

# **City of Chardon, Ohio**

**Basic Financial Statements**

**December 31, 2006**





# Mary Taylor, CPA

Auditor of State

Members of 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, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

July 19, 2007

**This Page is Intentionally Left Blank.**

# City of Chardon, Ohio

For the Year Ended December 31, 2006

<b>Table of Contents</b>	<b>Page</b>
Independent Auditors' Report.....	1
Management Discussion and Analysis .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities .....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	18
Reconciliation of The Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual – General Fund .....	20
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual – Street Construction Maintenance and Repair Fund.....	21
Statement of Fund Net Assets – Proprietary Funds.....	22
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds .....	23
Statement of Cash Flows – Proprietary Funds .....	24
Statement of Fiduciary Net Assets – Fiduciary Funds .....	26
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	27
Notes to Basic Financial Statements.....	28
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....	58

## Independent Auditors' Report

Honorable Mayor and Members  
of the Legislative Body  
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 City of Chardon, Ohio, as of and for the year ended December 31, 2006, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chardon, Ohio, as of December 31, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Street, Construction, Maintenance and Repair Funds 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, 2006 the City implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2007, 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.

Honorable Mayor and Members  
of the Legislative Body  
Chardon, Ohio

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

*Cini & Parichi, Inc.*

Cleveland, Ohio  
June 27, 2007

# City of Chardon, Ohio

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

### For The Year Ended December 31, 2006

---

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, 2006. 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 2006 are as follows:

- ◆ The assets of the City of Chardon exceeded its liabilities at the close of the most recent fiscal year by \$28,804,146. Of this amount, \$7,836,817 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$5,841,571, which represents an increase of approximately 14 percent over 2005. The biggest changes were an increase in cash of \$1,558,767, and an increase in capital assets of \$3,822,573.
- ◆ Total liabilities increased by \$3,029,680, which represents an increase of 18 percent over 2005. The main factor contributing to this increase was the issuance of an OWDA loan for the Eastside Sanitary Trunk Sewer improvement projects for approximately \$2.9 million.
- ◆ In total, net assets of the City increased by \$2,811,891 during 2006. This represents an 11% percent increase from 2005.

#### 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, 2006**

---

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 32 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, 2006

---

#### *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 22 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 28 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, 2006

Table 1 provides a summary of the City's net assets for 2006 as compared to 2005.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and other assets	\$ 8,329,639	\$ 6,033,513	\$ 2,514,004	\$ 2,791,132	\$ 10,843,643	\$ 8,824,645
Capital assets, net	<u>13,681,786</u>	<u>12,780,913</u>	<u>24,076,424</u>	<u>21,154,724</u>	<u>37,758,210</u>	<u>33,935,637</u>
<i>Total assets</i>	<u>22,011,425</u>	<u>18,814,426</u>	<u>26,590,428</u>	<u>23,945,856</u>	<u>48,601,853</u>	<u>42,760,282</u>
<b>Liabilities</b>						
Current liabilities	3,083,885	1,614,300	119,646	78,775	3,203,531	1,693,075
Long-term liabilities						
Due within one year	375,595	365,568	607,429	594,326	983,024	959,894
Due in more than one year	<u>3,028,533</u>	<u>3,915,250</u>	<u>12,582,619</u>	<u>10,199,808</u>	<u>15,611,152</u>	<u>14,115,058</u>
<i>Total liabilities</i>	<u>6,488,013</u>	<u>5,895,118</u>	<u>13,309,694</u>	<u>10,872,909</u>	<u>19,797,707</u>	<u>16,768,027</u>
<b>Net assets</b>						
Invested in capital assets,						
Net of related debt	9,921,798	7,293,131	11,045,531	10,509,718	20,967,329	17,802,849
Restricted for:						
Debt service	809	53,876	-	-	809	53,876
Other purposes	588,265	702,161	-	-	588,265	702,161
Unrestricted	<u>5,012,540</u>	<u>4,870,140</u>	<u>2,235,203</u>	<u>2,563,229</u>	<u>7,247,743</u>	<u>7,433,369</u>
<i>Total net assets</i>	\$ <u>15,523,412</u>	\$ <u>12,919,308</u>	\$ <u>13,280,734</u>	\$ <u>13,072,947</u>	\$ <u>28,804,146</u>	\$ <u>25,992,255</u>

Net assets may serve over time as a useful indicator of a government's financial position. For the City of Chardon, total assets exceeded total liabilities by \$28,804,146 as of December 31, 2006. At the end of the current year, the City of Chardon is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

The largest portion of the City's net assets (73 percent) reflects the investments in capital assets less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets for 2006 increased \$5,841,571 or 14 percent when compared to 2005. The increase in total assets was mainly due to an increase in capital assets of \$3,822,573 due to the addition of City wide street improvements and new development. Cash also increased by \$1,558,767.

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, 2006

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 2 percent in 2006. 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, Table 2 provides further details regarding the results of activities for the current year.

Table 2  
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Program revenues</b>						
Charges for services	\$ 2,071,194	\$ 2,091,638	\$ 2,184,609	\$ 2,538,938	\$ 4,255,803	\$ 4,630,576
Operating grants and contributions	41,242	13,926	-	-	41,242	13,926
Capital grants and contributions	-	-	325,519	741,671	325,519	741,671
Total program revenues	2,112,436	2,105,564	2,510,128	3,280,609	4,622,564	5,386,173
<b>General revenues</b>						
Property taxes	1,417,676	1,283,179	-	-	1,417,676	1,283,179
Income taxes	5,153,117	4,890,872	-	-	5,153,117	4,890,872
Grants and entitlements	654,632	2,326,310	-	-	654,632	2,326,310
Investment earnings	246,638	117,029	43,722	63,592	290,360	180,621
Miscellaneous	291,126	202,642	-	21,670	291,126	378,091
Total revenues	9,875,625	10,925,596	2,553,850	3,519,650	12,429,475	14,445,246
<b>Program expenses</b>						
General government	3,614,079	4,220,597	-	-	3,614,079	4,220,597
Security of persons and property	1,686,424	1,594,021	-	-	1,686,424	1,594,021
Public health services	82,408	57,589	-	-	82,408	57,589
Leisure time activities	248,331	204,539	-	-	248,331	204,539
Community environment	284,737	220,273	-	-	284,737	220,273
Basic utility service	79,485	18,640	-	-	79,485	18,640
Transportation	954,874	962,758	-	-	954,874	962,758
Interest and fiscal charges	106,183	210,707	-	-	106,183	210,707
Sewer	-	-	1,841,501	1,775,757	1,841,501	1,775,757
Water	-	-	719,562	781,114	719,562	781,114
Total program expenses	7,056,521	7,489,124	2,561,063	2,556,871	9,617,584	10,045,995
Excess before transfers and contributions	2,819,104	3,436,472	(7,213)	962,779	2,811,891	4,399,251
<b>Transfers</b>	(215,000)	-	215,000	-	-	-
Change in net assets	\$ 2,604,104	\$ 3,436,472	\$ 207,787	\$ 962,779	\$ 2,811,891	\$ 4,399,251

# City of Chardon, Ohio

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

### **For The Year Ended December 31, 2006**

---

#### *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 2006 the revenues generated from this tax amounted to \$5,153,117. The increase in revenues from 2005 was 5 percent, resulting from an improved economy and the first full year of collection at the two percent 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 75 percent of the governmental expenses. Currently, there are 10 full-time sworn officers in the police department. During 2006, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology.

Total governmental expenses decreased \$432,603 from 2005. The decrease is mainly due to approximately \$100,000 reduction in salt purchases for 2006 due to the mild winter. Despite increases in operating expenses such as wages, benefits, fuel and utilities, controllable program expenses were efficiently utilized to offset such increases where possible.

#### *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 \$207,787.

Program expense exceeded program revenue in the amount of \$355,928 for the sewer operations for 2006. 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 \$304,993 for the Water Fund operations for 2006. This is due to receipt of a Federal Appropriation administered by the U.S. Army Corp of Engineers for construction of a Water Treatment Facility.

### **The City's Funds**

#### *Governmental Funds*

Information about the City's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$11,811,388 and expenditures and other financing uses of \$11,190,059. The net change in fund balance for the year was most significant in the General Fund showing an increase in fund balance of \$1,097,493. The Capital Improvement Capital Projects Fund reflected a decrease of \$537,260. 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, 2006

---

#### *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 \$957,700 over the original budget estimates of \$6,486,750. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The final appropriations, including other financing uses, of \$7,577,625 were sufficient to meet the expenditures for the year, including other financing uses, which ended up at \$6,998,478.

The City's ending un-obligated budgetary fund balance was \$628,746 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 22 through 25 of this report.

# City of Chardon, Ohio

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

### For The Year Ended December 31, 2006

#### Capital Assets and Debt Administration

##### Capital Assets

At the end of fiscal 2006, the City of Chardon had \$37,758,210 invested in land, buildings, equipment and infrastructure.

Table 3 shows fiscal 2006 balances of Capital Assets as compared to 2005:

Table 3  
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land and land improvements	\$ 1,663,725	\$ 1,658,071	\$ 360,819	\$ 360,819	\$ 2,024,544	\$ 2,018,890
Buildings	8,554,113	8,540,744	10,321,086	10,321,086	18,875,199	18,861,830
Machinery and equipment	308,099	199,125	4,038,206	4,038,206	4,346,305	4,237,331
Vehicles	1,373,576	1,339,168	296,560	294,387	1,670,136	1,633,555
Infrastructure:						
Traffic lights	1,176,660	1,176,660	-	-	1,176,660	1,176,660
Streets and storm sewers	978,947	55,612	-	-	978,947	55,612
Water lines	-	-	6,081,355	5,318,715	6,081,355	5,318,715
Sewer lines	-	-	7,218,567	7,218,567	7,218,567	7,218,567
Construction in progress	2,948,156	2,784,156	3,577,768	952,556	6,525,924	3,736,712
Less: accumulated depreciation	<u>(3,321,490)</u>	<u>(2,972,623)</u>	<u>(7,817,937)</u>	<u>(7,349,612)</u>	<u>(11,139,427)</u>	<u>(10,322,235)</u>
Total capital assets	\$ <u>13,681,786</u>	\$ <u>12,780,913</u>	\$ <u>24,076,424</u>	\$ <u>21,154,724</u>	\$ <u>37,758,210</u>	\$ <u>33,935,637</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 governmental activities increased \$900,873 mainly due to street and storm sewer additions. This increase was offset by an increase in accumulated depreciation of approximately \$350,000. Capital assets for business-type activities increased by \$2,921,700 mainly due to the City's additions to sewer lines and construction in progress (Eastside Sanitary Sewer project).

# City of Chardon, Ohio

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

### For The Year Ended December 31, 2006

---

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, 2006, the City of Chardon had \$16,594,176 in outstanding debt and compensated absences, of which \$1,545,000 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 1,545,000	\$ 1,695,000	\$ -	\$ -	\$ 1,545,000	\$ 1,695,000
Long-term notes payable	-	1,200,000	-	-	-	1,200,000
OPWC loans	1,176,981	680,465	18,000	30,600	1,194,981	711,065
OWDA loan	-	-	13,012,893	10,614,406	13,012,893	10,614,406
Capital lease	238,007	312,318	-	-	238,007	312,318
Compensated absences	<u>444,140</u>	<u>393,035</u>	<u>159,155</u>	<u>149,128</u>	<u>603,295</u>	<u>542,163</u>
Total	\$ <u>3,404,128</u>	\$ <u>4,280,818</u>	\$ <u>13,190,048</u>	\$ <u>10,794,134</u>	\$ <u>16,594,176</u>	\$ <u>15,074,952</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](http://www.chardon.cc).



# City of Chardon, Ohio

## Statement of Net Assets

**December 31, 2006**

	Governmental Activities	Business - Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 4,705,281	\$ 1,636,510	\$ 6,341,791
Accounts receivable	124,379	599,675	724,054
Interest receivable	44,190	11,062	55,252
Intergovernmental receivable	727,974	74,561	802,535
Materials and supplies inventory	177,199	192,196	369,395
Taxes receivable	2,550,616	-	2,550,616
Non-depreciable capital assets	4,055,487	3,829,565	7,885,052
Depreciable capital assets, net	<u>9,626,299</u>	<u>20,246,859</u>	<u>29,873,158</u>
 Total assets	 <u>22,011,425</u>	 <u>26,590,428</u>	 <u>48,601,853</u>
<b>Liabilities:</b>			
Accounts payable	848,671	72,528	921,199
Accrued wages and benefits	47,365	17,602	64,967
Intergovernmental payable	14,262	5,300	19,562
Notes payable	800,000	-	800,000
Deferred revenue	1,233,651	-	1,233,651
Accrued interest payable	38,593	-	38,593
Accrued pension	101,343	24,216	125,559
Long term liabilities:			
Due within one year	375,595	607,429	983,024
Due in more than one year	<u>3,028,533</u>	<u>12,582,619</u>	<u>15,611,152</u>
 Total liabilities	 <u>6,488,013</u>	 <u>13,309,694</u>	 <u>19,797,707</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	9,921,798	11,045,531	20,967,329
Restricted for:			
Debt service	809	-	809
Other purposes	588,265	-	588,265
Unrestricted	<u>5,012,540</u>	<u>2,235,203</u>	<u>7,247,743</u>
 Total net assets	 <u>\$ 15,523,412</u>	 <u>\$ 13,280,734</u>	 <u>\$ 28,804,146</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, 2006**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Government activities:				
General government	\$ 3,614,079	\$ 1,129,854	\$ 9,537	\$ 28,749
Security of persons and property	1,686,424	618,701	2,795	-
Public health and welfare	82,408	-	-	-
Leisure time activities	248,331	114,376	161	-
Community environment	284,737	205,683	-	-
Basic utility services	79,485	-	-	-
Transportation	954,874	2,580	-	-
Interest	106,183	-	-	-
Total governmental activities	<u>7,056,521</u>	<u>2,071,194</u>	<u>12,493</u>	<u>28,749</u>
Business-type activities:				
Water	719,562	739,661	-	284,894
Sewer	1,841,501	1,444,948	-	40,625
Total business type activities	<u>2,561,063</u>	<u>2,184,609</u>	<u>-</u>	<u>325,519</u>
Total	\$ <u>9,617,584</u>	\$ <u>4,255,803</u>	\$ <u>12,493</u>	\$ <u>354,268</u>

General revenues:

Property and other local 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

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>	
\$ (2,445,939)	\$ -	\$ (2,445,939)
(1,064,928)	-	(1,064,928)
(82,408)	-	(82,408)
(133,794)	-	(133,794)
(79,054)	-	(79,054)
(79,485)	-	(79,485)
(952,294)	-	(952,294)
<u>(106,183)</u>	<u>-</u>	<u>(106,183)</u>
<u>(4,944,085)</u>	<u>-</u>	<u>(4,944,085)</u>
-	304,993	304,993
<u>-</u>	<u>(355,928)</u>	<u>(355,928)</u>
-	(50,935)	(50,935)
<u>(4,944,085)</u>	<u>(50,935)</u>	<u>(4,995,020)</u>
446,699	-	446,699
970,977	-	970,977
5,153,117	-	5,153,117
654,632	-	654,632
246,638	43,722	290,360
<u>291,126</u>	<u>-</u>	<u>291,126</u>
7,763,189	43,722	7,806,911
<u>(215,000)</u>	<u>215,000</u>	<u>-</u>
<u>7,548,189</u>	<u>258,722</u>	<u>7,806,911</u>
2,604,104	207,787	2,811,891
<u>12,919,308</u>	<u>13,072,947</u>	<u>25,992,255</u>
\$ <u><u>15,523,412</u></u>	\$ <u><u>13,280,734</u></u>	\$ <u><u>28,804,146</u></u>

# City of Chardon, Ohio

## Balance Sheet Governmental Funds

**December 31, 2006**

	General	Street Construction, Maintenance and Repair	General Obligation Debt Service Fund	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>						
Cash and cash equivalents	\$ 2,671,596	\$ 507,091	\$ 809	\$ 115,032	\$ 1,410,753	\$ 4,705,281
Accounts receivable	90,965	-	-	-	33,414	124,379
Interest receivable	40,870	3,194	-	-	126	44,190
Intergovernmental receivable	114,646	151,263	-	438,387	23,678	727,974
Material and supplies inventory	177,199	-	-	-	-	177,199
Taxes receivable	<u>1,654,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>896,496</u>	<u>2,550,616</u>
<b>Total assets</b>	<b>\$ <u>4,749,396</u></b>	<b>\$ <u>661,548</u></b>	<b>\$ <u>809</u></b>	<b>\$ <u>553,419</u></b>	<b>\$ <u>2,364,467</u></b>	<b>\$ <u>8,329,639</u></b>
<b>Liabilities and fund balances:</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 100,046	\$ 353,678	\$ -	\$ 377,083	\$ 17,864	\$ 848,671
Accrued wages and benefits	45,537	-	-	-	1,828	47,365
Intergovernmental payable	13,711	-	-	-	551	14,262
Notes payable	-	-	-	800,000	-	800,000
Accrued interest payable	-	-	-	33,455	-	33,455
Accrued pension	66,584	-	-	-	34,759	101,343
Deferred revenue	<u>1,148,832</u>	<u>100,859</u>	<u>-</u>	<u>-</u>	<u>916,086</u>	<u>2,165,777</u>
<b>Total liabilities</b>	<b><u>1,374,710</u></b>	<b><u>454,537</u></b>	<b><u>-</u></b>	<b><u>1,210,538</u></b>	<b><u>971,088</u></b>	<b><u>4,010,873</u></b>
<b>Fund balances:</b>						
Reserve for encumbrances	496,730	36,262	-	908,124	221,316	1,662,432
Reserve for inventory	177,199	-	-	-	-	177,199
<b>Unreserved:</b>						
<b>Undesignated, reported in:</b>						
General fund	2,700,757	-	-	-	-	2,700,757
Debt service fund	-	-	809	-	-	809
Capital projects fund	-	-	-	(1,565,243)	-	(1,565,243)
Special revenue funds	<u>-</u>	<u>170,749</u>	<u>-</u>	<u>-</u>	<u>1,172,063</u>	<u>1,342,812</u>
<b>Total fund balances</b>	<b><u>3,374,686</u></b>	<b><u>207,011</u></b>	<b><u>809</u></b>	<b><u>(657,119)</u></b>	<b><u>1,393,379</u></b>	<b><u>4,318,766</u></b>
<b>Total liabilities and fund balances</b>	<b>\$ <u>4,749,396</u></b>	<b>\$ <u>661,548</u></b>	<b>\$ <u>809</u></b>	<b>\$ <u>553,419</u></b>	<b>\$ <u>2,364,467</u></b>	<b>\$ <u>8,329,639</u></b>

The accompanying notes are an integral part of these financial statements

**This page intentionally left blank**

## City of Chardon, Ohio

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

**December 31, 2006**

---

Total Governmental Funds Balances \$ 4,318,766

*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. 13,681,786

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

Property and other taxes	\$ 116,638
Municipal income taxes	616,422
Intergovernmental	<u>199,066</u>

Total 932,126

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental Funds, an interest expenditure is reported when due. (5,138)

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

General obligation bonds	(1,545,000)
OPWC loan	(1,176,981)
Capital lease payable	(238,007)
Compensated absences	<u>(444,140)</u>

Total (3,404,128)

*Net Assets of Governmental Activities* \$ 15,523,412

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, 2006**

	General	Street Construction, Maintenance and Repair	General Obligation Debt Service Fund	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Property taxes	\$ 445,730	\$ -	\$ -	\$ -	\$ 894,675	\$ 1,340,405
Municipal income taxes	5,104,846	-	-	-	-	5,104,846
Other local taxes	969	-	-	-	-	969
Intergovernmental	246,809	292,008	-	28,749	79,342	646,908
Charges for services	899,144	-	-	-	291,548	1,190,692
Licenses and permits	151,947	-	-	-	-	151,947
Fines and forfeitures	59,180	-	-	-	335,230	394,410
Special assessments	324	-	-	-	160,207	160,531
Investment income	232,178	13,903	-	-	557	246,638
Miscellaneous income	<u>386,237</u>	<u>-</u>	<u>-</u>	<u>6,827</u>	<u>75,142</u>	<u>468,206</u>
Total revenues	<u>7,527,364</u>	<u>305,911</u>	<u>-</u>	<u>35,576</u>	<u>1,836,701</u>	<u>9,705,552</u>
<b>Expenditures:</b>						
Current operations and maintenance:						
Security of persons and property	1,146,458	-	-	-	1,037,302	2,183,760
Public health services	-	-	-	-	82,662	82,662
Leisure time activities	-	-	-	-	237,384	237,384
Community environment	264,234	-	-	-	56,908	321,142
Transportation	907,560	-	-	-	-	907,560
Basic utility service	20,589	-	-	-	-	20,589
General government	2,723,187	-	-	2,229	219,250	2,944,666
Capital outlay	140,333	438,342	-	523,668	-	1,102,343
Debt service:						
Principal retirement	25,000	-	150,000	1,200,000	74,311	1,449,311
Interest	<u>-</u>	<u>-</u>	<u>59,067</u>	<u>72,615</u>	<u>9,640</u>	<u>141,322</u>
Total expenditures	<u>5,227,361</u>	<u>438,342</u>	<u>209,067</u>	<u>1,798,512</u>	<u>1,717,457</u>	<u>9,390,739</u>
Excess of revenues over (under) expenditures	<u>2,300,003</u>	<u>(132,431)</u>	<u>(209,067)</u>	<u>(1,762,936)</u>	<u>119,244</u>	<u>314,813</u>
<b>Other financing sources (uses):</b>						
Issuance of debt	-	-	-	521,516	-	521,516
Transfers-in	-	-	595,160	704,160	285,000	1,584,320
Transfers-out	<u>(1,202,510)</u>	<u>-</u>	<u>(439,160)</u>	<u>-</u>	<u>(157,650)</u>	<u>(1,799,320)</u>
Total other financing sources (uses)	<u>(1,202,510)</u>	<u>-</u>	<u>156,000</u>	<u>1,225,676</u>	<u>127,350</u>	<u>306,516</u>
Net change in fund balances	1,097,493	(132,431)	(53,067)	(537,260)	246,594	621,329
Fund balances (deficit) at beginning 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>
Fund balances (deficit) at end of year	\$ <u>3,374,686</u>	\$ <u>207,011</u>	\$ <u>809</u>	\$ <u>(657,119)</u>	\$ <u>1,393,379</u>	\$ <u>4,318,766</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, 2006

Net change in fund balances - total Governmental Funds \$ 621,329

*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	\$	1,405,743	
Depreciation		<u>(500,573)</u>	
Total			905,170

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. (4,297)

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		76,302	
Municipal income taxes		48,271	
Intergovernmental		<u>45,500</u>	
Total			170,073

Repayment of bond, note and loan principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,375,000

Loan proceeds, reported as an other financing source, provide current financial resources to governmental funds, but have no effect on net assets. (521,516)

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		74,311	
Compensated absences		(51,105)	
Accrued interest on debt		<u>35,139</u>	
Total			<u>58,345</u>

*Change in Net Assets of Governmental Activities* \$ 2,604,104

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, 2006**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 419,470	\$ 445,570	\$ 445,730	\$ 160
Municipal income taxes	4,500,000	5,085,000	5,087,756	2,756
Other local taxes	830	830	969	139
Intergovernmental	204,530	249,150	250,070	920
Charges for services	725,000	895,000	899,144	4,144
Licenses and permits	250,900	183,800	151,947	(31,853)
Fines and forfeitures	71,620	61,920	64,152	2,232
Special assessments	300	300	324	24
Investment income	92,300	210,200	228,248	18,048
Miscellaneous income	221,800	312,680	365,709	53,029
Total revenues	<u>6,486,750</u>	<u>7,444,450</u>	<u>7,494,049</u>	<u>49,599</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	1,197,800	1,238,909	1,189,912	48,997
Community environment	293,510	380,633	361,079	19,554
Basic utility services	19,810	20,590	20,589	1
Transportation	1,169,890	1,183,693	1,004,743	178,950
General government	2,781,680	2,983,394	2,827,517	155,877
Capital outlay	332,424	522,896	367,128	155,768
Debt service:				
Principal retirement	<u>45,000</u>	<u>45,000</u>	<u>25,000</u>	<u>20,000</u>
Total expenditures	<u>5,840,114</u>	<u>6,375,115</u>	<u>5,795,968</u>	<u>579,147</u>
Excess of revenues over (under) expenditures	646,636	1,069,335	1,698,081	628,746
Other financing sources (uses):				
Transfers-out	<u>(1,202,510)</u>	<u>(1,202,510)</u>	<u>(1,202,510)</u>	<u>-</u>
Net change in fund balance	(555,874)	(133,175)	495,571	628,746
Outstanding encumbrances at year end	564,480	564,480	564,480	-
Fund balance at beginning of year	<u>1,604,297</u>	<u>1,604,297</u>	<u>1,604,297</u>	<u>-</u>
Fund balance at end of year	\$ <u>1,612,903</u>	\$ <u>2,035,602</u>	\$ <u>2,664,348</u>	\$ <u>628,746</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, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 310,800	\$ 303,400	\$ 305,461	\$ 2,061
Investment income	<u>12,000</u>	<u>12,000</u>	<u>17,840</u>	<u>5,840</u>
Total revenues	<u>322,800</u>	<u>315,400</u>	<u>323,301</u>	<u>7,901</u>
Expenditures:				
Current operations and maintenance:				
Capital outlay	<u>523,492</u>	<u>558,492</u>	<u>481,614</u>	<u>76,878</u>
Net change in fund balance	(200,692)	(243,092)	(158,313)	84,779
Outstanding encumbrances at year end	389,721	389,721	389,721	-
Fund balance at beginning of year	<u>275,117</u>	<u>275,117</u>	<u>275,117</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>464,146</u></u>	\$ <u><u>421,746</u></u>	\$ <u><u>506,525</u></u>	\$ <u><u>84,779</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, 2006**

	Water Fund	Sewer Fund	Business-Type Activities
Assets:			
Current assets:			
Cash and cash equivalents	\$ 769,297	\$ 867,213	\$ 1,636,510
Accounts receivable	228,336	371,339	599,675
Interest receivable	-	11,062	11,062
Intergovernmental receivable	-	74,561	74,561
Material and supplies inventory	174,440	17,756	192,196
Total current assets	<u>1,172,073</u>	<u>1,341,931</u>	<u>2,514,004</u>
Noncurrent assets:			
Nondepreciable capital assets	682,963	3,146,602	3,829,565
Depreciable capital assets, net	4,948,972	15,297,887	20,246,859
Total noncurrent assets	<u>5,631,935</u>	<u>18,444,489</u>	<u>24,076,424</u>
Total assets	<u>6,804,008</u>	<u>19,786,420</u>	<u>26,590,428</u>
Liabilities:			
Current liabilities:			
Accounts payable	17,422	55,106	72,528
Accrued wages and benefits	11,307	6,295	17,602
Intergovernmental payable	3,405	1,895	5,300
Accrued pension	16,016	8,200	24,216
OWDA loan payable	-	564,466	564,466
OPWC loan payable	7,600	-	7,600
Accrued compensated absences	23,450	11,913	35,363
Total current liabilities	<u>79,200</u>	<u>647,875</u>	<u>727,075</u>
Long term liabilities (net of current portion):			
OWDA loan payable	-	12,448,427	12,448,427
OPWC loan payable	10,400	-	10,400
Accrued compensated absences	82,154	41,638	123,792
Total noncurrent liabilities	<u>92,554</u>	<u>12,490,065</u>	<u>12,582,619</u>
Total liabilities	<u>171,754</u>	<u>13,137,940</u>	<u>13,309,694</u>
Net Assets:			
Invested in capital assets, net of related debt	5,613,935	5,431,596	11,045,531
Unrestricted	1,018,319	1,216,884	2,235,203
Total net assets	<u>\$ 6,632,254</u>	<u>\$ 6,648,480</u>	<u>\$ 13,280,734</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, 2006**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Business-Type Activities</u>
Operating revenues:			
Charges for services	\$ 726,927	\$ 1,435,840	\$ 2,162,767
Miscellaneous income	<u>194,546</u>	<u>9,108</u>	<u>203,654</u>
Total operating revenues	<u>921,473</u>	<u>1,444,948</u>	<u>2,366,421</u>
Operating expenses:			
Personal services	440,314	594,856	1,035,170
Supplies and materials	50,622	129,932	180,554
Travel and education	2,712	2,753	5,465
Contractual services	59,129	127,114	186,243
Utilities	87,389	167,237	254,626
Depreciation	61,007	497,210	558,217
Capital outlay	<u>-</u>	<u>10,666</u>	<u>10,666</u>
Total operating expenses	<u>701,173</u>	<u>1,529,768</u>	<u>2,230,941</u>
Operating income (loss)	<u>220,300</u>	<u>(84,820)</u>	<u>135,480</u>
Non-operating revenues (expenses):			
Investment income	-	43,722	43,722
Interest and fiscal charges	-	(311,733)	(311,733)
Loss on disposal of capital assets	<u>(18,389)</u>	<u>-</u>	<u>(18,389)</u>
Total non-operating revenues (expenses)	<u>(18,389)</u>	<u>(268,011)</u>	<u>(286,400)</u>
Income (loss) before contributions and transfers	201,911	(352,831)	(150,920)
Transfers-in	-	215,000	215,000
Contributions	<u>103,082</u>	<u>40,625</u>	<u>143,707</u>
Change in net assets	304,993	(97,206)	207,787
Net assets at beginning of year, restated	<u>6,327,261</u>	<u>6,745,686</u>	<u>13,072,947</u>
Net assets at end of year	\$ <u><u>6,632,254</u></u>	\$ <u><u>6,648,480</u></u>	\$ <u><u>13,280,734</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, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities			
Cash received from customers	\$ 774,064	\$ 1,248,422	\$ 2,022,486
Cash payments for personal services	(431,852)	(588,385)	(1,020,237)
Cash payments for travel and education	(2,712)	(2,753)	(5,465)
Cash payments for contractual services	(62,558)	(140,675)	(203,233)
Cash payments for vendors for supplies and materials	(90,126)	(127,937)	(218,063)
Cash payments for utilities	(87,389)	(167,237)	(254,626)
Other operating revenues	<u>362,063</u>	<u>7,645</u>	<u>369,708</u>
Net cash provided by operating activities	<u>461,490</u>	<u>229,080</u>	<u>690,570</u>
Cash flows from non capital financing activities			
Transfers-in	<u>-</u>	<u>215,000</u>	<u>215,000</u>
Cash flows from capital and related financing activities			
Proceeds from OWDA loan	-	2,837,467	2,837,467
Principal paid on OWDA loan	-	(548,041)	(548,041)
Interest paid on OWDA loan	-	(311,733)	(311,733)
Principal paid on OPWC loan	(12,600)	-	(12,600)
Acquisition of capital assets	<u>(446,141)</u>	<u>(2,831,669)</u>	<u>(3,277,810)</u>
Net cash used for capital financing	<u>(458,741)</u>	<u>(853,976)</u>	<u>(1,312,717)</u>
Cash flows from investing activities			
Interest received	<u>-</u>	<u>50,037</u>	<u>50,037</u>
Net increase (decrease) in cash and cash equivalents	2,749	(359,859)	(357,110)
Cash and cash equivalents at beginning of year	<u>766,548</u>	<u>1,227,072</u>	<u>1,993,620</u>
Cash and cash equivalents at end of year	\$ <u><u>769,297</u></u>	\$ <u><u>867,213</u></u>	\$ <u><u>1,636,510</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, 2006**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Business-Type Activities</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 220,300	\$ (84,820)	\$ 135,480
Adjustments:			
Depreciation	61,007	497,210	558,217
Changes in assets/liabilities:			
(Increase) decrease in accounts receivable	43,226	(198,886)	(155,660)
Decrease in intergovernmental receivable	171,428	10,005	181,433
(Increase) decrease in inventory	(39,504)	1,995	(37,509)
Decrease in accounts payable	(1,957)	(1,589)	(3,546)
Increase in accrued compensated absences	5,284	4,743	10,027
Decrease in accrued pension	(2,982)	(908)	(3,890)
Increase (decrease) in intergovernmental payable	1,510	(398)	1,112
Increase in accrued wages and benefits	<u>3,178</u>	<u>1,728</u>	<u>4,906</u>
Net cash provided by operating activities:	\$ <u>461,490</u>	\$ <u>229,080</u>	\$ <u>690,570</u>

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

As of December 31, 2006, the Water and Sewer Funds received \$103,082 and \$40,625, respectively, as contributions to capital assets from other governmental funds and the Sewer Fund had outstanding liabilities of \$42,289 for the purchase of certain capital assets. In addition, the Sewer Fund recorded capitalized interest expense on long-term debt in the amount of \$34,500. As of December 31, 2006, the Sewer Fund recorded a \$74,561 intergovernmental receivable for loan proceeds received in 2007 to reimburse contractual services performed in fiscal year 2006.

The accompanying notes are an integral part of these financial statements

# City of Chardon, Ohio

## Statement of Fiduciary Net Assets Fiduciary Funds

**December 31, 2006**

---

	Private Purpose Trust <u>Cemetery</u>	<u>Agency</u>
Assets:		
Cash and cash equivalents	\$ 19,106	\$ 1,143,451
Interest receivable	16	-
Due from others	<u>-</u>	<u>2,119</u>
Total assets	<u>19,122</u>	\$ <u><u>1,145,570</u></u>
Liabilities:		
Accounts payable	-	\$ 1,036,621
Intergovernmental payable	-	11,835
Due to others	<u>-</u>	<u>97,114</u>
Total liabilities	<u>-</u>	\$ <u><u>1,145,570</u></u>
Net assets:		
Held in trust for cemetery	\$ <u><u>19,122</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, 2006**

---

	Private Purpose Trust <u>Cemetery</u>
Additions:	
Interest	\$           54
Deductions:	
Supplies and materials	<u>                  240</u>
Change in net assets	(186)
Net assets at beginning of year	<u>          19,308</u>
Net assets at end of year	\$ <u><u>          19,122</u></u>

The accompanying notes are an integral part of these financial statements



# City of Chardon, Ohio

## Notes to Basic Financial Statements

**December 31, 2006**

---

### **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, 2006**

---

### **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, 2006**

---

### **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 Improvement 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, 2006**

---

### **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, 2006**

---

### **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, 2006, but which were levied to finance year 2007 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, 2006**

---

### **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 2006. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2006.

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **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*

The primary level of budget control is at the fund level. 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. The appropriations set by Council must remain fixed unless amended by Council ordinance. More detailed appropriations allocations may be made by the City Manager or 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, 2006**

---

#### **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 "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.

The City complies with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As a governmental entity other than an external investment pool in accordance with GASB 31, the City's investments are stated at fair value, except for interest-earning investment contracts, money market investments, and external investment pools (see Note 5).

In applying GASB Statement No. 31, the City utilized the following methods and assumptions as of December 31, 2006:

The portfolio was limited to nonparticipating interest-earning investment contracts, State Treasury Asset Reserve of Ohio (STAROhio), and U.S. Government Securities.

Most of the City's investments are reported at fair value, which is the quoted market price as of the valuation date. For investments in STAROhio, fair value is determined by the pool's share price. Exceptions to the fair value requirement include money market investments.

Money market investments, including U.S. Treasury and agency obligations that had a remaining maturity of one year or less at the time of purchase by the City, are reported at amortized cost.

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General fund to the extent its cash and investments balance exceeds the cumulative value of those investments subject to GASB Statement No. 31.



# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***F. Cash and Cash Equivalents (continued)***

The gain/loss resulting from valuation will be reported within the investment earnings account on the Statement of Activities.

The City's policy is to hold investments until market values equal or exceed cost.

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, 2006.

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.

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.

#### ***G. Inventory***

Inventories are stated at cost, on the first-in, first-out basis. At December 31, 2006, 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, 2006, 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.

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***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.

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 2006, 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 2006. 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 2004, 2005, and 2006. 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.

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### **For The Year Ended December 31, 2006**

---

#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***L. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees. 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. City employees are paid for earned, unused vacation leave at the time of the termination of their employment. 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.

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 1/3 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.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination payments in the next twenty years). The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's termination policy.

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

##### ***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.

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### **For The Year Ended December 31, 2006**

---

#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***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 government-wide statement of net assets reports \$589,074 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for streets, police and ambulance.

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

##### ***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 2006.

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***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.

#### ***T. Comparative Data/Reclassifications***

Prior year data presented in Management's Discussion and Analysis has been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2005 financial statements in order to conform to the 2006 presentation.

### **Note 3: Change in Accounting Principles and Restatement of Net Assets**

#### ***A. Change in Accounting Principles***

For fiscal year 2006, the City implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 clarifies when net assets should be restricted based on enabling legislation.

GASB Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

The implementation of GASB Statements No. 46 and No. 47 did not affect the presentation of the financial statements of the City.

#### ***B. Restatement of Net Assets***

Understatement of accrued compensated absences had the following effect on net assets at December 31, 2005:

	<u>Governmental Activities</u>	<u>Water</u>	<u>Sewer</u>	<u>Business-Type Activities</u>
Net assets, December 31, 2005	\$ 12,972,901	\$ 6,337,561	\$ 6,752,013	\$ 13,089,574
Restatement of accrued compensated absences	<u>(53,593)</u>	<u>(10,300)</u>	<u>(6,327)</u>	<u>(16,627)</u>
Restated net assets, December 31, 2005	\$ <u>12,919,308</u>	\$ <u>6,327,261</u>	\$ <u>6,745,686</u>	\$ <u>13,072,947</u>

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## For The Year Ended December 31, 2006

### **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.

	<u>Net Change in Fund Balance</u>	
	<u>General</u>	<u>Street Construction Maintenance and Repair</u>
GAAP basis	\$ 1,097,493	\$ (132,431)
Increase (decrease) due to:		
Revenue accruals	(33,315)	17,390
Expenditure accruals	(4,127)	346,449
Outstanding encumbrances	<u>(564,480)</u>	<u>(389,721)</u>
Budget basis	\$ <u>495,571</u>	\$ <u>(158,313)</u>

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **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:

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.

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **Note 5: Deposits and Investments**

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.

At year-end, the carrying amount of the City's deposits was \$139,493 and the bank balance was \$569,187. Of the bank balance \$119,103 was covered by Federal depository insurance and \$450,084 was uninsured and 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, 2006, the city had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Federal Farm Credit Bank	\$ 1,497,265	385
Federal Home Loan Bank	1,490,915	460
Federal Home Loan Mortgage Corporation	986,895	443
Federal National Mortgage Association	1,489,780	136
STAROhio	<u>1,900,000</u>	<u>N/A</u>
Total Portfolio	\$ <u><u>7,364,855</u></u>	<u><u>1,424</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 within five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.



# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **Note 5: Deposits and Investments (continued)**

#### *Investments (continued)*

*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.

*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, 2006, which is in accordance with the City's investment policy:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
STAROhio	25.80%
Federal Home Loan Mortgage Corporation	13.40
Federal Farm Credit Bank	20.33
Federal National Mortgage Association	20.23
Federal Home Loan Bank	20.24

### **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. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **Note 6: Receivables (continued)**

#### **A. Property Taxes (continued)**

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.

The full tax rate for all City operations for the year ended December 31, 2006, was \$11.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Category	<u>Assessed Value</u>
Real estate	\$ 151,389,820
Public utility	3,541,060
Tangible personal	<u>8,053,395</u>
Total	\$ <u>162,984,275</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.

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## **For The Year Ended December 31, 2006**

---

### **Note 6: Receivables (continued)**

#### ***C. Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

#### Governmental activities:

Local government and local government revenue assistance	\$ 83,412
Gasoline and excise tax	133,077
Estate tax	19,276
Public utility reimbursement	8,245
OPWC loan	438,387
CAT tax reimbursement	15,126
Motor vehicle license fees	<u>30,451</u>
Total governmental activities	<u>727,974</u>

#### Business-type activities:

OWDA loan	<u>74,561</u>
Total	\$ <u><u>802,535</u></u>

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

#### Note 7: Capital Assets

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

	<u>Balances</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/06</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,107,331	\$ -	\$ -	\$ 1,107,331
Construction progress	<u>2,784,156</u>	<u>1,036,713</u>	<u>(872,713)</u>	<u>2,948,156</u>
Total nondepreciable assets	<u>3,891,487</u>	<u>1,036,713</u>	<u>(872,713)</u>	<u>4,055,487</u>
Capital assets being depreciated				
Land improvements	550,740	5,654	-	556,394
Buildings	8,540,744	13,369	-	8,554,113
Machinery and equipment	199,125	108,974	-	308,099
Vehicles	1,339,168	190,411	(156,003)	1,373,576
Infrastructure:				
Traffic lights	1,176,660	-	-	1,176,660
Streets and storm sewers	<u>55,612</u>	<u>923,335</u>	<u>-</u>	<u>978,947</u>
Total capital assets being depreciated	<u>11,862,049</u>	<u>1,241,743</u>	<u>(156,003)</u>	<u>12,947,789</u>
Less accumulated depreciation				
Land improvements	(331,962)	(21,768)	-	(353,730)
Buildings	(1,597,828)	(168,519)	-	(1,766,347)
Machinery and equipment	(61,646)	(22,663)	-	(84,309)
Vehicles	(981,187)	(179,843)	151,706	(1,009,324)
Infrastructure:				
Traffic lights	-	(58,833)	-	(58,833)
Streets and storm sewers	<u>-</u>	<u>(48,947)</u>	<u>-</u>	<u>(48,947)</u>
Total accumulated depreciation	<u>(2,972,623)</u>	<u>(500,573)</u>	<u>151,706</u>	<u>(3,321,490)</u>
Net capital assets being depreciated	<u>8,889,426</u>	<u>741,170</u>	<u>(4,297)</u>	<u>9,626,299</u>
Governmental activities capital assets, net	\$ <u>12,780,913</u>	\$ <u>1,777,883</u>	\$ <u>(877,010)</u>	\$ <u>13,681,786</u>

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## For The Year Ended December 31, 2006

### Note 7: Capital Assets (continued)

	<u>Balances</u> 12/31/05	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 12/31/06
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 251,797	\$ -	\$ -	\$ 251,797
Construction progress	<u>952,556</u>	<u>3,465,447</u>	<u>(840,235)</u>	<u>3,577,768</u>
Total nondepreciable assets	<u>1,204,353</u>	<u>3,465,447</u>	<u>(840,235)</u>	<u>3,829,565</u>
Capital assets being depreciated:				
Land improvements	109,022	-	-	109,022
Buildings	10,321,086	-	-	10,321,086
Machinery and equipment	4,038,206	-	-	4,038,206
Vehicles	294,387	32,858	(30,685)	296,560
Infrastructure:				
Water lines	5,318,715	840,236	(77,596)	6,081,355
Sewer lines	<u>7,218,567</u>	<u>-</u>	<u>-</u>	<u>7,218,567</u>
Total capital assets being depreciated	<u>27,299,983</u>	<u>873,094</u>	<u>(108,281)</u>	<u>28,064,796</u>
Less accumulated depreciation				
Land improvements	(93,736)	(5,096)	-	(98,832)
Buildings	(1,901,999)	(203,846)	-	(2,105,845)
Machinery and equipment	(2,085,094)	(222,631)	-	(2,307,725)
Vehicles	(290,083)	(7,590)	30,685	(266,988)
Infrastructure:				
Water lines	(1,190,786)	(52,411)	59,207	(1,183,990)
Sewer lines	<u>(1,787,914)</u>	<u>(66,643)</u>	<u>-</u>	<u>(1,854,557)</u>
Total accumulated depreciation	<u>(7,349,612)</u>	<u>(558,217)</u>	<u>89,892</u>	<u>(7,817,937)</u>
Net capital assets being depreciated	<u>19,950,371</u>	<u>314,877</u>	<u>(18,389)</u>	<u>20,246,859</u>
Total business-type activities capital assets, net	\$ <u>21,154,724</u>	\$ <u>3,780,324</u>	\$ <u>(858,624)</u>	\$ <u>24,076,424</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 184,735
Leisure time activities	16,601
Security of persons and property	175,031
Community development	2,916
Transportation	<u>121,290</u>
Total	\$ <u>500,573</u>

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

#### Note 8: Note Debt

Note debt activity for the year ended December 31, 2006 consisted of the following:

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/06</u>
5.25% 2006 Building improvements and renovations, maturing 2/15/2007	\$ -	\$ 600,000	\$ -	\$ 600,000
3.40% 2006 Building improvements – fire station, maturing 2/16/2007	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Total notes	\$ <u>-</u>	\$ <u>800,000</u>	\$ <u>-</u>	\$ <u>800,000</u>

By Ohio law, notes can be issued in anticipation of bond proceeds and levies. All notes are backed by the full faith and credit of the City. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

#### Note 9: Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2006 was as follows:

	<u>Restated</u> <u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due in</u> <u>One</u> <u>Year</u>
<i>Governmental activities:</i>					
General obligation bonds:					
4.10% 2005 Municipal building improvements, maturing 2015	\$ <u>1,695,000</u>	\$ <u>-</u>	\$ <u>(150,000)</u>	\$ <u>1,545,000</u>	\$ <u>150,000</u>
Other long-term obligations:					
0% Ohio Public Works Commission					
Park Avenue reconstruction	412,500	-	(25,000)	387,500	25,000
Fifth Avenue improvement project	-	438,387	-	438,387	10,960
North Street improvement project	<u>267,965</u>	<u>83,129</u>	<u>-</u>	<u>351,094</u>	<u>8,777</u>
Total Ohio Public Works Commission	680,465	521,516	(25,000)	1,176,981	44,737
1.35-1.80% Long-term notes payable, maturing 2006	1,200,000	-	(1,200,000)	-	-
Capital lease payable	312,318	-	(74,311)	238,007	76,769
Accrued compensated absences	<u>393,035</u>	<u>123,826</u>	<u>(72,721)</u>	<u>444,140</u>	<u>104,089</u>
Total other long-term obligations	<u>2,585,818</u>	<u>645,342</u>	<u>(1,372,032)</u>	<u>1,859,128</u>	<u>225,595</u>
Total governmental long-term liabilities	\$ <u>4,280,818</u>	\$ <u>645,342</u>	\$ <u>(1,522,032)</u>	\$ <u>3,404,128</u>	\$ <u>375,595</u>

# City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

## For The Year Ended December 31, 2006

### Note 9: Long-Term Obligations (continued)

	Restated Balance <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/06</u>	Due in One <u>Year</u>
<i>Business-type activities</i>					
Ohio Water Development Authority loans:					
2.975% Waste water treatment plant improvements	\$ 10,614,406	\$ -	\$ (548,041)	\$ 10,066,365	\$ 564,466
3.25% Eastside sanitary trunk sewer improvements	-	<u>2,946,528</u>	-	<u>2,946,528</u>	-
Total Ohio Water Development Authority loans	<u>10,614,406</u>	<u>2,946,528</u>	<u>(548,041)</u>	<u>13,012,893</u>	<u>564,466</u>
Other long-term obligations:					
0% Ohio Public Works Commission Issue II loans	30,600	-	(12,600)	18,000	7,600
Accrued compensated absences	<u>149,128</u>	<u>30,173</u>	<u>(20,146)</u>	<u>159,155</u>	<u>35,363</u>
Total other long-term obligations	<u>179,728</u>	<u>30,173</u>	<u>(32,746)</u>	<u>177,155</u>	<u>42,963</u>
Total business-type long-term obligations	\$ <u>10,794,134</u>	\$ <u>2,976,701</u>	\$ <u>(580,787)</u>	\$ <u>13,190,048</u>	\$ <u>607,429</u>

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2006 were as follows:

<u>Year</u>	<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>
2007	\$ 150,000	\$ 54,468	\$ 44,737	\$ 194,737	\$ 54,468
2008	155,000	49,968	64,474	219,474	49,968
2009	160,000	45,318	64,474	224,474	45,318
2010	165,000	40,118	64,474	229,474	40,118
2011	175,000	34,838	64,474	239,474	34,838
2012-2016	740,000	74,260	322,370	1,062,370	74,260
2017-2021	-	-	322,370	322,370	-
2022-2026	-	-	<u>229,608</u>	<u>229,608</u>	-
	\$ <u>1,545,000</u>	\$ <u>298,970</u>	\$ <u>1,176,981</u>	\$ <u>2,721,981</u>	\$ <u>298,970</u>

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### **For The Year Ended December 31, 2006**

#### **Note 9: Long-Term Obligations (continued)**

Year	Business-Type Activities					
	OWDA Loan		OPWC Loans		Total	
	Principal	Interest	Principal	Principal	Interest	
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	635,241	224,532	2,600	637,841	224,532	
2012-2016	3,473,461	825,405	-	3,473,461	825,405	
2017-2021	<u>3,596,248</u>	<u>272,735</u>	<u>-</u>	<u>3,596,248</u>	<u>272,735</u>	
	\$ <u>10,066,365</u>	\$ <u>2,400,350</u>	\$ <u>18,000</u>	\$ <u>10,084,365</u>	\$ <u>2,400,350</u>	

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. Principal is paid out of the General Fund.

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, 2006, as the City is still drawing on the loan. The loan is expected to 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 Ohio Public Works Commission (“OPWC”) 2006 Fifth Avenue Improvement Loan relates to construction on City streets. OPWC has authorized up to \$467,870 in loans to the City for this project. The final loan amount has not been determined at December 31, 2006, as the City is still drawing on the loan. The loan is expected to be repaid in semiannual installments of \$11,697 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.



## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### **For The Year Ended December 31, 2006**

---

#### **Note 9: Long-Term Obligations (continued)**

During the prior year, the City obtained partial proceeds from an Ohio Water Development Authority (“OWDA”) loan that relates to the Eastside sanitary trunk sewer improvements to be repaid in semi-annual principal and interest payments beginning in 2007. The City has not yet collected the total proceeds to be received on this loan and as a result, the debt maturity schedule above does not reflect any amounts for principal or interest. When the loan is finalized, the principal and interest will be included above.

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 long-term notes are paid out of the capital improvements fund. Principal and interest payments on general obligation bonds are paid out of the general obligation debt service fund. Principal and interest payments on OPWC loans are paid out of the general fund as well as user charges from the appropriate enterprise fund. OWDA loans will be paid from user charges in the enterprise funds. Compensated absences will be paid from the general fund, cemetery special revenue fund and the water and sewer enterprise funds.

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. 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 of December 31, 2006, the amount of defeased debt outstanding but removed from the financial statements amounted to \$1,475,000.

#### **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>402,500</u>
Total	<u>\$ 122,500</u>

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### **For The Year Ended December 31, 2006**

---

#### **Note 10: 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
2007	\$ 83,951
2008	83,951
2009	<u>83,951</u>
Total minimum lease payments	251,853
Less: Amount representing interest	<u>(13,846)</u>
Present value of minimum lease payments	\$ <u><u>238,007</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 11: Pension Plans**

##### **A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans were required to contribute 9.00 percent of their annual covered salary to fund pension obligations. The City contributed 13.70 percent of covered payroll, of which 4.50 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### **For The Year Ended December 31, 2006**

---

#### **Note 11: Pension Plans (continued)**

##### **A. *Ohio Public Employees Retirement System (continued)***

The City of Chardon's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$266,386, \$256,527, and \$239,042, respectively, equal to the required contributions for each year. The full amount has been contributed for all three years. Contributions to the member-directed plan for 2006 were \$4,687 made by the City of Chardon and \$3,079 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.

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, 2006, 2005 and 2004 were \$114,597, \$104,249, and \$105,509. The full amount has been contributed for 2005 and 2004. 70 percent has been contributed for 2006 with the remainder being reported as a liability.

#### **Note 12: Postemployment Benefits**

##### **A. *Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### **For The Year Ended December 31, 2006**

---

#### **Note 12: Postemployment Benefits (continued)**

##### **A. Ohio Public Employees Retirement System (continued)**

GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. The 2006 employer contribution rate was 13.70 percent of covered payroll; 4.5 percent was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age normal actuarial cost method. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increase, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.30 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50 percent to 6.00 percent for the next nine years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12.00 percent corridor.

At December 31, 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The City's actual contributions for 2006, which were used to fund postemployment benefits, were \$130,298. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

##### **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, 2006**

---

#### **Note 12: Postemployment Benefits (continued)**

##### ***B. Ohio Police and Fire Pension Fund (continued)***

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 2005 and 2006, 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2005, the date of the last actuarial valuation available, was 13,922 for police. The City's actual contributions for 2006 that were used to fund post-employment benefits were \$45,495 for police. OP&F's total health care expenses for the year ending December 31, 2005, the date of the last actuarial valuation available, was \$108,039,449, which was net of member contributions of \$55,271,881.

#### **Note 13: Risk Management**

The City is exposed to various risk of loss related to torts, theft, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. 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.

#### **Note 14: Contractual Commitments**

The City has a contract for the Eastside Sanitary Trunk Sewer project. The total cost of the project is \$2,902,821. As of December 31, 2006, the City has paid \$2,742,156 on the contract and \$160,665 remains outstanding on the contract.

#### **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.

## City of Chardon, Ohio

Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

#### Note 16: Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

	Transfer from			Total
	General Fund	General Obligation Debt Service Fund	Nonmajor Governmental Funds	
Transfer to:				
General Obligation Debt Service Fund	\$ 437,510	\$ -	\$ 157,650	\$ 595,160
Capital Improvement Fund	265,000	439,160	-	704,160
Nonmajor Governmental Funds	285,000	-	-	285,000
Sewer Fund	<u>215,000</u>	<u>-</u>	<u>-</u>	<u>215,000</u>
	<u>\$ 1,202,510</u>	<u>\$ 439,160</u>	<u>\$ 157,650</u>	<u>\$ 1,799,320</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.

**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 City Council  
Chardon, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chardon, Ohio (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 27, 2007, wherein we noted the City adopted Governmental Accounting Standards Board Statements No. 46 and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of City Council  
Chardon, Ohio

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated June 27, 2007.

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

*Cini & Paricki, Inc.*

Cleveland, Ohio  
June 27, 2007





**Mary Taylor, CPA**  
Auditor of State

**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  
AUGUST 2, 2007**