City of Chardon is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a council-manager form of government, was adopted April 25, 1978. Effective April 29, 2002, the Village of Chardon became a city based on the 2000 Census.

A reporting entity is comprised of the primary government, 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, departments, boards and agencies that are not legally separate from the City. For the City of Chardon, this includes police protection, parks and recreation, planning, zoning, street maintenance and repair, water and sewer utilities, municipal court and general administrative services. The City's departments include a public safety department, a public service department, a street maintenance department, a sanitation system, a parks and recreation department, a planning and zoning department, and a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The City contracts with the Chardon Volunteer Fire Department, Inc. to provide fire service and ambulance services. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process.

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 deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The Chardon Municipal Court

The City budgets and appropriates funds for the operation of the Court and is ultimately responsible for any operating deficits sustained by the Court. The City's share of the fines collected by the Court along with its share of the Court's administrative and operating costs are recorded pursuant to State law in the City's General Fund. Due to this relationship, the Court is not considered a component unit of the City but rather as part of the primary government unit itself. Monies held by the Court in a fiduciary capacity are recorded as an agency fund in the accompanying financial statements.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies

The financial statements of the City of Chardon have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. 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 activity of the internal service fund is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities 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 activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 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 function or business activity is self-financing or draws from the general revenues of the City.

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.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

B. 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: governmental, proprietary and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions 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 purposes 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 are the City's major governmental funds:

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

Street Construction, Maintenance and Repair - The street construction special revenue fund accounts for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

General Obligation Debt Service Fund - This fund is maintained for the accumulation of monies to meet debt service requirements on general obligation debt of the City. Funds are derived from transfers from various other funds.

Capital Improvements Fund - To account for the cost of various expenditures for various capital improvements.

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds.

Water Fund - The water fund accounts for the provision of water service to the residents and commercial users located within the City.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's only trust fund is a private purpose trust which accounts for the perpetual care and maintenance of an individual family's burial plots in the City's cemetery through an endowment. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for tort claims, law library fees, unclaimed monies, construction guarantee bonds and the municipal court.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets, except for fiduciary funds. 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on 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 net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., 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 proprietary activities.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

D. 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; proprietary 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 a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is sixty days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, licenses and permits, interest, grants and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also 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.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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.

E. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund level. Line item appropriations may be transferred between the accounts with the approval of the City Manager, Finance Director and respective department head. Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

A tax budget of estimated revenue and expenditures for all funds other than agency funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

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

On or about January 1 the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the Finance Director determines that revenue to be collected will be greater than or less than the prior estimates and the budget commission finds the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2005. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Annual Estimate

The Mayor, with the assistance of the Finance Director, is required by Charter to submit to Council, on or before December 1 of each fiscal year, an estimate of the revenues and expenditures of each fund of the City for the next succeeding fiscal year. The annual estimate serves as the basis for appropriations (the appropriated budget) in each fund.

Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds must be legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted by Council action. During the year, several supplemental appropriation measures were necessary. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried over for the subsequent year's expenditures and is reappropriated.

Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, except capital projects funds, Council appropriations are made to personal services, travel and education, contractual services, supplies and materials, capital outlay, other expenditures, debt principal and interest payments, and transfer accounts for each department. Capital projects funds are appropriated by department or project. The appropriations set by Council must remain fixed unless amended by Council ordinance. More detailed appropriation allocations may be made by the Finance Director as long as the allocations are within Council's appropriated amount.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Encumbrances

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except the investment trust fund, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

Investments are reported at fair value, which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

During the year, the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2005.

Interest allocation is determined by the Ohio Constitution, state statutes, and local ordinances adopted under City Charter. Under these provisions, City funds required to receive interest allocations are: 1) those which receive proceeds from the sale of notes and/or bonds and 2) those which receive distributions of state gasoline tax and motor vehicle licenses fees (street maintenance and state highway special revenue funds). All remaining interest is allocated to the general fund. Legally, proprietary funds generally do not receive interest.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

G. Inventory

Inventories are stated at cost, on the first-in, first-out basis. At December 31, 2005, the General Fund and the Enterprise Fund maintained the only significant inventory. The costs of governmental fund type inventories are recorded as expenditures in the fund when purchased. The reserve for inventory indicates that a portion of the fund balance is not available for future expenditures. For proprietary funds, inventory is expended when consumed.

H. Capitalization of Interest

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the 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 utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. 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 not. Interest incurred during the construction of capital assets is also capitalized.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

J. Capital Assets

All capital assets are depreciated except for land and construction in progress. 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 replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	45 years
Machinery and equipment	10 to 15 years
Vehicles	6 years
Infrastructure	65 to 100 years

For 2005, the City's infrastructure consists of streets, traffic signals and sewer lines. In addition, the City has recorded construction in progress for City street, sidewalks, storm sewer, sewer lines and water main projects initiated in 2005. Generally accepted accounting principles requires the City to capitalize all acquisitions of general infrastructure assets for fiscal years beginning after June 15, 2002. The City has reported such acquisitions in accordance with the reporting standards for 2003, 2004, and 2005. The City intends to report general infrastructure assets in accordance with the *Phase 2 Government Infrastructure Transition Option* described in generally accepted accounting principles. That Option provides that the City must retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006.

K. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

L. Compensated Absences

In conformity with GASB Statement No. 16, the City accrues vacation and compensatory time benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Likewise, the City accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the pay rates in effect at fiscal year end December 31, 2005. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

L. Compensated Absences (continued)

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary 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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

N. Fund Balance Reserves

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. Fund balance reserves have been established for encumbrances and inventories.

O. 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 borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

City of Chardon, Ohio

Notes to Basic Financial Statements

December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, golf course, and fitness center programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

Q. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

S. Estimates

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

Note 3: Change in Accounting Principle

A. Changes in Accounting Principles

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

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 3: Change in Accounting Principle (continued)

A. Changes in Accounting Principles (continued)

The implementation of GASB Statements No. 40 and No. 42 did not affect the presentation of the financial statements of the City.

Note 4: Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – All Governmental Fund Types and the Statement of Revenues, Expenses, and Changes in Fund Balance – Budget and Actual – All Proprietary Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental Funds, and note disclosure for Proprietary Funds (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund and Street Construction Maintenance and Repair Fund.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 4: Budgetary Basis of Accounting (continued)

	<u>Net Change in Fund Balance</u>	
	<u>General</u>	<u>Street Construction Maintenance and Repair</u>
GAAP Basis	\$ 1,603,937	\$ (133,346)
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals	(352,940)	(842,519)
Expenditure Accruals	(32,439)	814,566
Outstanding Encumbrances	<u>(278,504)</u>	<u>(110,292)</u>
Budget Basis	\$ <u>940,054</u>	\$ <u>(271,591)</u>

Note 5: Deposits and Investments

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

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 5: Deposits and Investments (continued)

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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;
4. Investment grade obligations of state and local governments, and public authorities;
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; and,
6. The State Treasurer's investment pool (STAROhio).

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

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 5: Deposits and Investments (continued)

Deposits (continued)

At year-end, the carrying amount of the City's deposits was \$124,782 and the bank balance was \$522,532. Of the bank balance \$100,000 was covered by Federal depository insurance and \$422,532 was uninsured. Of the remaining bank balance, no money was collateralized with securities held by the pledging institution's agent in the City's name and \$422,532 was collateralized with securities held by the pledging institution's trust department, not in the City's name.

Investments

Investments are reported at fair value. As of December 31, 2005, the city had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Federal Farm Credit Bank	\$ 987,764	103
Fairfield First Bank & Trust Co.	996,588	31
Federal Home Loan Mortgage Corporation	978,133	178
Federal National Mortgage Association	988,259	100
STAROhio	965,000	N/A
U.S. Treasury Note	<u>496,980</u>	<u>-</u>
Total Portfolio	\$ <u><u>5,412,724</u></u>	<u><u>412</u></u>

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 City's investment policy addresses interest rate risk requiring that the City'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. The City investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the city are registered and carry a rating AAA by Standard & Poor's.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 5: Deposits and Investments (continued)

Investments (continued)

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2005:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
U.S. Treasury Note	9.18%
STAROhio	17.83
Federal Home Loan Mortgage Corporation	18.07
Federal Farm Credit Bank	18.25
Federal National Mortgage Association	18.26
Fairfield First Bank & Trust Co.	18.41

Note 6: Receivables

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the state statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2005. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable the following June 20.

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

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

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 6: Receivables (continued)

A. Property Taxes (continued)

The County treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Chardon. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2005, was \$11.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Category	<u>Assessed Value</u>
Real estate	\$ 149,016,800
Public utility	3,658,940
Tangible personal	<u>15,257,740</u>
Total	\$ <u>167,933,480</u>

B. Income Taxes

The City levies a 2 percent income tax on substantially all earned income within the City as well as on income of residents that is earned outside the City. Employers within the City are required to withhold income tax on employees' compensation and remit the tax to the City's agent, Central Collection Agency (CCA), either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax liability quarterly and file a final return annually. All income tax proceeds are recorded in the General Fund.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Governmental activities:

Local government and local government	
Revenue assistance	\$ 83,311
Gasoline and excise tax	142,500
Ohio Department of Alcohol and Drug Fines	5,971
State Attorney General	3,261
Motor vehicle license fees	<u>32,819</u>
	\$ <u>267,862</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 7: Capital Assets

Capital asset activity for government the year ended December 31, 2005, was as follows:

	<u>Balances</u> <u>12/31/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/05</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,107,331	\$ -	\$ -	\$ 1,107,331
Construction progress	<u>2,050,833</u>	<u>976,366</u>	<u>(243,043)</u>	<u>2,784,156</u>
Total Nondepreciable assets	<u>3,158,164</u>	<u>976,366</u>	<u>(243,043)</u>	<u>3,891,487</u>
Capital assets being depreciated				
Land improvements	550,740	-	-	550,740
Buildings	8,540,744	-	-	8,540,744
Machinery and equipment	126,208	72,917	-	199,125
Vehicles	1,357,550	-	(18,382)	1,339,168
Infrastructure:				
Traffic lights	-	1,176,660	-	1,176,660
Streets	<u>55,612</u>	<u>-</u>	<u>-</u>	<u>55,612</u>
Total capital assets being depreciated	<u>10,630,854</u>	<u>1,249,577</u>	<u>(18,382)</u>	<u>11,862,049</u>
Less accumulated depreciation				
Land improvements	(310,359)	(21,603)	-	(331,962)
Buildings	(1,429,309)	(168,519)	-	(1,597,828)
Machinery and equipment	(47,913)	(13,733)	-	(61,646)
Vehicles	(826,650)	(172,918)	18,381	(981,187)
Infrastructure:				
Traffic lights	-	-	-	-
Streets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(2,614,231)</u>	<u>(376,773)</u>	<u>18,381</u>	<u>(2,972,623)</u>
Net capital assets being depreciated	<u>8,016,623</u>	<u>872,804</u>	<u>(1)</u>	<u>8,889,426</u>
Governmental activities capital assets, net	\$ <u>11,174,787</u>	\$ <u>1,849,170</u>	\$ <u>(243,044)</u>	\$ <u>12,780,913</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 7: Capital Assets (continued)

	<u>Balances</u> 12/31/04	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 12/31/05
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 251,797	\$ -	\$ -	\$ 251,797
Construction progress	<u>362,062</u>	<u>1,161,437</u>	<u>(570,943)</u>	<u>952,556</u>
Total nondepreciable assets	<u>613,859</u>	<u>1,161,437</u>	<u>(570,943)</u>	<u>1,204,353</u>
Capital assets being depreciated:				
Land improvements	109,022	-	-	109,022
Buildings	10,198,778	122,308	-	10,321,086
Machinery and equipment	4,038,206	-	-	4,038,206
Vehicles	294,387	-	-	294,387
Infrastructure:				
Water lines	5,318,715	-	-	5,318,715
Sewer lines	<u>6,773,731</u>	<u>448,635</u>	<u>(3,799)</u>	<u>7,218,567</u>
Total capital assets being depreciated	<u>26,732,839</u>	<u>570,943</u>	<u>(3,799)</u>	<u>27,299,983</u>
Less accumulated depreciation				
Land improvements	(88,285)	(5,451)	-	(93,736)
Buildings	(1,698,154)	(203,845)	-	(1,901,999)
Machinery and equipment	(1,862,463)	(222,631)	-	(2,085,094)
Vehicles	(276,556)	(13,527)	-	(290,083)
Infrastructure:				
Water lines	(1,137,599)	(53,187)	-	(1,190,786)
Sewer lines	<u>(1,720,270)</u>	<u>(67,644)</u>	<u>-</u>	<u>(1,787,914)</u>
Total accumulated depreciation	<u>(6,783,327)</u>	<u>(566,285)</u>	<u>-</u>	<u>(7,349,612)</u>
Net capital assets being depreciated	<u>19,949,512</u>	<u>4,658</u>	<u>(3,799)</u>	<u>19,950,371</u>
Total business-type activities capital assets, net	\$ <u>20,563,371</u>	\$ <u>1,166,095</u>	\$ <u>(574,742)</u>	\$ <u>21,154,724</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 186,540
Leisure time activities	16,435
Security of persons and property	159,558
Transportation	<u>14,240</u>
	\$ <u>376,773</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 8: Note Debt

Note debt activity for the year ended December 31, 2005 consisted of the following:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/05</u>
1.80% 2004 Building improvements and renovations, maturing 2/19/05	\$ 1,000,000	\$ -	\$ (1,000,000)	\$ -
1.80% 2005 Building improvements and renovations, maturing 2/16/06	-	800,000	-	800,000
1.35% 2004 Building improvements – fire station, maturing 2/19/05	600,000	-	(600,000)	-
1.35% 2005 Building improvements – fire station, maturing 2/16/06	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>400,000</u>
	<u>\$ 1,600,000</u>	<u>\$ 1,200,000</u>	<u>\$ (1,600,000)</u>	<u>\$ 1,200,000</u>

Note 9: Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2005 was as follows:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/05</u>	<u>Due in</u> <u>One</u> <u>Year</u>
<i>Governmental activities:</i>					
General obligation bonds:					
4.10% 1995 Municipal building improvements, maturing 2015	\$ 1,715,000	\$ -	\$ (1,715,000)	\$ -	\$ -
4.10% 2005 Municipal building improvements, maturing 2015	<u>-</u>	<u>1,720,000</u>	<u>(25,000)</u>	<u>1,695,000</u>	<u>150,000</u>
Total general obligation bonds	<u>1,715,000</u>	<u>1,720,000</u>	<u>(1,740,000)</u>	<u>1,695,000</u>	<u>150,000</u>
Other long-term obligations:					
0% Ohio Public Works Commission Park Avenue reconstruction	437,500	-	(25,000)	412,500	25,000
North Street improvement project	<u>-</u>	<u>267,965</u>	<u>-</u>	<u>267,965</u>	<u>20,000</u>
Total Ohio Public Works Commission	<u>437,500</u>	<u>267,965</u>	<u>(25,000)</u>	<u>680,465</u>	<u>45,000</u>
Capital lease payable	384,251	-	(71,933)	312,318	74,311
Accrued compensated absences	<u>334,770</u>	<u>4,672</u>	<u>-</u>	<u>339,442</u>	<u>88,219</u>
Total other long-term obligations	<u>1,156,521</u>	<u>272,637</u>	<u>(96,933)</u>	<u>1,332,225</u>	<u>207,530</u>
Total governmental long-term liabilities	<u>\$ 2,871,521</u>	<u>\$ 1,992,637</u>	<u>\$ (1,836,933)</u>	<u>\$ 3,027,225</u>	<u>\$ 357,530</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 9: Long-Term Obligations (continued)

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Due in One Year
Business-Type Activities					
General obligation bonds:					
2.975% Ohio Water Development Authority	\$ 11,146,499	\$ -	\$ (532,093)	\$ 10,614,406	\$ 548,041
0% Ohio Public Works Commission					
Issue II loans	43,200	-	(12,600)	30,600	12,600
Total general obligation bonds	<u>11,189,699</u>	<u>-</u>	<u>(544,693)</u>	<u>10,645,006</u>	<u>560,641</u>
Other long-term obligations:					
Accrued compensated absences	123,918	8,583	-	132,501	31,191
Total business-type long-term obligations	<u>\$ 11,313,617</u>	<u>\$ 8,583</u>	<u>\$ (544,693)</u>	<u>\$ 10,777,507</u>	<u>\$ 591,832</u>

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2005 were as follows:

Year	Governmental Activities				
	General Obligation Bonds		OPWC Loans	Totals	
	Principal	Interest	Principal	Principal	Interest
2006	\$ 150,000	\$ 58,593	\$ 45,000	\$ 195,000	\$ 58,593
2007	150,000	54,468	45,000	195,000	54,468
2008	155,000	49,968	45,000	200,000	49,968
2009	160,000	45,318	45,000	205,000	45,318
2010	165,000	40,118	45,000	210,000	40,118
2011-2015	915,000	109,100	225,000	1,140,000	109,100
2016-2020	-		192,965	192,965	-
2021-2023	-		37,500	37,500	-
	<u>\$ 1,695,000</u>	<u>\$ 357,563</u>	<u>\$ 680,465</u>	<u>\$ 2,375,465</u>	<u>\$ 357,563</u>

Year	Business-Type Activities				
	OWDA Loan		OPWC Loans	Total	
	Principal	Interest	Principal	Principal	Interest
2006	548,041	311,733	12,600	560,641	311,733
2007	564,466	295,307	7,600	572,066	295,307
2008	581,384	278,389	2,600	583,984	278,389
2009	598,809	260,965	2,600	601,409	260,965
2010	616,756	243,017	2,600	619,356	243,017
2011-2015	3,372,388	926,480	2,600	3,374,988	926,480
2016-2020	3,908,976	389,892	-	3,908,976	389,892
2021-2023	423,586	6,301	-	423,586	6,301
	<u>\$ 10,614,406</u>	<u>\$ 2,712,084</u>	<u>\$ 30,600</u>	<u>\$ 10,645,006</u>	<u>\$ 2,712,084</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 9: Long-Term Obligations (continued)

The Ohio Public Works Commission (“OPWC”) 2002 Park Avenue Reconstruction Loan relates to construction on City streets. OPWC has authorized up to \$500,000 in loans to the City for this project. The loan will be repaid in semiannual installments of \$12,500 over 20 years, ending in 2022.

The Ohio Public Works Commission (“OPWC”) 2005 North Street Improvement Loan relates to construction on City streets. OPWC has authorized up to \$400,000 in loans to the City for this project. The final loan amount has not been determined at December 31, 2005, as the City is still drawing on the loan. The loan will be repaid in semiannual installments of \$20,000 over 20 years, ending in 2026. The above amortization schedule only shows the loan payments to the extent of money received.

The 2002 Ohio Water Development Authority (“OWDA”) loan relates to a wastewater treatment plant expansion and upgrade project. The upgrade portion of the project was mandated by the Ohio Environmental Protection Agency. The OWDA has approved up to \$13,500,000 in loans to the City for this project. The City has agreed to set utility rates and fees sufficient to cover OWDA debt service requirements. Approximately two-thirds of the revenue will be generated through a system development charge to all of the new developments in an effort to fund the expansion portion of the project. The remaining one-third of the revenue will be generated by a surcharge to the existing users that will be used for the upgrade portion of the project.

The Ohio Public Works Commission Issue II Loans relate to water main replacements for South Hambden and Wilson Mills streets. The 1997 South Hambden street loan will be repaid in semiannual installments of \$5,000 over 10 years, ending in 2007. The 1992 Wilson Mills street loan will be repaid in semiannual installments of \$1,300 over 20 years, ending in 2012.

Principal and interest payments on General Obligation Notes and General Obligation Bonds are paid out of the Debt Service Fund.

On February 2, 2005, the City issued \$1,720,000 Municipal Building Improvement Refunding Bonds, Series 2005 (Bonds) at interest rates varying from 2.75 percent to 4.0 percent. Proceeds were used for certain capital projects (\$120,000) and to refund (current) \$1,600,000 of the outstanding Various Purpose General Obligation Bonds, Series 1995. Prior to the refunding, the City made a \$115,000 principal payment on the 1995 bonds.

The proceeds net of underwriting fees and other issuance costs were credited to the General Obligation Debt Service Fund for \$1,719,064. Pending such redemption, the City invested such proceeds in direct obligations of the United States of America. As a result, \$1,600,000 of the 1995 Bonds is considered to be defeased.

The aggregate difference in the debt service between the refunded debt and refunding debt is \$118,288. The City achieved an economic gain (difference between the present value of the refunded debt and the refunding debt service payments) on the transaction of \$98,035. The Serial Bonds mature over a 10 year period with a final maturity at December 1, 2015.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 10: Capital Leases

The City has entered into a lease agreement as lessee for financing which relates to a fire truck. This lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of its future minimum lease payments as of inception date.

	<u>Governmental Activities</u>
Assets:	
Vehicles	\$ 525,000
Less: Accumulated Depreciation	<u>297,500</u>
Total	<u>\$ 227,500</u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments.

	<u>Governmental Activities</u>
Year	
2006	\$ 83,951
2007	83,951
2008	83,951
2009	<u>83,951</u>
Total minimum lease payments	335,804
Less: Amount representing interest	<u>(23,486)</u>
Present value of minimum lease payments	<u>\$ 312,318</u>

Lease payments are made from the Fire and Ambulance Operating Levy Fund. The lease payment amount will be paid with current, available resources that have accumulated in the fund for payment early in the following year.

Note 11: Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Employees are encouraged to use their vacation leave within one year from their anniversary date, but are entitled to carryover eighty hours into the next year. Employees are also entitled to a cash payment for any unused vacation leave, limited to 1/2 of the total leave earned during that year. Accordingly, all accrued vacation pay is considered to be a current liability. City employees are paid for earned, unused vacation leave at the time of the termination of their employment.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 11: Compensated Absences (continued)

Full-time employees earn 10 hours of sick leave a month. Part-time employees do not earn sick leave, but are entitled to all of the hours earned from their start date if they do become full-time employees. Employees hired prior to July 21, 1983 with over 10 years of service and eligible to retire are entitled to 1/3 of their accumulated unused sick hours up to 960 hours. Employees hired subsequent to July 21, 1983 with over 10 years of service and eligible to retire are entitled to 1/4 of their accumulated unused sick hours up to 600 hours. Individuals leaving the employment of the City prior to meeting these eligibility requirements lose their accumulated sick leave.

Note 12: Pension Plans

A. *Ohio Public Employees Retirement System*

All full-time employees, other than non-administrative full-time police officers and firefighters, contribute to the Ohio Public Employees Retirement System ("OPERS"). OPERS administers three separate pension plans as described below:

- The traditional pension plan (TP) – a cost sharing multiple-employer defined benefit pension plan.
- The member-directed plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The combined plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the combined plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the traditional plan benefit. Member contributions, the investment of which is self-directed by the members, 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 state statute per Chapter 145 of the Ohio Revised Code. OPERS issue a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the traditional plan. City employees are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2005 employer contribution rate for the City was 13.55 percent of covered payroll. The City's contributions to the OPERS for the years ended December 31, 2005, 2004 and 2003 were \$256,527, \$239,042, and \$230,935, respectively, equal to the required contributions for each year. Contributions to the member-directed plan for 2005 were \$4,337 made by the City and \$2,720 made by the plan members.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 12: Pension Plans (continued)

B. Ohio Police And Fire Pension Fund

The City of Chardon contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan administered by the OP&F's Board of Trustees. 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers. The City of Chardon's contributions to OP&F for the years ending December 31, 2005, 2004 and 2003 were \$104,249, \$105,509, and \$111,626, respectively, equal to the required contributions for each year.

Note 13: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care for the year. During 2005, the City's portion that was used to fund health care was \$107,446, representing 4.00 percent of covered payroll.

The postretirement health care coverage is advance-funded on an actuarially determined basis. The following assumptions and calculations were based on OPERS's latest actuarial review performed as of December 31, 2004; an entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities; the difference between assumed and actual experience is part of the unfunded actuarial accrued liability; the investment assumption rate for 2004 was 8.00 percent; all investments are carried at market value; for actuarial valuation purposes, a smoothed market approach is used – meaning that assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets; individual pay increases are assumed to increase 4.00 percent compounded annually, with no change in the number of active employees; annual pay increases over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.3 percent; and health care costs are assumed to increase 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years. The actuarially accrued postretirement health care liability for OPERS at December 31, 2004 was \$29.5 billion. The net assets were \$10.8 billion, leaving an unfunded actuarial accrued liability of \$18.7 billion. The number of active contributing participants in the traditional and combined plans was 376,109.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 13: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer’s contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll. The Ohio Revised Code provides the statutory authority allowing the Ohio Police and Fire Pension Fund’s Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75 percent of covered payroll in 2004 and 2005, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, was 13,812 for police. The City’s actual contributions for 2005 that were used to fund post-employment benefits were \$41,387 for police. OP&F’s total health care expenses for the year ending December 31, 2004, the date of the last actuarial valuation available, was \$102,173,796, which was net of member contributions of \$55,665,341.

Note 14: Risk Management

The City maintains comprehensive insurance coverage with private insurance carriers for real property, building contents, vehicle and general liability insurance, and police professional liability insurance.

The City continues to carry health insurance through a private carrier.

There were no reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three fiscal years.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 15: Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	General Obligation Debt Service Fund	Nonmajor Governmental Funds	
Capital Improvements Fund	\$ -	\$ 426,028	\$ -	\$ 426,026
General Obligation Debt Service Fund	483,900	-	186,442	670,342
Nonmajor Governmental Funds	485,000	-	-	485,000
	<u>\$ 968,900</u>	<u>\$ 426,028</u>	<u>\$ 186,442</u>	<u>\$ 1,581,370</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

Note 16: Contingencies/Pending Litigation

The City is a party to various legal proceedings. The City's management is of the opinion that the ultimate outcome of such litigation will not have a material adverse effect on the City's financial position.

Note 17: Accountability and Compliance

A. Accountability

The following funds had deficit fund balances as of December 31, 2005:

<u>Fund Name</u>	<u>Amount of Deficit</u>
Police Pension Fund	\$ 5,603
Capital Improvements Fund	119,859

City of Chardon, Ohio

Basic Financial Statements

December 31, 2004

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City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

The discussion and analysis of the City of Chardon's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2004 are as follows:

- ◆ The assets of the City of Chardon exceeded its liabilities at the close of the most recent fiscal year by \$21,593,005. Of this amount, \$2.7 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$560,184, which represents a decrease of approximately 1.41 percent over 2003. The biggest changes were a decrease in cash of \$600,000.
- ◆ Total liabilities decreased by \$639,682, which represents a decrease of 3.5 percent over 2003. The main factor contributing to this decrease was a net decrease of \$590,588 in current and long-term liabilities due to the payment of long-term debt.
- ◆ In total, net assets increased by \$79,498 during 2004. This represents an increase of .37 percent over 2003.

Using this Annual Financial Report

This discussion and analysis are intended to serve as an introduction to the City of Chardon's basic financial statements. The City of Chardon's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – Reporting the City of Chardon as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Chardon's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Chardon is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities: most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- Business-type activities: the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer and water systems are reported here.

Fund Financial Statements - Reporting the City of Chardon's Most Significant Funds

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City of Chardon, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Chardon can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. 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. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

The City of Chardon maintains 21 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, and other major funds.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Proprietary Funds

The City of Chardon maintains 2 different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found starting on page 75 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 81 of this report.

Government-wide Financial Analysis - City of Chardon as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

The Statement of Net Assets and the Statement of Activities are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning and End of Year

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Table 1 provides a summary of the City's net assets for 2004 as compared to 2003.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and other assets	\$ 4,356,788	\$ 3,815,318	\$ 3,079,306	\$ 4,228,631	\$ 7,436,094	\$ 8,043,949
Capital assets, net	<u>11,174,787</u>	<u>11,037,972</u>	<u>20,563,372</u>	<u>20,652,516</u>	<u>31,738,159</u>	<u>31,690,488</u>
<i>Total assets</i>	<u>15,531,575</u>	<u>14,853,290</u>	<u>23,642,678</u>	<u>24,881,147</u>	<u>39,174,253</u>	<u>39,734,437</u>
Liabilities						
Current liabilities	1,577,218	3,313,003	218,892	132,201	1,796,110	3,445,204
Long-term liabilities						
Due within one year	330,021	204,630	572,901	529,210	902,922	733,840
Due in more than one year	<u>4,141,500</u>	<u>2,730,611</u>	<u>10,740,716</u>	<u>11,311,275</u>	<u>14,882,216</u>	<u>14,041,886</u>
<i>Total liabilities</i>	<u>6,048,739</u>	<u>6,248,244</u>	<u>11,532,509</u>	<u>11,972,686</u>	<u>17,581,248</u>	<u>18,220,930</u>
Net assets						
Invested in capital assets,						
Net of related debt	7,038,036	8,296,591	9,373,673	8,933,607	16,411,709	17,230,198
Restricted for:						
Debt service	33,900	37,840	-	-	33,900	37,840
Other purposes	804,059	898,196	-	-	804,059	898,196
Unrestricted	<u>1,606,841</u>	<u>(627,581)</u>	<u>2,736,496</u>	<u>3,974,854</u>	<u>4,343,337</u>	<u>3,347,273</u>
<i>Total net assets</i>	\$ <u>9,482,836</u>	\$ <u>8,605,046</u>	\$ <u>12,110,169</u>	\$ <u>12,908,461</u>	\$ <u>21,593,005</u>	\$ <u>21,513,507</u>

Total assets decreased slightly to about \$560,184. Even though the cash and cash equivalents decreased by \$600,000 an increase in capital assets of \$47,671 offset this decrease primarily due to the addition of City wide improvements and new development.

The total net assets of the City increased by \$79,498. The following factors were responsible for this increase:

- During 2004, the City's charges for services increased by \$637,342 from 2003.
- Cash and cash equivalents showed a decrease of \$600,000 over 2003.
- A reduction in notes payable of \$150,000.
- An increase of \$47,671 in the capital assets.

The City has tried to make concerted efforts to maximize the return on investments of its cash and cash equivalents and use these funds to provide liquidity for planned future capital purchases. Due to the interest rates in the past year, the investments have shifted from short term CD's and government notes and bills to longer-term federal government agency issues. However, even though the State code allows for investments with maturities of five years or less, the City has not invested in any instrument with a maturity of more than two years in compliance with the City's investment policy.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

The City of Chardon is also part of the Gates McDonald workers' compensation pool which helped save approximately \$79,996 in premiums for the year as compared to being strictly a State funded employer. The City has established a Safety and Health Program in compliance with the Ohio Department of Industrial Relations Public Employment Risk Reduction Program. In addition, the City of Chardon provides the employees with safety equipment to enable them to perform their tasks safely and efficiently and also is committed to providing a healthy work environment free from any recognized hazard to all employees. A random drug testing policy for employees with CDL licenses also affords an added measure of achieving this goal.

The net assets of the City's business-type activities decreased by 5 percent in 2004. The City generally can only use these net assets to finance the continuing operations of the sewer and water systems operations.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. However, since this is the first year the City has prepared financial statements following GASB 34 revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Table 2
Changes in Net Assets

	Governmental Activities <u>2004</u>	Business-Type Activities <u>2004</u>	Total <u>2004</u>
Program revenues			
Charges for services	\$ 1,691,372	\$ 2,220,010	\$ 3,911,382
Operating grants and contributions	<u>18,835</u>	<u>-</u>	<u>18,835</u>
<i>Total program revenues</i>	<u>1,710,207</u>	<u>2,220,010</u>	<u>3,930,217</u>
General revenues			
Property taxes	1,081,848	-	1,081,848
Income taxes	2,429,903	-	2,429,903
Grants and entitlements	710,659	-	710,659
Investment earnings	54,367	39,580	93,947
Miscellaneous	<u>166,373</u>	<u>218,412</u>	<u>384,785</u>
<i>Total revenues</i>	<u>6,153,357</u>	<u>2,478,002</u>	<u>8,631,359</u>
Program expenses			
General government	2,446,054	-	2,446,054
Security of persons and property	2,137,777	-	2,137,777
Public health services	60,461	-	60,461
Leisure time activities	193,722	-	193,722
Community environment	192,954	-	192,954
Transportation	761,232	-	761,232
Interest and fiscal charges	128,367	-	128,367
Sewer	-	1,895,884	1,895,884
Water	<u>-</u>	<u>735,410</u>	<u>735,410</u>
<i>Total program expenses</i>	<u>5,920,567</u>	<u>2,631,294</u>	<u>8,551,861</u>
Transfers	<u>645,000</u>	<u>(645,000)</u>	<u>-</u>
<i>Change in net assets</i>	\$ <u><u>877,790</u></u>	\$ <u><u>(798,292)</u></u>	\$ <u><u>79,498</u></u>

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is one percent on gross income and has not changed since 1970. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax. However, beginning January 1, 2005 the City's income tax rate increased two percent of gross income with a credit of 50 percent for residents who work in another community and pay the withholding tax for that community.

During 2004 the revenues generated from this tax amounted to \$2,429,903. The decrease in revenues from 2003 was 3 percent and resulted from an overall sluggish economy. As expected, investment earnings continued to increase as investment rates begin to climb.

Security of persons and property and general government are the major activities of the City generating 77 percent of the governmental expenses. Currently, there are 10 full-time sworn officers in the police department. During 2004, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology.

Business-Type Activities

The Business-Type activities of the City, which include the City's sewer and water operations, decreased the City's net assets by \$798,292.

Net expense exceeded revenue in the amount of \$432,422 for the sewer operations for 2004. This is due to decreased contributions required to cover the City's share of operating expenses of the Sewer Fund. Net program expenses exceeded program revenues in the amount of \$365,870 for the water fund operations for 2004. This is due to decreased membership with increasing expenses.

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 70. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$9,148,113 and expenditures and other financing uses of \$6,836,824. The net change in fund balance for the year was most significant in the Capital Improvement Capital Projects Fund showing an increase in fund balance of \$2,211,572. Debt proceeds of \$1,600,000 makes up a good portion of the increase which is due to the presentation of notes payable on a long-term basis. The General Fund reflected a decrease of \$82,675. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted by City council. Council must approve legislation for any revisions in the budget that alter total appropriations for any fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the General Fund, final budget basis revenue was \$446,436 under the original budget estimates of \$4,815,126. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The final appropriations of \$4,408,382 were sufficient to meet the expenditures for the year, which ended up at \$4,324,918.

The City's ending unobligated budgetary fund balance was \$97,849 higher than the final budgeted amount.

Business-Type Funds

The City's major Enterprise funds consist of the Sewer Fund and Water Fund. The basic financial statements for the major funds are included in this report.

Proprietary Funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the Sewer, and Water Funds. The basic proprietary fund financial statements can be found on page 75 through 78 of this report.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the City of Chardon had \$31,738,159 invested in land, buildings, equipment and infrastructure.

Table 3 shows fiscal 2004 balances of Capital Assets as compared to 2003:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land and Land Improvements	\$ 1,658,071	\$ 1,506,671	\$ 360,819	\$ 190,526	\$ 2,018,889	\$ 1,697,196
Buildings	8,540,744	8,540,744	10,198,778	10,198,778	18,739,522	18,739,522
Machinery and Equipment	126,208	113,014	4,038,206	4,038,206	4,164,414	4,151,220
Vehicles	1,357,550	1,348,755	294,387	294,387	1,651,937	1,643,142
Infrastructure						
Streets	55,612	-	-	-	55,612	-
Water lines	-	-	5,318,715	5,318,715	5,318,715	5,318,715
Sewer lines	-	-	6,773,731	6,773,731	6,773,731	6,773,731
Construction in progress	2,050,833	1,789,926	362,062	-	2,412,895	1,789,926
Less: Accumulated Depreciation	<u>(2,614,231)</u>	<u>(2,261,138)</u>	<u>(6,783,326)</u>	<u>(6,161,827)</u>	<u>(9,397,557)</u>	<u>(8,422,965)</u>
Total Capital Assets	\$ <u>11,174,787</u>	\$ <u>11,037,972</u>	\$ <u>20,563,372</u>	\$ <u>20,652,516</u>	\$ <u>31,738,159</u>	\$ <u>31,690,488</u>

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles purchases are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The older vehicles are either traded in to dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City's service department maintains a comprehensive listing of all the streets, bridges, culverts, storm sewers, water lines and sewer lines in the City. As part of the City's annual road maintenance program, the City's Service Director, Street Superintendent and Engineer evaluate the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the General Fund or Street Construction Maintenance and Repair Fund. Capital assets for business-type activities decreased by \$89,144 due to the City's additions of depreciation expense offset by the additions of land and construction in progress.

City of Chardon, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. We have a five-year capital plan in place that provides for street improvements and adding additional facilities to complement our current structures.

Debt

At December 31, 2004, the City of Chardon had \$15,785,138 in outstanding debt and compensated absences, of which \$1,715,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 1,715,000	\$ 1,825,000	\$ -	\$ -	\$ 1,715,000	\$ 1,825,000
Notes payable	1,600,000	-	-	-	1,600,000	-
OPWC loans	437,500	462,500	43,200	55,800	480,700	518,300
OWDA loan	-	-	11,146,499	11,663,109	11,146,499	11,663,109
Capital lease	384,251	453,881	-	-	384,251	453,881
Compensated Absences	<u>334,770</u>	<u>193,860</u>	<u>123,918</u>	<u>121,576</u>	<u>458,688</u>	<u>315,436</u>
Total	\$ <u>4,471,521</u>	\$ <u>2,935,241</u>	\$ <u>11,313,617</u>	\$ <u>11,840,485</u>	\$ <u>15,785,138</u>	\$ <u>14,775,726</u>

Other obligations include accrued vacation pay and sick leave, capital lease and OPWC and OWDA loans. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Current Related Financial Activities

With the recent increase in the City's income tax rate, the City of Chardon is strong financially. In addition, the City of Chardon's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Chardon with full disclosure of the financial position of the City.

Contacting the City of Chardon's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Jeffrey Smock, City of Chardon, 111 Water Street, Chardon, Ohio 44024, telephone (440) 286-2470, or web site at www.chardon.cc.

City of Chardon, Ohio

Statement of Net Assets

December 31, 2004

	Governmental Activities	Business - Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 2,125,082	\$ 2,447,612	\$ 4,572,694
Accounts receivable	67,276	461,037	528,313
Accrued interest receivable	11,127	12,048	23,175
Intergovernmental receivable	245,916	-	245,916
Materials and supplies inventory	113,830	158,609	272,439
Taxes receivable	1,793,557	-	1,793,557
Non-depreciable capital assets	3,158,164	613,859	3,772,023
Depreciable capital assets, net	<u>8,016,623</u>	<u>19,949,513</u>	<u>27,966,136</u>
 Total assets	 <u>15,531,575</u>	 <u>23,642,678</u>	 <u>39,174,253</u>
 Liabilities:			
Accounts payable	236,366	178,688	415,054
Accrued wages and benefits	31,025	11,137	42,162
Intergovernmental payable	9,113	2,713	11,826
Deferred revenue	1,168,100	-	1,168,100
Accrued interest payable	30,748	-	30,748
Accrued pension	101,866	26,354	128,220
Long term liabilities:			
Due within one year	330,021	572,901	902,922
Due in more than one year	<u>4,141,500</u>	<u>10,740,716</u>	<u>14,882,216</u>
 Total liabilities	 <u>6,048,739</u>	 <u>11,532,509</u>	 <u>17,581,248</u>
 Net assets:			
Invested in capital assets, net of related debt	7,038,036	9,373,673	16,411,709
Restricted for:			
Debt service	33,900	-	33,900
Other purposes	804,059	-	804,059
Unreserved (deficit)	<u>1,606,841</u>	<u>2,736,496</u>	<u>4,343,337</u>
 Total net assets	 \$ <u>9,482,836</u>	 \$ <u>12,110,169</u>	 \$ <u>21,593,005</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Activities

For the Year Ended December 31, 2004

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Government activities:			
General government	\$ 2,446,054	\$ 1,092,257	\$ 3,129
Security of persons and property	2,137,777	357,522	12,000
Public health and welfare	60,461	28,357	-
Leisure time activities	193,722	119,921	3,706
Community environment	192,954	91,140	-
Transportation	761,232	2,175	-
Interest and fiscal charges	128,367	-	-
Total governmental activities	<u>5,920,567</u>	<u>1,691,372</u>	<u>18,835</u>
Business-type activities:			
Water	735,410	806,267	-
Sewer	1,895,884	1,413,743	-
Total business type activities	<u>2,631,294</u>	<u>2,220,010</u>	<u>-</u>
Total	\$ <u>8,551,861</u>	\$ <u>3,911,382</u>	\$ <u>18,835</u>

General revenues:

Property taxes levied for:

 General purposes

 Other purposes

Municipal income taxes levied for:

 General purposes

Grants and entitlements not restricted to specific programs

Investment income

Miscellaneous income

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year, restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental</u>	<u>Business</u>	
<u>Activities</u>	<u>Type</u>	<u>Total</u>
<u>Activities</u>	<u>Activities</u>	
\$ (1,350,668)	\$ -	\$ (1,350,668)
(1,768,255)	-	(1,768,255)
(32,104)	-	(32,104)
(70,095)	-	(70,095)
(101,814)	-	(101,814)
(759,057)	-	(759,057)
<u>(128,367)</u>	<u>-</u>	<u>(128,367)</u>
<u>(4,210,360)</u>	<u>-</u>	<u>(4,210,360)</u>
-	70,857	70,857
<u>-</u>	<u>(482,141)</u>	<u>(482,141)</u>
-	(411,284)	(411,284)
<u>(4,210,360)</u>	<u>(411,284)</u>	<u>(4,621,644)</u>
371,992	-	371,992
709,856	-	709,856
2,429,903	-	2,429,903
710,659	-	710,659
54,367	39,580	93,947
166,373	218,412	384,785
<u>645,000</u>	<u>(645,000)</u>	<u>-</u>
<u>5,088,150</u>	<u>(387,008)</u>	<u>4,701,142</u>
877,790	(798,292)	79,498
<u>8,605,046</u>	<u>12,908,461</u>	<u>21,513,507</u>
\$ <u>9,482,836</u>	\$ <u>12,110,169</u>	\$ <u>21,593,005</u>

City of Chardon, Ohio

Balance Sheet Governmental Funds

December 31, 2004

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 385,739	\$ 616,590	\$ 1,122,753	\$ 2,125,082
Accounts receivable	55,929	-	11,347	67,276
Interest receivable	10,260	-	867	11,127
Intergovernmental receivable	85,535	-	160,381	245,916
Material and supplies inventory	113,830	-	-	113,830
Taxes receivable	<u>964,594</u>	<u>-</u>	<u>828,963</u>	<u>1,793,557</u>
 Total assets	 <u>\$ 1,615,887</u>	 <u>\$ 616,590</u>	 <u>\$ 2,124,311</u>	 <u>\$ 4,356,788</u>
 Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 89,119	\$ 110,594	\$ 36,653	\$ 236,366
Accrued wages	30,640	-	385	31,025
Intergovernmental payable	8,686	-	427	9,113
Accrued pension	70,630	-	31,236	101,866
Deferred revenue	<u>743,556</u>	<u>-</u>	<u>936,185</u>	<u>1,679,741</u>
 Total liabilities	 <u>942,631</u>	 <u>110,594</u>	 <u>1,004,886</u>	 <u>2,058,111</u>
 Fund balances:				
Reserve for encumbrances	107,447	1,266,372	58,315	1,432,134
Reserve for inventory	113,830	-	-	113,830
Unreserved (Deficit); Undesignated, reported in:				
General fund	451,979	-	-	451,979
Debt service fund	-	-	3,558	3,558
Capital projects fund	-	(760,376)	-	(760,376)
Special revenue funds	<u>-</u>	<u>-</u>	<u>1,057,552</u>	<u>1,057,552</u>
 Total fund balances	 <u>673,256</u>	 <u>505,996</u>	 <u>1,119,425</u>	 <u>2,298,677</u>
 Total liabilities and fund balances	 <u>\$ 1,615,887</u>	 <u>\$ 616,590</u>	 <u>\$ 2,124,311</u>	 <u>\$ 4,356,788</u>

City of Chardon, Ohio

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

December 31, 2004

Total Governmental Funds Balances \$ 2,298,677

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. 11,174,787

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Property and other taxes	\$ 37,319
Municipal income taxes	317,595
Intergovernmental	<u>156,727</u>

Total 511,641

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental Funds, an interest expenditure is reported when due. (30,748)

Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.

General obligation bonds	(1,715,000)
Notes payable	(1,600,000)
OPWC loan	(437,500)
Capital lease payable	(384,251)
Compensated absences	<u>(334,770)</u>

Total (4,471,521)

Net Assets of Governmental Activities \$ 9,482,836

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Year Ended December 31, 2004

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 371,195	\$ -	\$ 709,985	\$ 1,081,180
Municipal income taxes	2,437,957	-	-	2,437,957
Other local taxes	797	-	-	797
Intergovernmental	346,446	-	386,813	733,259
Charges for services	887,873	-	463,459	1,351,332
Licenses and permits	46,988	-	-	46,988
Fines and forfeitures	100,244	-	27,715	127,959
Special assessments	5,502	-	159,591	165,093
Investment income	49,964	-	4,451	54,415
Miscellaneous income	<u>165,215</u>	<u>-</u>	<u>1,158</u>	<u>166,373</u>
Total revenues	<u>4,412,181</u>	<u>-</u>	<u>1,753,172</u>	<u>6,165,353</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	993,757	-	1,023,455	2,017,212
Public health services	-	-	57,013	57,013
Leisure time activities	-	-	178,935	178,935
Community environment	134,044	-	50,543	184,587
Transportation	675,726	-	38,624	714,350
General government	2,257,784	-	78,130	2,335,914
Capital outlay	4,005	207,435	157,330	368,770
Debt service:				
Principal retirement	25,000	-	110,000	135,000
Interest and fiscal charges	<u>-</u>	<u>3,343</u>	<u>103,940</u>	<u>107,283</u>
Total expenditures	<u>4,090,316</u>	<u>210,778</u>	<u>1,797,970</u>	<u>6,099,064</u>
Excess of revenues over (under) expenditures	<u>321,865</u>	<u>(210,778)</u>	<u>(44,798)</u>	<u>66,289</u>
Other financing sources (uses):				
Debt proceeds	-	1,600,000	-	1,600,000
Transfers-in	18,060	822,350	542,350	1,382,760
Transfers-out	<u>(422,600)</u>	<u>-</u>	<u>(315,160)</u>	<u>(737,760)</u>
Total other financing sources (uses)	<u>(404,540)</u>	<u>2,422,350</u>	<u>227,190</u>	<u>2,245,000</u>
Net change in fund balances	(82,675)	2,211,572	182,392	2,311,289
Fund balances (deficit) at beginning of year, restated	<u>755,931</u>	<u>(1,705,576)</u>	<u>937,033</u>	<u>(12,612)</u>
Fund balances (deficit) at end of year	\$ <u>673,256</u>	\$ <u>505,996</u>	\$ <u>1,119,425</u>	\$ <u>2,298,677</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, 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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 2,311,289

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

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

Capital outlay	\$	531,878	
Depreciation		<u>(395,063)</u>	
Total			136,815

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property and other taxes		(129)	
Municipal income taxes		(8,054)	
Intergovernmental		<u>(3,765)</u>	
Total			(11,948)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 135,000

Debt proceeds is an other financing source in the governmental funds, but these proceeds increase long-term liabilities in the Statement of Net Assets. (1,600,000)

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

Capital lease payable		69,630	
Compensated absences		(140,910)	
Accrued interest on debt		<u>(22,086)</u>	
Total			<u>(93,366)</u>

Change in Net Assets of Governmental Activities \$ 877,790

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement Of Revenues, Expenditures and Changes In Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - General Fund

For The Year Ended December 31, 2004

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 407,787	\$ 371,130	\$ 371,195	\$ 65
Municipal income tax	2,685,826	2,444,800	2,444,817	17
Other local taxes	876	750	797	47
Intergovernmental	380,598	345,610	346,446	836
Charges for services	1,100,619	992,000	1,001,857	9,857
Special assessments	6,044	5,500	5,502	2
Investment income	51,653	46,500	47,018	518
Miscellaneous income	181,723	162,400	165,416	3,016
Total revenues	<u>4,815,126</u>	<u>4,368,690</u>	<u>4,383,048</u>	<u>14,358</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	1,006,873	1,026,186	1,024,159	2,027
Community environment	134,356	141,546	136,663	4,883
Transportation	709,827	748,072	722,014	26,058
General government	2,368,876	2,460,045	2,409,549	50,496
Capital outlay	7,406	7,533	7,533	-
Debt service:				
Principal retirement	<u>24,578</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Total expenditures	<u>4,251,916</u>	<u>4,408,382</u>	<u>4,324,918</u>	<u>83,464</u>
Excess of revenues over (under) expenditures	<u>563,210</u>	<u>(39,692)</u>	<u>58,130</u>	<u>97,822</u>
Other financing sources (uses):				
Transfers-in	68,867	62,660	62,687	27
Transfers-out	<u>(415,467)</u>	<u>(422,600)</u>	<u>(422,600)</u>	<u>-</u>
Total other financing sources (uses):	<u>(346,600)</u>	<u>(359,940)</u>	<u>(359,913)</u>	<u>27</u>
Net change in fund balance	216,610	(399,632)	(301,783)	97,849
Outstanding encumbrances at year end	136,336	136,336	136,336	-
Fund balance at beginning of year	<u>551,186</u>	<u>551,186</u>	<u>551,186</u>	<u>-</u>
Fund balance at end of year	\$ <u>904,132</u>	\$ <u>287,890</u>	\$ <u>385,739</u>	\$ <u>97,849</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Fund Net Assets Proprietary Funds

December 31, 2004

	Water Fund	Sewer Fund	Business-Type Activities
Assets:			
Current assets:			
Cash and cash equivalents	\$ 735,338	\$ 1,712,274	\$ 2,447,612
Accounts receivable	176,691	284,346	461,037
Interest receivable	-	12,048	12,048
Material and supplies inventory	<u>137,876</u>	<u>20,733</u>	<u>158,609</u>
Total current assets	<u>1,049,905</u>	<u>2,029,401</u>	<u>3,079,306</u>
Noncurrent assets			
Nondepreciable capital assets	195,446	418,413	613,859
Depreciable capital assets, net	<u>4,217,398</u>	<u>15,732,115</u>	<u>19,949,513</u>
Total noncurrent assets	<u>4,412,844</u>	<u>16,150,528</u>	<u>20,563,372</u>
Total assets	<u>5,462,749</u>	<u>18,179,929</u>	<u>23,642,678</u>
Liabilities:			
Current liabilities:			
Accounts payable	8,313	170,375	178,688
Accrued wages and benefits	7,103	4,034	11,137
Intergovernmental payable	1,130	1,583	2,713
Accrued pension	17,074	9,280	26,354
OWDA loan payable	-	532,093	532,093
OPWC loan payable	12,600	-	12,600
Accrued compensated absences	<u>17,922</u>	<u>10,286</u>	<u>28,208</u>
Total current liabilities	<u>64,142</u>	<u>727,651</u>	<u>791,793</u>
Long term liabilities (net of current portion):			
OWDA loan payable	-	10,614,406	10,614,406
OPWC loan payable	30,600	-	30,600
Compensated absences payable	<u>62,475</u>	<u>33,235</u>	<u>95,710</u>
Total noncurrent liabilities	<u>93,075</u>	<u>10,647,641</u>	<u>10,740,716</u>
Total liabilities	<u>157,217</u>	<u>11,375,292</u>	<u>11,532,509</u>
Net Assets:			
Invested in capital assets, net of related debt	4,369,644	5,004,029	9,373,673
Unrestricted	<u>935,888</u>	<u>1,800,608</u>	<u>2,736,496</u>
Total net assets	<u>\$ 5,305,532</u>	<u>\$ 6,804,637</u>	<u>\$ 12,110,169</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Fund

For The Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Business-Type Activities</u>
Operating revenues:			
Charges for services	\$ 806,267	\$ 1,413,743	\$ 2,220,010
Miscellaneous income	<u>13,273</u>	<u>205,139</u>	<u>218,412</u>
Total operating revenues	<u>819,540</u>	<u>1,618,882</u>	<u>2,438,422</u>
Operating expenses:			
Personal services	400,116	560,644	960,760
Supplies and materials	48,899	62,338	111,237
Travel and education	4,178	2,984	7,162
Contractual services	36,288	120,314	156,602
Utilities	16,324	160,427	176,751
Depreciation	66,270	555,229	621,499
Capital outlay	<u>163,335</u>	<u>90,784</u>	<u>254,119</u>
Total operating expenses	<u>735,410</u>	<u>1,552,720</u>	<u>2,288,130</u>
Operating income	<u>84,130</u>	<u>66,162</u>	<u>150,292</u>
Non-operating revenues (expenses):			
Investment income	-	39,580	39,580
Interest and fiscal charges	<u>-</u>	<u>(343,164)</u>	<u>(343,164)</u>
Total non-operating revenues (expenses)	<u>-</u>	<u>(303,584)</u>	<u>(303,584)</u>
Income (loss) before operating transfers	84,130	(237,422)	(153,292)
Transfers-out	<u>(450,000)</u>	<u>(195,000)</u>	<u>(645,000)</u>
Change in net assets	(365,870)	(432,422)	(798,292)
Net assets at beginning of year, restated	<u>5,671,402</u>	<u>7,237,059</u>	<u>12,908,461</u>
Net assets at end of year	\$ <u><u>5,305,532</u></u>	\$ <u><u>6,804,637</u></u>	\$ <u><u>12,110,169</u></u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Cash Flows Proprietary Fund

For The Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Business-Type Activities</u>
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities:			
Cash received from customers	\$ 779,261	\$ 1,417,866	\$ 2,197,127
Cash payments for personal services	(411,836)	(572,634)	(984,470)
Cash payments for travel and education	(4,178)	(2,984)	(7,162)
Cash payments for contractual services	(275,043)	(307,331)	(582,374)
Other operating revenues	<u>13,273</u>	<u>205,139</u>	<u>218,412</u>
Net cash provided by operating activities	<u>101,477</u>	<u>740,056</u>	<u>841,533</u>
Cash flows from capital and related financing activities:			
Principal paid on WPCL loan	-	(516,610)	(516,610)
Interest paid on WPCL loan	-	(343,164)	(343,164)
Principal paid on OPWC loan	(12,600)	-	(12,600)
Acquisition of capital assets	<u>(187,944)</u>	<u>(344,411)</u>	<u>(532,355)</u>
Net cash used for noncapital financing	<u>(200,544)</u>	<u>(1,204,185)</u>	<u>(1,404,729)</u>
Cash flows from investing activities:			
Interest received	<u>-</u>	<u>33,918</u>	<u>33,918</u>
Cash flows from non-capital financing activities:			
Transfers in	-	760,000	760,000
Transfers out	<u>(450,000)</u>	<u>(955,000)</u>	<u>(1,405,000)</u>
Net cash used for non-capital financing activities	<u>(450,000)</u>	<u>(195,000)</u>	<u>(645,000)</u>
Net decrease in cash and cash equivalents	(549,067)	(625,211)	(1,174,278)
Cash and cash equivalents, beginning of year	<u>1,284,405</u>	<u>2,337,485</u>	<u>3,621,890</u>
Cash and cash equivalents, end of year	\$ <u><u>735,338</u></u>	\$ <u><u>1,712,274</u></u>	\$ <u><u>2,447,612</u></u>

(Continued)

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Cash Flows (continued) Proprietary Fund

For The Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Business-Type Activities</u>
Reconciliation of net income to net cash provided by operating activities:			
Operating income	\$ 84,130	\$ 66,162	\$ 150,292
Adjustments:			
Depreciation	66,270	555,229	621,499
Changes in assets/liabilities:			
(Increase)decrease in accounts receivable	(27,006)	4,123	(22,883)
(Increase)decrease in inventory	7,242	(3,650)	3,592
Increase (decrease) in accounts payable	(17,439)	130,182	112,743
Increase (decrease) in compensated absences payable	2,518	(176)	2,342
Increase in accrued pension	3,324	1,235	4,559
(Decrease) in intergovernmental payable	(1,070)	(1,408)	(2,478)
(Decrease) in accrued wages and benefits	<u>(16,492)</u>	<u>(11,641)</u>	<u>(28,133)</u>
Net cash provided by operating activities:	\$ <u>101,477</u>	\$ <u>740,056</u>	\$ <u>841,533</u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2004

	Private Purpose Trust <u>Cemetery</u>	<u>Agency</u>
Assets:		
Cash and cash equivalents	\$ 19,399	\$ 459,105
Interest receivable	17	-
Due from others	<u>-</u>	<u>3,605</u>
Total assets	<u>19,416</u>	\$ <u><u>462,710</u></u>
Liabilities:		
Accounts payable	-	\$ 382,392
Intergovernmental payable	-	20,367
Due to others	<u>-</u>	<u>59,951</u>
Total liabilities	<u>-</u>	\$ <u><u>462,710</u></u>
Net assets:		
Held in trust for cemetery	\$ <u><u>19,416</u></u>	

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

For the Year Ended December 31, 2004

	<u>Private Purpose Trust Cemetery</u>
Additions:	
Interest	\$ 82
Deductions:	
Supplies and materials	<u>219</u>
Change in net assets	(137)
Net assets at beginning of year	<u>19,553</u>
Net assets at end of year	\$ <u><u>19,416</u></u>

The accompanying notes are an integral part of these financial statements

City of Chardon, Ohio

Notes to Basic Financial Statements

December 31, 2004

Note 1: The Reporting Entity

The City of Chardon is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a council-manager form of government, was adopted April 25, 1978. Effective April 29, 2002, the Village of Chardon became a city based on the 2000 Census.

A reporting entity is comprised of the primary government, 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, departments, boards and agencies that are not legally separate from the City. For the City of Chardon, this includes police protection, parks and recreation, planning, zoning, street maintenance and repair, water and sewer utilities, municipal court and general administrative services. The City's departments include a public safety department, a public service department, a street maintenance department, a sanitation system, a parks and recreation department, a planning and zoning department, and a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The City contracts with the Chardon Volunteer Fire Department, Inc. to provide fire service and ambulance services. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process.

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 deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The Chardon Municipal Court

The City budgets and appropriates funds for the operation of the Court and is ultimately responsible for any operating deficits sustained by the Court. The City's share of the fines collected by the Court along with its share of the Court's administrative and operating costs are recorded pursuant to State law in the City's General Fund. Due to this relationship, the Court is not considered a component unit of the City but rather as part of the primary government unit itself. Monies held by the Court in a fiduciary capacity are recorded as an agency fund in the accompanying financial statements.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies

The financial statements of the City of Chardon have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. 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 activity of the internal service fund is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities 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 activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 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 function or business activity is self-financing or draws from the general revenues of the City.

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.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

B. 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: governmental, proprietary and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions 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 purposes 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 are the City's major governmental funds:

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

Capital Improvements Fund - To account for the cost of various expenditures for various capital improvements.

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds.

Water Fund - The water fund accounts for the provision of water service to the residents and commercial users located within the City.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's only trust fund is a private purpose trust which accounts for the perpetual care and maintenance of an individual family's burial plots in the City's cemetery through an endowment. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for tort claims, law library fees, unclaimed monies, construction guarantee bonds and the municipal court.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets, except for fiduciary funds. 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on 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 net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., 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 proprietary activities.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. 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; proprietary 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 a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is sixty days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 5).

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, licenses and permits, interest, grants and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also 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.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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.

E. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund level. Line item appropriations may be transferred between the accounts with the approval of the City Manager, Finance Director and respective department head. Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

A tax budget of estimated revenue and expenditures for all funds other than agency funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

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

On or about January 1 the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the Finance Director determines that revenue to be collected will be greater than or less than the prior estimates and the budget commission finds the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2003. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Annual Estimate

The Mayor, with the assistance of the Finance Director, is required by Charter to submit to Council, on or before December 1 of each fiscal year, an estimate of the revenues and expenditures of each fund of the City for the next succeeding fiscal year. The annual estimate serves as the basis for appropriations (the appropriated budget) in each fund.

Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds must be legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted by Council action. During the year, several supplemental appropriation measures were necessary. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried over for the subsequent year's expenditures and is reappropriated.

Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, except capital projects funds, Council appropriations are made to personal services, travel and education, contractual services, supplies and materials, capital outlay, other expenditures, debt principal and interest payments, and transfer accounts for each department. Capital projects funds are appropriated by department or project. The appropriations set by Council must remain fixed unless amended by Council ordinance. More detailed appropriation allocations may be made by the Finance Director as long as the allocations are within Council's appropriated amount.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Encumbrances

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except the investment trust fund, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

Investments are reported at fair value, which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

During the year, the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004.

Interest allocation is determined by the Ohio Constitution, state statutes, and local ordinances adopted under City Charter. Under these provisions, City funds required to receive interest allocations are: 1) those which receive proceeds from the sale of notes and/or bonds and 2) those which receive distributions of state gasoline tax and motor vehicle licenses fees (street maintenance and state highway special revenue funds). All remaining interest is allocated to the general fund. Legally, proprietary funds generally do not receive interest.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

G. Inventory

Inventories are stated at cost, on the first-in, first-out basis. At December 31, 2004, the General Fund and the Enterprise Fund maintained the only significant inventory. The costs of governmental fund type inventories are recorded as expenditures in the fund when purchased. The reserve for inventory indicates that a portion of the fund balance is not available for future expenditures. For proprietary funds, inventory is expended when consumed.

H. Capitalization of Interest

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the 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 utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. 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 not. Interest incurred during the construction of capital assets is also capitalized.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

J. Capital Assets

All capital assets are depreciated except for land and construction in progress. 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 replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	45 years
Machinery and equipment	10 to 15 years
Vehicles	6 years
Infrastructure	65 to 100 years

For 2004, the City's infrastructure consists of streets. In addition, the City has recorded construction in progress for City streets, sidewalks, storm sewer, traffic signal, sewer lines, and water main projects initiated in 2004. Generally accepted accounting principles requires the City to capitalize all acquisitions of general infrastructure assets for fiscal years beginning after June 15, 2002. The City has reported such acquisitions in accordance with the reporting standards for 2003 and 2004. The City intends to report general infrastructure assets in accordance with the *Phase 2 Government Infrastructure Transition Option* described in generally accepted accounting principles. That Option provides that the City must retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006.

K. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

L. Compensated Absences

In conformity with GASB Statement No. 16, the City accrues vacation and compensatory time benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Likewise, the City accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the pay rates in effect at fiscal year end December 31, 2004. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

The entire compensated absence liability is reported on the government-wide financial statements.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

L. Compensated Absences (continued)

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary 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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

N. Fund Balance Reserves

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. Fund balance reserves have been established for encumbrances and inventories.

O. 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 borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, golf course, and fitness center programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

Q. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

S. Estimates

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

Note 3: Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – All Governmental Fund Types and the Statement of Revenues, Expenses, and Changes in Fund Balance – Budget and Actual – All Proprietary Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are identified as follows:

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 3: Budgetary Basis of Accounting (continued)

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental Funds, and note disclosure for Proprietary Funds (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	<u>Net Change in Fund Balance</u>	<u>General</u>
GAAP basis		\$ (82,675)
Increase (decrease) due to:		
Revenue accruals		15,494
Expenditure accruals		(98,266)
Outstanding encumbrances		<u>(136,336)</u>
Budget basis		\$ <u><u>(301,783)</u></u>

Note 4: Deposits and Investments

The City's Charter specifies that investments of the City will adhere to State statutes. Under these statutes, the Finance Director is responsible for selecting depositories and investing funds. The City, by statute, is to limit deposits and investments of City funds to insured demand deposit accounts, certificates of deposit, United States treasury bills, or obligations of other United States governmental agencies for which the principal and interest is guaranteed by the United States government, and repurchase agreements.

Protection of City cash and investments is provided by the various federal deposit insurance corporations as well as qualified securities pledged by the institutions holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The face value of the pooled collateral must equal at least 110% of public funds deposited. At least quarterly the City determines that the collateral has a market value adequate to cover the deposits. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 4: Deposits and Investments (continued)

At year end, the carrying amount of the City's deposits was \$111,580 and the bank balance was \$568,775. Of the bank balance:

1. \$100,000 was covered by the federal depository insurance, by collateral held by the City or by collateral held by a qualified third party trustee in the name of the City.
2. \$468,775 was uninsured and uncollateralized as defined by the GASB because the collateral pledged by the financial institutions or their trust departments or agents is not in the City's name.

The City's investments are detailed below and are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are categorized as either (1) insured or registered for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

<u>Description</u>	<u>Risk Category 2</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
State treasurer's investment pool (STAROhio) *	\$ -	\$ 975,242	\$ 975,242
U.S. government securities	<u>3,964,376</u>	<u>3,964,376</u>	<u>3,964,376</u>
	\$ <u>3,964,376</u>	\$ <u>4,939,618</u>	\$ <u>4,939,618</u>

* Noncategorized

STAROhio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 4: Deposits and Investments (continued)

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 5,051,198	\$ -
Investments:		
U.S. Governmental Securities	(3,964,376)	3,964,376
STAROhio	<u>(975,242)</u>	<u>975,242</u>
GASB Statement No. 3	\$ <u>111,580</u>	\$ <u>4,939,618</u>

Note 5: Receivables

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the state statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable the following June 20.

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

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

The County treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Chardon. The County Auditor periodically remits to the City its portion of the taxes collected.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Receivables(continued)

A. Property Taxes (continued)

The full tax rate for all City operations for the year ended December 31, 2004, was \$11.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Category	<u>Assessed Value</u>
Real estate	\$ 130,575,570
Public utility	3,905,430
Tangible personal	<u>19,478,310</u>
Total	\$ <u>153,959,310</u>

B. Income Taxes

The City levies a 1 percent income tax on substantially all earned income within the City as well as on income of residents that is earned outside the City. Employers within the City are required to withhold income tax on employees' compensation and remit the tax to the City's agent, Central Collection Agency (CCA), either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax liability quarterly and file a final return annually. All income tax proceeds are recorded in the General Fund.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Governmental activities:

Local government and local government	
Revenue assistance	\$ 85,535
Gasoline and excise tax	116,167
Motor vehicle license fees	<u>44,214</u>
	\$ <u>245,916</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Capital Assets

Capital asset activity for government the year ended December 31, 2004, was as follows:

	Restated Balances <u>12/31/03</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>12/31/04</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 955,931	\$ 151,400	\$ -	\$ 1,107,331
Construction progress	<u>1,789,926</u>	<u>260,907</u>	<u>-</u>	<u>2,050,833</u>
Total Nondepreciable assets	<u>2,745,857</u>	<u>412,307</u>	<u>-</u>	<u>3,158,164</u>
Capital assets being depreciated:				
Land improvements	550,740	-	-	550,740
Buildings	8,540,744	-	-	8,540,744
Machinery and equipment	113,014	13,194	-	126,208
Vehicles	1,348,755	50,765	(41,970)	1,357,550
Infrastructure:				
Streets	<u>-</u>	<u>55,612</u>	<u>-</u>	<u>55,612</u>
Total capital assets being depreciated	<u>10,553,253</u>	<u>119,571</u>	<u>(41,970)</u>	<u>10,630,854</u>
Less accumulated depreciation:				
Land improvements	(288,756)	(21,603)	-	(310,359)
Buildings	(1,260,789)	(168,520)	-	(1,429,309)
Machinery and equipment	(36,353)	(11,560)	-	(47,913)
Vehicles	(675,240)	(193,380)	41,970	(826,650)
Infrastructure:				
Streets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(2,261,138)</u>	<u>(395,063)</u>	<u>41,970</u>	<u>(2,614,231)</u>
Net capital assets being depreciated	<u>8,292,115</u>	<u>(275,492)</u>	<u>-</u>	<u>8,016,623</u>
Governmental activities capital assets, net	\$ <u>11,037,972</u>	\$ <u>136,815</u>	\$ <u>-</u>	\$ <u>11,174,787</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Capital Assets (continued)

	Restated Balances <u>12/31/03</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>12/31/04</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 81,504	\$ 170,293	\$ -	\$ 251,797
Construction progress	<u>-</u>	<u>362,062</u>	<u>-</u>	<u>362,062</u>
Total nondepreciable assets	<u>81,504</u>	<u>532,355</u>	<u>-</u>	<u>613,859</u>
Capital assets being depreciated:				
Land improvements	109,022	-	-	109,022
Buildings	10,198,778	-	-	10,198,778
Machinery and equipment	4,038,206	-	-	4,038,206
Vehicles	294,387	-	-	294,387
Infrastructure:				
Water lines	5,318,715	-	-	5,318,715
Sewer lines	<u>6,773,731</u>	<u>-</u>	<u>-</u>	<u>6,773,731</u>
Total capital assets being depreciated	<u>26,732,839</u>	<u>-</u>	<u>-</u>	<u>26,732,839</u>
Less accumulated depreciation:				
Land improvements	(82,832)	(5,452)	-	(88,284)
Buildings	(1,494,309)	(203,845)	-	(1,698,154)
Machinery and equipment	(1,590,524)	(271,939)	-	(1,862,463)
Vehicles	(257,217)	(19,339)	-	(276,556)
Infrastructure:				
Water lines	(1,084,412)	(53,187)	-	(1,137,599)
Sewer lines	<u>(1,652,533)</u>	<u>(67,737)</u>	<u>-</u>	<u>(1,720,270)</u>
Total accumulated depreciation	<u>(6,161,827)</u>	<u>(621,499)</u>	<u>-</u>	<u>(6,783,326)</u>
Net capital assets being depreciated	<u>20,571,012</u>	<u>(621,499)</u>	<u>-</u>	<u>19,949,513</u>
Total business-type activities capital assets, net	\$ <u>20,652,516</u>	\$ <u>(89,144)</u>	\$ <u>-</u>	\$ <u>20,563,372</u>

Depreciation expense was charged to governmental activities as follows:

Community development	\$ 1,838
General government	188,225
Leisure time activities	16,436
Security of persons and property	161,201
Transportation	<u>27,363</u>
	\$ <u>395,063</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 7: Note Debt

Note debt activity for the year ended December 31, 2004 consisted of the following:

	<u>Balance</u> <u>12/31/03</u>	<u>Issued</u> <u>(Retired)</u>	<u>Balance</u> <u>12/31/04</u>
1.76% 2003 Building improvements and renovations, maturing 2/19/04	\$ 1,000,000	\$ (1,000,000)	\$ -
1.80% 2004 Building improvements and renovations, maturing 2/19/05	-	1,000,000	1,000,000
1.30% 2003 Building improvements - fire station, maturing 2/19/04	750,000	(750,000)	-
1.35% 2003 Building improvements - fire station, maturing 2/19/05	-	600,000	600,000
	<u>\$ 1,750,000</u>	<u>\$ (150,000)</u>	<u>\$ 1,600,000</u>

Note 8: Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2004 was as follows:

	<u>Balance</u> <u>12/31/03</u>	<u>Issued</u> <u>(Retired)</u>	<u>Balance</u> <u>12/31/04</u>	<u>Due in</u> <u>One</u> <u>Year</u>
<i>Governmental activities:</i>				
General obligation bonds:				
4.10% 1995 Municipal building improvements, maturing 2015	\$ <u>1,825,000</u>	\$ <u>(110,000)</u>	\$ <u>1,715,000</u>	\$ <u>115,000</u>
Other long-term obligations:				
0% Ohio Public Works Commission				
Park Avenue reconstruction	462,500	(25,000)	437,500	25,000
Capital lease payable	453,881	(69,630)	384,251	71,933
Accrued compensated absences	<u>193,860</u>	<u>140,910</u>	<u>334,770</u>	<u>118,088</u>
Total other long-term obligations	<u>1,110,241</u>	<u>46,280</u>	<u>1,156,521</u>	<u>215,021</u>
Total governmental long-term liabilities	<u>\$ 2,935,241</u>	<u>\$ (63,720)</u>	<u>\$ 2,871,521</u>	<u>\$ 330,021</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 8: Long-Term Obligations (continued)

	<u>Balance</u> <u>12/31/03</u>	<u>Issued</u> <u>(Retired)</u>	<u>Balance</u> <u>12/31/04</u>	<u>Due in</u> <u>One</u> <u>Year</u>
<i>Business-type activities:</i>				
General obligation bonds:				
2.975% Ohio Water Development Authority	\$ 11,663,109	\$ (516,610)	\$ 11,146,499	\$ 532,093
0% Ohio Public Works Commission				
Issue II loans	<u>55,800</u>	<u>(12,600)</u>	<u>43,200</u>	<u>12,600</u>
Total general obligation bonds	<u>11,718,909</u>	<u>(529,210)</u>	<u>11,189,699</u>	<u>544,693</u>
Other long-term obligations:				
Accrued compensated absences	<u>121,576</u>	<u>2,342</u>	<u>123,918</u>	<u>28,208</u>
Total business-type long-term obligations	\$ <u>11,840,485</u>	\$ <u>(526,868)</u>	\$ <u>11,313,617</u>	\$ <u>572,901</u>

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2004 were as follows:

Year	<u>Governmental Activities</u>				
	<u>General Obligation Bonds</u>		<u>OPWC Loans</u>	<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 115,000	\$ 98,550	\$ 25,000	\$ 140,000	\$ 98,550
2006	125,000	92,800	25,000	150,000	92,800
2007	130,000	85,550	25,000	155,000	85,550
2008	135,000	78,010	25,000	160,000	78,010
2009	145,000	70,180	25,000	170,000	70,180
2010-2014	860,000	214,020	125,000	985,000	214,020
2015-2019	205,000	11,890	125,000	330,000	11,890
2020-2022	<u>-</u>	<u>-</u>	<u>62,500</u>	<u>62,500</u>	<u>-</u>
	\$ <u>1,715,000</u>	\$ <u>651,000</u>	\$ <u>437,500</u>	\$ <u>2,152,500</u>	\$ <u>651,000</u>

Year	<u>Business-Type Activities</u>				
	<u>OWDA Loan</u>		<u>OPWC Loans</u>	<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 532,093	\$ 327,680	\$ 12,600	\$ 544,693	\$ 327,680
2006	548,041	311,733	12,600	560,641	311,733
2007	564,466	295,307	7,600	572,066	295,307
2008	581,384	278,389	2,600	583,984	278,389
2009	598,809	260,965	2,600	601,409	260,965
2010-2014	3,274,255	1,024,613	5,200	3,279,455	1,024,613
2015-2019	3,795,228	503,640	-	3,795,228	503,640
2020-2022	<u>1,252,223</u>	<u>31,136</u>	<u>-</u>	<u>1,252,223</u>	<u>31,136</u>
	\$ <u>11,146,499</u>	\$ <u>3,033,463</u>	\$ <u>43,200</u>	\$ <u>11,189,699</u>	\$ <u>3,033,463</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 8: Long-Term Obligations (continued)

The Ohio Public Works Commission (“OPWC”) 2002 Park Avenue Reconstruction Loan relates to construction on City streets. OPWC has authorized up to \$500,000 in loans to the City for this project. The loan will be repaid in semiannual installments of \$12,500 over 20 years, ending in 2022.

The 2002 Ohio Water Development Authority (“OWDA”) loan relates to a wastewater treatment plant expansion and upgrade project. The upgrade portion of the project was mandated by the Ohio Environmental Protection Agency. The OWDA has approved up to \$13,500,000 in loans to the City for this project. The City has agreed to set utility rates and fees sufficient to cover OWDA debt service requirements. Approximately two-thirds of the revenue will be generated through a system development charge to all of the new developments in an effort to fund the expansion portion of the project. The remaining one-third of the revenue will be generated by a surcharge to the existing users that will be used for the upgrade portion of the project.

The Ohio Public Works Commission Issue II Loans relate to water main replacements for South Hambden and Wilson Mills streets. The 1997 South Hambden street loan will be repaid in semiannual installments of \$5,000 over 10 years, ending in 2007. The 1992 Wilson Mills street loan will be repaid in semiannual installments of \$1,300 over 20 years, ending in 2012.

Principal and interest payments on General Obligation Notes and General Obligation Bonds are paid out of the Debt Service Fund.

Note 9: Capital Leases

The City has entered into a lease agreement as lessee for financing which relates to a fire truck. This lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of its future minimum lease payments as of inception date.

	<u>Governmental Activities</u>
Assets:	
Vehicles	\$ 525,000
Less: Accumulated Depreciation	<u>(192,500)</u>
Total	<u>\$ 332,500</u>

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 9: Capital Leases (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments.

Year	Governmental Activities
2005	\$ 83,951
2006	83,951
2007	83,951
2008	83,951
2009	<u>83,951</u>
Total minimum lease payments	419,755
Less: Amount representing interest	<u>35,504</u>
Present value of minimum lease payments	\$ <u><u>384,251</u></u>

Lease payments are made from the Fire and Ambulance Operating Levy Fund.. The lease payment amount will be paid with current, available resources that have accumulated in the fund for payment early in the following year.

Note 10: Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Employees are encouraged to use their vacation leave within one year from their anniversary date, but are entitled to carryover eighty hours into the next year. Employees are also entitled to a cash payment for any unused vacation leave, limited to 1/2 of the total leave earned during that year. Accordingly, all accrued vacation pay is considered to be a current liability. City employees are paid for earned, unused vacation leave at the time of the termination of their employment.

Full-time employees earn 10 hours of sick leave a month. Part-time employees do not earn sick leave, but are entitled to all of the hours earned from their start date if they do become full-time employees. Employees hired prior to July 21, 1983 with over 10 years of service and eligible to retire are entitled to 1/3 of their accumulated unused sick hours up to 960 hours. Employees hired subsequent to July 21, 1983 with over 10 years of service and eligible to retire are entitled to 1/4 of their accumulated unused sick hours up to 400 hours. Individuals leaving the employment of the City prior to meeting these eligibility requirements lose their accumulated sick leave.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 11: Pension Plans

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, contribute to the Ohio Public Employees Retirement System ("OPERS"). OPERS administers three separate pension plans as described below:

- The traditional pension plan (TP) – a cost sharing multiple-employer defined benefit pension plan.
- The member-directed plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The combined plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the combined plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the traditional plan benefit. Member contributions, the investment of which is self-directed by the members, 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 state statute per Chapter 145 of the Ohio Revised Code. OPERS issue a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the traditional plan. City employees are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2004 employer contribution rate for the City was 13.55 percent of covered payroll. The City's contributions to the OPERS for the years ended December 31, 2004, 2003 and 2002 were \$239,042, \$230,935, and \$228,613, respectively, equal to the required contributions for each year. Contributions to the member-directed plan for 2004 were \$729 made by the City and \$458 made by the plan members.

B. Ohio Police And Fire Pension Fund

The City of Chardon contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan administered by the OP&F's Board of Trustees. 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 11: Pension Plans (continued)

B. Ohio Police And Fire Pension Fund (continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers. The City of Chardon's contributions to OP&F for the years ending December 31, 2004, 2003 and 2002 were \$105,509, \$111,626, and \$105,374, respectively, equal to the required contributions for each year.

Note 12: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care for the year. During 2004, the City's portion that was used to fund health care was \$49,112, representing 5.00 percent of covered payroll.

The postretirement health care coverage is advance-funded on an actuarially determined basis. The following assumptions and calculations were based on OPERS's latest actuarial review performed as of December 31, 2003; an entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities; the difference between assumed and actual experience is part of the unfunded actuarial accrued liability; the investment assumption rate for 2003 was 8.00 percent; all investments are carried at market value; for actuarial valuation purposes, a smoothed market approach is used – meaning that assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets; individual pay increases are assumed to increase 4.00 percent compounded annually, with no change in the number of active employees; annual pay increases over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.3 percent; and health care costs are assumed to increase 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years. The actuarially accrued postretirement health care liability for OPERS at December 31, 2002 was \$26.9 Billion. The net assets were \$10.5 Billion, leaving an unfunded actuarial accrued liability of \$16.4 Billion. The number of active participants was 369,885.

B. Ohio Police and Fire Pension Fund

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

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 12: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll. The Ohio Revised Code provides the statutory authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75 percent of covered payroll in 2003 and 2004, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2003, the date of the last actuarial valuation available, was 13,662 for police. The City's actual contributions for 2004 that were used to fund post-employment benefits were \$41,887 for police. OP&F's total health care expenses for the year ending December 31, 2003, the date of the last actuarial valuation available, was \$150,853,148, which was net of member contributions of \$17,207,506.

Note 13: Risk Management

The City maintains comprehensive insurance coverage with private insurance carriers for real property, building contents, vehicle and general liability insurance, and police professional liability insurance.

The City continues to carry health insurance through a private carrier.

There were no reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three fiscal years.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 14: Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfer In	Transfer Out				Total
	General Fund	Nonmajor Governmental Funds	Sewer Fund	Water Fund	
General Fund	\$ -	\$ 18,060	\$ -	\$ -	\$ 18,060
Capital Improvements Fund	-	177,350	195,000	450,000	822,350
Nonmajor Governmental Funds	<u>422,600</u>	<u>119,750</u>	<u>-</u>	<u>-</u>	<u>542,350</u>
	\$ <u>422,600</u>	\$ <u>315,160</u>	\$ <u>195,000</u>	\$ <u>450,000</u>	\$ <u>1,382,760</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

Note 15: Contingencies/Pending Litigation

The City is a party to various legal proceedings. The City's management is of the opinion that the ultimate outcome of such litigation will not have a material adverse effect on the City's financial position.

Note 16: Accountability and Compliance

A. Accountability

The following funds had deficit fund balances as of December 31, 2004:

<u>Fund Name</u>	<u>Amount of Deficit</u>
Police Pension Fund	\$ 15,116

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 17: Change in Accounting Principle and Restatement of Prior Year Fund Balances

A. *Changes in Accounting Principles*

For 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements", and GASB Technical Bulletin 2004-2, "Recognition of Pension and other Postemployment Benefit Expenditures/Expense and Liability by Cost-Sharing Employers."

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

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by the proper recording of accrued compensated absences due to conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditures expense and as liability each period by employers participating in a cost-sharing multiple – employer pension and other postemployment benefit (OPEB) plans.

The City has also implemented a new capital asset policy increasing the capitalization threshold for capital assets from \$500 to \$5,000.

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 17: Change in Accounting Principle and Restatement of Prior Year Fund Balances (continued)

A. Changes in Accounting Principles (continued)

	<u>General Fund</u>	<u>Capital Improvements Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance, December 31, 2003	\$ 617,051	\$ (1,705,576)	\$ 936,036	\$ (152,489)
Reclassification adjustments:				
Properly record accrued compensated absences	<u>138,880</u>	<u>-</u>	<u>997</u>	<u>139,877</u>
Fund balance, December 31, 2003, Restated	\$ <u>755,931</u>	\$ <u>(1,705,576)</u>	\$ <u>937,033</u>	(12,612)
GASB 34 Adjustments:				
Capital assets				11,037,972
Long-term liabilities				(2,935,241)
Long-term (deferred) assets				523,589
Accrued interest payable				<u>(8,662)</u>
Governmental Activities Net Assets, December 21, 2003				\$ <u>8,605,046</u>

Restatement of capital assets had the following effect on business-type assets at December 31, 2003:

	<u>Water</u>	<u>Sewer</u>	<u>Total Business-Type Activities</u>
Fund Balance, December 31, 2003	\$ 1,706,300	\$ 5,885,709	\$ 7,592,009
Reclassification adjustments:			
Capital Assets	<u>3,965,102</u>	<u>1,351,350</u>	<u>5,316,452</u>
Business-Type Activities Net Assets, December 21, 2003	\$ <u>5,671,402</u>	\$ <u>7,237,059</u>	\$ <u>12,908,461</u>

One of the changes in the business-type capital assets was the recording of water and sewer lines in the appropriate funds. The other change was to correct the construction in progress balance to actual.

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and
Members of Council of the
City of Chardon, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chardon, Ohio (the "City") as of and for the years ended December 31, 2005 and 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2006, wherein we noted the City adapted Governmental Accounting Standards Board Statements No. 34, 37, 38, 40, 42, Interpretation No. 6 and Technical Bulletin 2004-2. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the City in a separate letter dated October 25, 2006.

Honorable Mayor and
Members of Council of the
City of Chardon, Ohio

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

Cuni & Panichi, Inc.

Cleveland, Ohio
October 25, 2006



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Betty Montgomery**

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CITY OF CHARDON

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
DECEMBER 5, 2006**