

City of Chardon, Ohio

**Basic Financial Statements
December 31, 2012**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Chardon, Geauga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2012 through December 31, 2012. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 28, 2013

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City of Chardon, Ohio

For The Year Ended December 31, 2012

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Independent Auditor's Report

Honorable Mayor and
Members of City Council
Chardon, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chardon, Ohio (the "City"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Honorable Mayor and
Members of City Council
Chardon, Ohio

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 as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 4 to the basic financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013 on our consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Ciuni & Paricki, Inc.

Cleveland, Ohio
June 27, 2013

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

The discussion and analysis of the City of Chardon's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. 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 2012 are as follows:

- ◆ During March 2012 the City sold bonds at a par value of \$4,945,000 to provide funding for constructing, furnishing and equipping a safety service garage, a salt storage facility, a fuel dispensing area, a snow storage area, and an additional outside storage area.
- ◆ The assets of the City of Chardon exceeded its liabilities at the close of this year by \$62,254,750. Of this amount, \$5,454,356 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ City's total net position increased \$778,353 during 2012. Net position of the governmental activities increased \$327,955, while net position of business-type activities increased by \$450,398.
- ◆ Total assets increased by \$5,542,517 which represents an increase of approximately 6.9 percent over 2011. The cash balance of governmental activities increased approximately \$4.8 million from 2011.
- ◆ Total liabilities and deferred inflows of resources increased by \$4,764,164, which represents an increase of 25.4 percent over 2011.
- ◆ New accounting and reporting standards were implemented in 2012 as explained in Note 4 to the basic financial statements.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of activities provide summary information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements show how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor governmental funds presented in total in one column. In the case of the City, there are three major governmental funds and two major business-type funds.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

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

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and answers the question, “How did we do financially during 2012”? These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method 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. These two statements report the City’s net position and changes in those assets. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions and other factors.

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

- **Governmental Activities** – Most of the City’s programs and services are reported here including general government, safety services, public health and welfare, and transportation. These services are funded primarily by taxes and intergovernmental revenues including federal and state grants and other shared revenues.
- **Business-Type Activities** – These services are provided on a fee-for-usage basis to recover all or a significant portion of the expenses of the goods or services provided. The City’s business-type activities include water and sewer services.

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 objectives. The City, 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 can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fund financial reports provide detailed information about the activities within the City’s major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City’s most significant funds. The City’s major governmental funds are the general fund, street construction maintenance and repair special revenue fund and the general obligation debt service fund. An analysis of the City’s major governmental funds begins on page 9.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

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 balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation.

Proprietary Funds

Proprietary funds (water and sewer) have historically operated as *enterprise funds* and are used to report the same functions presented as business-type activities in the government-wide financial statements. Since they use the same basis of accounting as business-type activities, these fund statements will essentially match the information provided in statements for the City as a whole.

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

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fiduciary fund financial statements can be found starting on page 26 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

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

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 Position 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 Position and the Statement of Activities are divided into the following categories:

- ◆ Assets
- ◆ Deferred outflows of resources
- ◆ Liabilities
- ◆ Deferred inflows of resources
- ◆ Net Position (Assets plus Deferred outflows of resources minus Liabilities and Deferred inflows of resources)
- ◆ Program Expenses and Revenues
- ◆ General Revenues
- ◆ Net Position Beginning and End of Year

Table 1 provides a summary of the City's net position for 2012 as compared to 2011.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current and other assets	\$ 12,994,930	\$ 7,481,577	\$ 1,858,094	\$ 1,909,069	\$ 14,853,024	\$ 9,390,646
Capital assets, net	<u>39,049,534</u>	<u>38,487,024</u>	<u>31,847,985</u>	<u>32,330,356</u>	<u>70,897,519</u>	<u>70,817,380</u>
Total assets	<u>52,044,464</u>	<u>45,968,601</u>	<u>33,706,079</u>	<u>34,239,425</u>	<u>85,750,543</u>	<u>80,208,026</u>
Liabilities:						
Current liabilities	717,442	621,331	124,036	106,350	841,478	727,681
Long-term liabilities						
Due within one year	468,217	466,372	1,107,857	1,080,739	1,576,074	1,547,111
Due in more than one year	<u>7,296,302</u>	<u>1,791,297</u>	<u>12,564,911</u>	<u>13,593,459</u>	<u>19,861,213</u>	<u>15,384,756</u>
Total liabilities	<u>8,481,961</u>	<u>2,879,000</u>	<u>13,796,804</u>	<u>14,780,548</u>	<u>22,278,765</u>	<u>17,659,548</u>
Deferred inflows of resources:						
Property taxes	<u>1,217,028</u>	<u>1,072,081</u>	-	-	<u>1,217,028</u>	<u>1,072,081</u>
Net Position:						
Net investment in capital						
assets	36,564,018	36,762,288	18,298,862	17,777,096	54,862,880	54,539,384
Restricted	1,937,514	1,807,644	-	-	1,937,514	1,807,644
Unrestricted	<u>3,843,943</u>	<u>3,447,588</u>	<u>1,610,413</u>	<u>1,681,781</u>	<u>5,454,356</u>	<u>5,129,369</u>
Total net position	<u>\$ 42,345,475</u>	<u>\$ 42,017,520</u>	<u>\$ 19,909,275</u>	<u>\$ 19,458,877</u>	<u>\$ 62,254,750</u>	<u>\$ 61,476,397</u>

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Net position may serve over time as a useful indicator of a government's financial position. For the City, total assets exceeded total liabilities by \$62,254,750 as of December 31, 2012. At the end of the current year, the City of Chardon is able to report positive balances in all three categories of net position, 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 position (88.1 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 2012 increased \$5,542,517 or 6.9 percent when compared to 2011. The increase in total assets was mainly due to unspent proceeds from new bonds issued.

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 beginning a downward trend in the past year, the investments have shifted from callable federal government agency issues to a greater reliance on non callable federal government agency issues, money market accounts and certificates of deposits. 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.

The net position of the City's business-type activities increased 2.3 percent in 2012. This increase was in part, due to the addition of water and sewer lines from project completed during the year. The City generally can only use this net position to finance the continuing operations of the sewer and water systems operations.

In order to further understand what makes up the changes in net position for the current year, Table 2 provides further details regarding the results of activities for the current year.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Table 2
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Program Revenue:						
Charges for services	\$ 2,194,223	\$ 2,071,971	\$ 2,319,163	\$ 2,358,985	\$ 4,513,386	\$ 4,430,956
Operating grants and contributions	1,006,219	549,022	-	-	1,006,219	549,022
Capital grants and contributions	338,745	500,000	-	-	338,745	500,000
Total program revenues	<u>3,539,187</u>	<u>3,120,993</u>	<u>2,319,163</u>	<u>2,358,985</u>	<u>5,858,350</u>	<u>5,479,978</u>
General Revenues:						
Property taxes	1,298,914	1,135,548	-	-	1,298,914	1,135,548
Income taxes	5,645,788	5,266,161	-	-	5,645,788	5,266,161
Grant and entitlements	319,941	270,334	-	-	319,941	270,334
Gain on sale of capital assets	-	1,325	-	-	-	1,325
Investment earnings	16,523	32,829	1,548	399	18,071	33,228
Contributions	-	-	-	-	-	-
Other	385,810	266,401	-	-	385,810	266,401
Total general revenues	<u>7,666,976</u>	<u>6,972,598</u>	<u>1,548</u>	<u>399</u>	<u>7,668,524</u>	<u>6,972,997</u>
Total revenues	<u>11,206,163</u>	<u>10,093,591</u>	<u>2,320,711</u>	<u>2,359,384</u>	<u>13,526,874</u>	<u>12,452,975</u>
Program Expenses:						
General government	3,470,297	3,133,522	-	-	3,470,297	3,133,522
Security of persons and property	3,316,748	2,732,300	-	-	3,316,748	2,732,300
Public health services	90,337	86,340	-	-	90,337	86,340
Transportation	2,044,255	2,369,912	-	-	2,044,255	2,369,912
Community environment	226,871	214,571	-	-	226,871	214,571
Basic utility services	-	24	-	-	-	24
Leisure time activities	266,473	260,468	-	-	266,473	260,468
Interest and fiscal charges	41,828	34,328	-	-	41,828	34,328
Bond issuance costs	126,477	-	-	-	126,477	-
Water	-	-	1,116,833	1,230,034	1,116,833	1,230,034
Sewer	-	-	2,048,402	2,277,752	2,048,402	2,277,752
Total program expenses	<u>9,583,286</u>	<u>8,831,465</u>	<u>3,165,235</u>	<u>3,507,786</u>	<u>12,748,521</u>	<u>12,339,251</u>
Excess before transfers	1,622,877	1,262,126	(844,524)	(1,148,402)	778,353	113,724
Transfers	<u>(1,294,922)</u>	<u>(580,998)</u>	<u>1,294,922</u>	<u>580,998</u>	<u>-</u>	<u>-</u>
Change in net assets	327,955	681,128	450,398	(567,404)	778,353	113,724
Net position at beginning of year	<u>42,017,520</u>	<u>41,336,392</u>	<u>19,458,877</u>	<u>20,026,281</u>	<u>61,476,397</u>	<u>61,362,673</u>
Net position at end of year	<u>\$ 42,345,475</u>	<u>\$ 42,017,520</u>	<u>\$ 19,909,275</u>	<u>\$ 19,458,877</u>	<u>\$ 62,254,750</u>	<u>\$ 61,476,397</u>

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

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 2012 the revenues generated from this tax amounted to \$5,645,788. The increase in income tax revenues from 2011 was 7.2 percent. A portion of this increase in tax is reflected as an increase in income tax collections for 2012. The income tax revenue amounts fluctuate from collections as well as the estimated receivable provided by a third party that collects taxes on behalf of the City. The City continues to enforce the delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

Security of persons and property, transportation and general government are the major activities of the City generating 92.2 percent of the governmental expenses. Currently, there are 17 sworn officers in the police department. During 2012, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. The City also continues to provide its residents and businesses with fire protection and ambulance service through a contract with the Chardon Volunteer Fire Department Inc.

Business-Type Activities

The business-type activities of the City, which include the City's sewer and water operations, increased the City's net position by \$450,398 from various events including increased transfers from the general fund and water and sewer lines transferred in from a completed project reported in governmental activities. In addition, expenses decreased compared to 2011 resulting in an even greater increase in net position.

Overall, the City's business-type activities generated \$2,319,163 in program revenues during 2012, program expenses were \$3,165,235. General revenues of \$1,548 and net transfers of \$1,294,922 were adequate to cover the program expenses.

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$17,650,455 and expenditures and other financing uses of \$12,596,179. The net change in fund balance for the year was most significant in the general capital improvement fund. It is showing an increase in fund balance of \$4,336,345; which is attributed to unspent proceeds from a new bond. The bond is explained further in Note 10 to the basic financial statements.

Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Table 3 below reports year 2012 balances compared to 2011:

Table 3
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2012	December 31, 2011		
General fund	\$ 3,054,000	\$ 3,071,544	\$ (17,544)	-0.6%
General obligation debt service fund	609	601	8	1.3%
Infrastructure improvement	77,522	(108,679)	186,201	-171.3%
General capital improvement	5,053,214	716,869	4,336,345	604.9%
Other governmental funds	1,838,319	1,289,053	549,266	42.6%
	<u>\$ 10,023,664</u>	<u>\$ 4,969,388</u>	<u>\$ 5,054,276</u>	

Table 4 below assists in illustrating the financial activities for the general fund of year 2012 balances compared to 2011:

Table 4
Change in Financial Activities for the General Fund

	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Municipal income tax	\$ 5,368,335	\$ 5,488,804	\$ (120,469)	-2.2%
Property and other taxes	524,795	393,798	130,997	33.3%
Charges for services	80,706	72,140	8,566	11.9%
Licenses and permits	146,074	155,337	(9,263)	-6.0%
Fines and forfeitures	922,738	921,341	1,397	0.2%
Intergovernmental	354,192	279,272	74,920	26.8%
Investment income	16,523	32,829	(16,306)	-49.7%
Other	306,119	194,980	111,139	57.0%
Total revenue	<u>7,719,482</u>	<u>7,538,501</u>	<u>180,981</u>	
<u>Expenditures:</u>				
Current:				
General government	2,812,584	2,504,004	308,580	12.3%
Security of persons and property	1,896,701	1,287,305	609,396	47.3%
Public health services	13,000	14,150	(1,150)	-8.1%
Transportation	922,002	1,551,172	(629,170)	-40.6%
Community environment	147,113	150,604	(3,491)	-2.3%
Capital outlay	68,232	96,596	(28,364)	-29.4%
Debt service:				
Principal retirement	72,960	66,304	6,656	10.0%
Total expenditures	<u>\$ 5,932,592</u>	<u>\$ 5,670,135</u>	<u>\$ 262,457</u>	

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

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 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 object level within each department. 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.

Final budgeted revenues of \$7,201,417 were \$33,140 higher than original amount mainly due to certain revenues being unknown during the original budgeting process. Actual revenues exceeded the final amount by \$75,950. These differences were caused by the conservative budgeting nature of the original budgeting process.

Final budgeted expenditures of \$8,061,417 were more than the original budgeted expenditures by \$35,914. The change was reported mainly in general government function. Actual expenditures for the year were \$292,552 less than the final budgeted amounts. This change was due to close monitoring of expenditures.

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.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the City had \$70,897,519 invested in land and land improvements, buildings, machinery and equipment, vehicles and infrastructure.

Table 5 shows fiscal 2012 balances of capital assets as compared to 2011:

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Table 5
Capital Assets at December 31

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land, land use rights and land improvements	\$ 3,318,398	\$ 3,062,975	\$ 563,426	\$ 563,426	\$ 3,881,824	\$ 3,626,401
Buildings	9,310,075	9,114,317	20,937,130	20,937,130	30,247,205	30,051,447
Machinery and equipment	539,647	514,321	4,056,917	4,056,917	4,596,564	4,571,238
Vehicles	1,560,379	1,602,698	317,033	317,033	1,877,412	1,919,731
Infrastructure						
Traffic lights	1,961,016	1,961,016	-	-	1,961,016	1,961,016
Streets and sidewalks	21,713,641	21,274,057	-	-	21,713,641	21,274,057
Storm sewers, bridges and culverts	14,606,241	14,532,979	-	-	14,606,241	14,532,979
Water lines	-	-	6,690,665	6,651,279	6,690,665	6,651,279
Sewer lines	-	-	11,397,622	11,146,572	11,397,622	11,146,572
Construction in progress	1,969,033	1,343,280	8,475	-	1,977,508	1,343,280
Less: accumulated depreciation	<u>(15,928,896)</u>	<u>(14,918,619)</u>	<u>(12,123,283)</u>	<u>(11,342,001)</u>	<u>(28,052,179)</u>	<u>(26,260,620)</u>
Total capital assets	<u>\$ 39,049,534</u>	<u>\$ 38,487,024</u>	<u>\$ 31,847,985</u>	<u>\$ 32,330,356</u>	<u>\$ 70,897,519</u>	<u>\$ 70,817,380</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.

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 (before depreciation) for governmental activities increased \$1,572,787 (net of decreases) mainly due to construction in progress additions. This increase (net of decreases) was offset by an increase in accumulated depreciation of \$1,242,266. Capital assets for business-type activities decreased by \$482,371, mainly due to disposals of water and sewer lines and depreciation expense charged for the current year.

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, storm sewers, water and sanitary sewer lines and adding additional facilities to complement our current structures.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Debt

At December 31, 2012, the City of Chardon had \$21,437,287 in outstanding debt and compensated absences, of which \$5,510,000 was in general obligation bonds. Table 6 summarizes the outstanding obligations of the City.

Table 6
Outstanding Debt at Year End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 5,510,000	\$ 740,000	\$ -	\$ -	\$ 5,510,000	\$ 740,000
Premium on bonds	46,992	-	-	-	46,992	-
OPWC loans	1,676,491	984,736	-	-	1,676,491	984,736
OWDA loans	-	-	13,549,123	14,553,260	13,549,123	14,553,260
Accrued compensated absences	<u>531,036</u>	<u>532,933</u>	<u>123,645</u>	<u>120,938</u>	<u>654,681</u>	<u>653,871</u>
Total	<u>\$ 7,764,519</u>	<u>\$ 2,257,669</u>	<u>\$ 13,672,768</u>	<u>\$ 14,674,198</u>	<u>\$ 21,437,287</u>	<u>\$ 16,931,867</u>

Other obligations include accrued vacation pay and sick leave, 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, Mate Rogonjic, City of Chardon, 111 Water Street, Chardon, Ohio 44024, telephone (440) 286-2470, or web site at www.chardon.cc.

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City of Chardon, Ohio
Statement of Net Position
December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 9,114,505	\$ 1,172,022	\$ 10,286,527
Receivables:			
Income tax	1,429,311	-	1,429,311
Property and other taxes	1,504,940	-	1,504,940
Accounts	128,981	405,069	534,050
Accrued interest	1,039	-	1,039
Intergovernmental	531,391	-	531,391
Materials and supplies inventory	266,322	278,359	544,681
Prepaid items	18,441	2,644	21,085
Nondepreciable capital assets	3,878,230	329,223	4,207,453
Depreciable capital assets, net	35,171,304	31,518,762	66,690,066
Total assets	52,044,464	33,706,079	85,750,543
<u>Liabilities:</u>			
Accounts payable	107,519	51,413	158,932
Contracts payable	207,232	450	207,682
Accrued wages and benefits	144,087	33,813	177,900
Accrued pension	112,975	18,553	131,528
Due to other governments	110,726	19,807	130,533
Income tax refunds payable	19,394	-	19,394
Accrued interest payable	15,509	-	15,509
Long-term liabilities:			
Due within one year	468,217	1,107,857	1,576,074
Due in more than one year	7,296,302	12,564,911	19,861,213
Total liabilities	8,481,961	13,796,804	22,278,765
<u>Deferred inflows of resources:</u>			
Property taxes	1,217,028	-	1,217,028
Total deferred inflows of resources	1,217,028	-	1,217,028
<u>Net position:</u>			
Net investment in capital assets	36,564,018	18,298,862	54,862,880
Restricted for:			
Capital projects	395,246	-	395,246
Transportation	847,765	-	847,765
Security of persons and property	334,980	-	334,980
Other purposes	359,523	-	359,523
Unrestricted	3,843,943	1,610,413	5,454,356
Total net position	\$ 42,345,475	\$ 19,909,275	\$ 62,254,750

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 3,470,297	\$ 1,457,370	\$ 6,056	\$ -
Security of persons and property	3,316,748	366,790	85,105	-
Public health services	90,337	34,156	-	-
Transportation	2,044,255	-	746,609	338,745
Community environment	226,871	180,790	500	-
Leisure time activities	266,473	155,117	167,949	-
Interest and fiscal charges	41,828	-	-	-
Bond issuance costs	126,477	-	-	-
Total governmental activities	9,583,286	2,194,223	1,006,219	338,745
<u>Business-Type Activities:</u>				
Water	1,116,833	879,720	-	-
Sewer	2,048,402	1,439,443	-	-
Total business-type activities	3,165,235	2,319,163	-	-
Total primary government	\$ 12,748,521	\$ 4,513,386	\$ 1,006,219	\$ 338,745

General revenues:
Property taxes levied for:
 General purposes
 Security of persons and property
Income tax levied for:
 General purposes
 Capital projects
Grants and entitlements not restricted to specific programs
Investment earnings
Other
Transfers
Total general revenues and transfers

Change in net assets

Net position, beginning of year
Net position, end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (2,006,871)	\$ -	\$ (2,006,871)
(2,864,853)	-	(2,864,853)
(56,181)	-	(56,181)
(958,901)	-	(958,901)
(45,581)	-	(45,581)
56,593	-	56,593
(41,828)	-	(41,828)
(126,477)	-	(126,477)
<u>(6,044,099)</u>	<u>-</u>	<u>(6,044,099)</u>
-	(237,113)	(237,113)
-	(608,959)	(608,959)
-	(846,072)	(846,072)
<u>(6,044,099)</u>	<u>(846,072)</u>	<u>(6,890,171)</u>
558,929	-	558,929
739,985	-	739,985
5,126,081	-	5,126,081
519,707	-	519,707
319,941	-	319,941
16,523	1,548	18,071
385,810	-	385,810
(1,294,922)	1,294,922	-
<u>6,372,054</u>	<u>1,296,470</u>	<u>7,668,524</u>
327,955	450,398	778,353
<u>42,017,520</u>	<u>19,458,877</u>	<u>61,476,397</u>
<u>\$ 42,345,475</u>	<u>\$ 19,909,275</u>	<u>\$ 62,254,750</u>

City of Chardon, Ohio

Balance Sheet

Governmental Funds

December 31, 2012

	General	General Obligation Debt Service	Infrastructure Improvement	General Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in pooled cash and cash equivalents	\$ 2,040,621	\$ 609	\$ 134,822	\$ 5,149,935	\$ 1,788,518	\$ 9,114,505
Receivables:						
Income tax	1,386,432	-	-	42,879	-	1,429,311
Property and other taxes	585,782	-	-	-	919,158	1,504,940
Accounts	16,696	-	-	-	112,285	128,981
Accrued interest	1,039	-	-	-	-	1,039
Intergovernmental	86,516	-	-	-	444,875	531,391
Materials and supplies inventory	224,581	-	-	-	41,741	266,322
Prepaid items	16,271	-	-	-	2,170	18,441
Total assets	\$ 4,357,938	\$ 609	\$ 134,822	\$ 5,192,814	\$ 3,308,747	\$ 12,994,930
Liabilities, deferred inflows of resources and fund balances:						
Liabilities:						
Accounts payable	\$ 65,973	\$ -	\$ -	\$ -	\$ 41,546	\$ 107,519
Contracts payable	-	-	57,300	127,123	22,809	207,232
Accrued wages and benefits	133,046	-	-	-	11,041	144,087
Accrued pension	53,969	-	-	-	59,006	112,975
Due to other governments	104,410	-	-	-	6,316	110,726
Income tax refunds payable	19,394	-	-	-	-	19,394
Total liabilities	376,792	-	57,300	127,123	140,718	701,933
Deferred inflows of resources:						
Property taxes	372,073	-	-	-	844,955	1,217,028
Unavailable revenue - delinquent property taxes	41,099	-	-	-	74,203	115,302
Unavailable revenue - other	513,974	-	-	12,477	410,552	937,003
Total deferred inflows of resources	927,146	-	-	12,477	1,329,710	2,269,333
Fund balances:						
Nonspendable	240,852	-	-	-	43,911	284,763
Restricted	-	-	77,522	5,053,214	1,143,802	6,274,538
Committed	-	-	-	-	650,606	650,606
Assigned	759,902	609	-	-	-	760,511
Unassigned (Deficit)	2,053,246	-	-	-	-	2,053,246
Total fund balances	3,054,000	609	77,522	5,053,214	1,838,319	10,023,664
Total liabilities, deferred inflows of resources and fund balances	\$ 4,357,938	\$ 609	\$ 134,822	\$ 5,192,814	\$ 3,308,747	\$ 12,994,930

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

**Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2012**

Total governmental fund balances \$ 10,023,664

*Amounts reported for governmental activities in the
statement of net position are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in funds. 39,049,534

Other long-term assets are not available to pay for current-period expenditures
and therefore are offset by deferred inflows of resources in the funds:

Property and other taxes	\$ 158,455	
Income taxes	415,922	
Intergovernmental	414,646	
Charges for services	63,282	
Total		1,052,305

Accrued interest payable is not due and payable in the current
period and therefore is not reported in the funds. (15,509)

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

General obligation bonds	\$ (5,510,000)	
Premium	(46,992)	
OPWC loan	(1,676,491)	
Compensated absences	(531,036)	
Total		(7,764,519)

Net position of governmental activities \$ 42,345,475

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2012

	General	General Obligation Debt Service	Infrastructure Improvement	General Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:						
Income tax	\$ 5,368,335	\$ -	\$ -	\$ 143,435	\$ -	\$ 5,511,770
Property and other taxes	524,795	-	-	-	743,424	1,268,219
Charges for services	80,706	-	-	-	339,856	420,562
Licenses and permits	146,074	-	-	-	-	146,074
Fines and forfeitures	922,738	-	-	-	400,042	1,322,780
Intergovernmental	354,192	-	338,745	-	716,648	1,409,585
Special assessments	-	-	-	-	166,235	166,235
Investment income	16,523	-	-	6,056	560	23,139
Contributions and donations	-	-	-	-	34,700	34,700
Rentals	-	-	-	-	90,000	90,000
Other	306,119	-	-	-	275,845	581,964
Total revenue	<u>7,719,482</u>	<u>-</u>	<u>338,745</u>	<u>149,491</u>	<u>2,767,310</u>	<u>10,975,028</u>
Expenditures:						
Current:						
General government	2,812,584	-	-	-	484,912	3,297,496
Security of persons and property	1,896,701	-	-	-	1,300,078	3,196,779
Public health services	13,000	-	-	-	62,760	75,760
Transportation	922,002	-	-	-	137,043	1,059,045
Community environment	147,113	-	-	-	76,238	223,351
Leisure time activities	-	-	-	-	220,666	220,666
Capital outlay	68,232	-	1,217,259	678,661	351,347	2,315,499
Debt service:						
Principal retirement	72,960	175,000	-	-	-	247,960
Interest and fiscal charges	-	28,712	-	-	-	28,712
Bond issuance costs	-	-	-	126,477	-	126,477
Total expenditures	<u>5,932,592</u>	<u>203,712</u>	<u>1,217,259</u>	<u>805,138</u>	<u>2,633,044</u>	<u>10,791,745</u>
Excess of revenues over (under) expenditures	<u>1,786,890</u>	<u>(203,712)</u>	<u>(878,514)</u>	<u>(655,647)</u>	<u>134,266</u>	<u>183,283</u>
Other financing sources (uses):						
Proceeds of bonds	-	-	-	4,945,000	-	4,945,000
Proceeds of OPWC loans	-	-	764,715	-	-	764,715
Premium on debt issued	-	-	-	46,992	-	46,992
Transfers - in	-	203,720	300,000	-	415,000	918,720
Transfers - out	(1,804,434)	-	-	-	-	(1,804,434)
Total other financing sources (uses)	<u>(1,804,434)</u>	<u>203,720</u>	<u>1,064,715</u>	<u>4,991,992</u>	<u>415,000</u>	<u>4,870,993</u>
Net change in fund balance	(17,544)	8	186,201	4,336,345	549,266	5,054,276
Fund balances at beginning of year	<u>3,071,544</u>	<u>601</u>	<u>(108,679)</u>	<u>716,869</u>	<u>1,289,053</u>	<u>4,969,388</u>
Fund balances at end of year	<u>\$ 3,054,000</u>	<u>\$ 609</u>	<u>\$ 77,522</u>	<u>\$ 5,053,214</u>	<u>\$ 1,838,319</u>	<u>\$ 10,023,664</u>

See accompanying notes to the basic 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, 2012**

Net change in fund balances - Total governmental funds \$ 5,054,276

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities,
the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital outlay	\$	2,315,499	
Capital assets transferred		(409,208)	
Depreciation expense		<u>(1,242,266)</u>	
Excess of capital outlay and capital assets transferred over depreciation expense			664,025

Governmental funds only report the disposal of capital assets to the extent proceeds are received
from the sale. In the statement of activities, a gain or loss is reported for each disposal. (101,515)

Revenues in the statement of activities that do not provide current financial resources are not
reported as revenues in the funds. These activities consist of:

Property and other taxes	\$	30,695	
Income taxes		134,018	
Intergovernmental		77,596	
Other		(50)	
Charges for services		<u>(11,124)</u>	
Net change in deferred inflows of resources during the year			231,135

Some items reported in the statement of activities do not require the use of current financial
resources and therefore are not reported as expenditures in governmental funds. These
activities consist of:

Decrease in compensated absences	\$	1,897	
Decrease in accrued interest		<u>(13,116)</u>	
Total additional expenditures			(11,219)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net position. 247,960

Loan proceeds are reported as financing sources in governmental funds and thus contribute
to the change in fund balance. In the government-wide statements, however, issuing debt
increases long-term liabilities in the statement of net position and does not affect the
statement of activities. (5,709,715)

The amortization of issuance costs and bond premium is reflected as an expense in the statement of
activities. (46,992)

Change in net position of governmental activities \$ 327,955

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2012**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Income tax	\$ 5,000,000	\$ 5,000,000	\$ 5,022,808	\$ 22,808
Property and other taxes	381,500	380,800	394,610	13,810
Charges for services	70,750	71,450	81,313	9,863
Licenses and permits	174,990	174,990	146,148	(28,842)
Fines and forfeitures	889,500	922,640	939,298	16,658
Intergovernmental	338,237	338,237	358,775	20,538
Investment income	12,500	12,500	17,417	4,917
Other	296,450	296,450	312,648	16,198
Total revenue	7,163,927	7,197,067	7,273,017	75,950
<u>Expenditures:</u>				
Current:				
General government	2,942,463	2,976,829	2,823,077	153,752
Security of persons and property	1,716,122	1,717,669	1,672,567	45,102
Public health and welfare	16,250	16,250	13,000	3,250
Transportation	1,294,426	1,290,386	1,213,190	77,196
Community environment	165,792	165,792	152,557	13,235
Debt service:				
Principal retirement	66,320	70,361	70,344	17
Total expenditures	6,201,373	6,237,287	5,944,735	292,552
Excess of revenues over expenditures	962,554	959,780	1,328,282	368,502
<u>Other financing sources (uses):</u>				
Transfers - in	4,350	4,350	4,351	1
Transfers - out	(1,824,130)	(1,824,130)	(1,807,050)	17,080
Total other financing sources (uses)	(1,819,780)	(1,819,780)	(1,802,699)	17,081
Net change in fund balance	(857,226)	(860,000)	(474,417)	385,583
Fund balance at beginning of year	1,803,752	1,803,752	1,803,752	-
Prior year encumbrances appropriated	265,823	265,823	265,823	-
Fund balance at end of year	\$ 1,212,349	\$ 1,209,575	\$ 1,595,158	\$ 385,583

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>Assets:</u>			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 717,442	\$ 454,580	\$ 1,172,022
Accounts receivable	159,220	245,849	405,069
Materials and supplies inventory	217,353	61,006	278,359
Prepaid items	1,322	1,322	2,644
Total current assets	<u>1,095,337</u>	<u>762,757</u>	<u>1,858,094</u>
Non-current assets:			
Capital assets:			
Non-depreciable capital assets	253,871	75,352	329,223
Depreciable capital assets, net	11,863,149	19,655,613	31,518,762
Total non-current assets	<u>12,117,020</u>	<u>19,730,965</u>	<u>31,847,985</u>
Total assets	<u>13,212,357</u>	<u>20,493,722</u>	<u>33,706,079</u>
<u>Liabilities:</u>			
Current liabilities:			
Accounts payable	16,265	35,148	51,413
Contracts payable	-	450	450
Accrued wages and benefits	18,861	14,952	33,813
Accrued pension	9,390	9,163	18,553
Due to other governments	6,101	13,706	19,807
Compensated absences payable	17,884	20,379	38,263
OWDA loans payable	264,399	805,195	1,069,594
Total current liabilities	<u>332,900</u>	<u>898,993</u>	<u>1,231,893</u>
Long-term liabilities:			
Compensated absences payable	54,330	31,052	85,382
OWDA loans payable, net of current portion	4,488,399	7,991,130	12,479,529
Total long-term liabilities	<u>4,542,729</u>	<u>8,022,182</u>	<u>12,564,911</u>
Total liabilities	<u>4,875,629</u>	<u>8,921,175</u>	<u>13,796,804</u>
<u>Net position:</u>			
Net investment in capital assets	7,364,222	10,934,640	18,298,862
Unrestricted	972,506	637,907	1,610,413
Total net position	<u>\$ 8,336,728</u>	<u>\$ 11,572,547</u>	<u>\$ 19,909,275</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>Operating revenues:</u>			
Charges for services	\$ 856,515	\$ 1,423,200	\$ 2,279,715
Reimbursements	23,205	16,243	39,448
Total operating revenue	<u>879,720</u>	<u>1,439,443</u>	<u>2,319,163</u>
<u>Operating expenses:</u>			
Personal services	525,889	621,224	1,147,113
Supplies and materials	97,672	107,851	205,523
Travel and education	3,039	2,715	5,754
Contractual services	75,907	209,594	285,501
Utilities	71,793	167,651	239,444
Depreciation	242,928	640,440	883,368
Total operating expenses	<u>1,017,228</u>	<u>1,749,475</u>	<u>2,766,703</u>
Operating loss	<u>(137,508)</u>	<u>(310,032)</u>	<u>(447,540)</u>
<u>Non-operating revenues (expenses):</u>			
Interest	-	1,548	1,548
Contributions	60,139	349,069	409,208
Interest and fiscal charges	(98,950)	(282,896)	(381,846)
Loss on disposal of capital assets	(655)	(16,031)	(16,686)
Total non-operating revenues (expenses):	<u>(39,466)</u>	<u>51,690</u>	<u>12,224</u>
Loss before transfers	(176,974)	(258,342)	(435,316)
Transfers - in	<u>357,687</u>	<u>528,027</u>	<u>885,714</u>
Change in net position	180,713	269,685	450,398
Net position at beginning of year	<u>8,156,015</u>	<u>11,302,862</u>	<u>19,458,877</u>
Net position at end of year	<u>\$ 8,336,728</u>	<u>\$ 11,572,547</u>	<u>\$ 19,909,275</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 862,823	\$ 1,425,310	\$ 2,288,133
Cash payments for personal services	(521,308)	(613,191)	(1,134,499)
Cash payments for travel and entertainment	(3,039)	(2,715)	(5,754)
Cash payments for contractual services	(95,693)	(189,348)	(285,041)
Cash payments to suppliers for goods and services	(108,901)	(112,509)	(221,410)
Cash payments for utilities	(74,692)	(164,963)	(239,655)
Net cash provided by operating activities	<u>59,190</u>	<u>342,584</u>	<u>401,774</u>
Cash flows from noncapital financing activities:			
Transfers from other funds	<u>357,687</u>	<u>528,027</u>	<u>885,714</u>
Cash flows from capital and related financing activities:			
OWDA loan	-	42,546	42,546
Interest paid on debt	(98,950)	(282,896)	(381,846)
Principal payment on loans	(259,180)	(787,503)	(1,046,683)
Acquisition of capital assets	(7,125)	(900)	(8,025)
Net cash used for capital and related financing activities	<u>(365,255)</u>	<u>(1,028,753)</u>	<u>(1,394,008)</u>
Cash flows from investing activities:			
Investment income	<u>-</u>	<u>1,548</u>	<u>1,548</u>
Net increase (decrease) in cash and cash equivalents	51,622	(156,594)	(104,972)
Cash and cash equivalents at beginning of year	665,820	611,174	1,276,994
Cash and cash equivalents at end of year	<u>\$ 717,442</u>	<u>\$ 454,580</u>	<u>\$ 1,172,022</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (137,508)	\$ (310,032)	\$ (447,540)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	242,928	640,440	883,368
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(16,897)	(14,133)	(31,030)
Materials and supplies inventory	(16,391)	(8,529)	(24,920)
Prepaid items	(229)	2,182	1,953
Increase (decrease) in liabilities:			
Accounts payable	(16,357)	18,654	2,297
Accrued pension	1,924	2,182	4,106
Accrued wages and benefits	2,136	3,665	5,801
Compensated absences	521	2,186	2,707
Due to other governments	(937)	5,969	5,032
Net cash provided by (used for) operating activities	<u>\$ 59,190</u>	<u>\$ 342,584</u>	<u>\$ 401,774</u>
Non-cash activity:			
Capital assets transferred from governmental activities	\$ 60,139	\$ 349,069	\$ 409,208
Capital asset acquired from a liability	-	450	450

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fiduciary Net Position
December 31, 2012

	Private Purpose Trust Cemetery	Agency
	<hr/>	<hr/>
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ -	\$ 178,144
Cash and cash equivalents in segregated accounts	17,725	111,281
Intergovernmental receivable	-	54,104
Total assets	<u>\$ 17,725</u>	<u>\$ 343,529</u>
<u>Liabilities:</u>		
Intergovernmental payable	\$ -	\$ 109,022
Undistributed monies	-	94,556
Deposits held and due to others	-	139,951
Total liabilities	<u>-</u>	<u>\$ 343,529</u>
<u>Net position:</u>		
Held in trust for cemetery	<u>17,725</u>	
Total net position	<u>\$ 17,725</u>	

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Changes in Fiduciary Net Position

For the Year Ending December 31, 2012

	<u>Private Purpose Trust Cemetery</u>
Additions:	
Interest	<u>\$ 18</u>
Deductions:	
Supplies and materials	<u>82</u>
Change in net position	(64)
Net position at beginning of year	<u>17,789</u>
Net position at end of year	<u><u>\$ 17,725</u></u>

See accompanying notes to the basic financial statements.

NOTE 1 – 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 most significant of the City's accounting policies are described below.

A. 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 Police, Public Service, Manager, Finance, Planning and Zoning, Recreation and Municipal Court. Included within the Department of Public Service are the Division of Streets, Cemeteries and Parks as well as the Division of Water and Sewer. 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 the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

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 and certain special revenue funds. 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.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position 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 position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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 position 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. Fiduciary funds are reported by type.

C. 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.

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.

Infrastructure Improvement Fund - This fund is used to report resources transferred from the general fund as well as receipt of OPWC loan proceeds and used for expenditures for infrastructure within governmental funds.

General Capital Improvement Fund - This fund is used to accumulate resources transferred from the general fund as well as a portion of the municipal income tax revenue and used for expenditures for capital assets and infrastructure within governmental funds.

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 position, 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 treatment and distribution to its residential and commercial users located within the City.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position. 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, employee healthcare flex spending, and the municipal court.

D. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the 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 position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

E. 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 and fiduciary 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 outflows/inflows and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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. For the City, available means expected to be received within sixty days of year-end.

Nonexchange 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, shared revenues and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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 Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any deferred outflows of resources at December 31, 2012.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the government wide statement of net position and the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

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.

F. Equity in Pooled Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except for the cemetery private purpose trust fund and municipal court agency fund, are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City treasury. The cash of the cemetery private purpose fund and municipal court agency fund are included in this line item.

During 2012, investments were limited to certificates of deposits, government-sponsored enterprise investments, U.S. government agency securities that are backed by the full faith and credit of the U.S. government and an interest in the State Treasury Asset Reserve of Ohio (STAROhio). The government-sponsored enterprise (GSE) investments, which are not backed by the full faith and credit of the federal government, were held as investments at year-end by the City. The GSE investments held were issued from Federal Home Loan Bank (FHLB).

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. 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

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when used. Inventories of the proprietary funds are expensed when used.

Inventory consists of expendable supplies held for consumption.

H. Interfund Balances

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure or expense is reported in the year in which services are consumed.

J. 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.

K. 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 position 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 position 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 capital assets are recorded at their fair market values as of the date received. The City reports all land parcels and maintains a capitalization threshold of five thousand dollars. Improvements are

capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. For proprietary funds and business-type activities, any material amount of interest incurred during the construction of capital assets is also capitalized.

All capital assets are depreciated except for land and construction and 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:

Asset Class	Estimated Useful Life
Buildings and improvements	50 years
Machinery and equipment	5 to 20 years
Vehicles	5 to 10 years
Infrastructure	20 to 100 years

The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines.

L. Compensated Absences

Vacation benefits and compensatory time 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 and compensatory time when earned for all employees.

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.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances). Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

O. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment of capital assets 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 position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net position restricted for other purposes include cemetery operations, police and computer and special project programs. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions 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 water and sewer programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as non-operating.

Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. 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.

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. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. Line item budgets 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 the total object level within each department. 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. The City revises 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 find the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first amended official certificate of estimated resources issued during 2012. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2012.

Appropriations

A temporary appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds must be legally enacted on or about January 1. A permanent appropriation ordinance is legally enacted before March 31. 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 permanent 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 budgetary control is at the object level within each department for all funds. 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.

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 assigned fund balances for subsequent-year expenditures of governmental funds.

NOTE 2 - 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 – General Fund and Street Construction, Maintenance and Repair 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) as opposed to when susceptible to accrual (GAAP).
- b. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- c. Encumbrances are treated as expenditures (budget) rather than assigned fund balance (GAAP).
- d. Advances in and advances out ("repayment of advances") are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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- e. The change in fair value of investments is not included on the budget operating statement. This amount is included as revenue on the GAAP basis operating statement.
- f. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.
- g. Cash held in the municipal court agency fund that is to be disbursed to the general fund are not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.
- h. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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.

Net Change in Fund Balance

	<u>General</u>
GAAP basis	\$ (17,544)
Revenue accruals	(52,727)
Expenditure accruals	111,027
Municipal court collections	(55,210)
Perspective differences from funds budgeted as special revenue funds:	
Revenues	(334,680)
Change in fair value of investments	503
Encumbrances (budget basis) outstanding at year end	(125,786)
Budget basis	<u><u>\$ (474,417)</u></u>

NOTE 3 – FUND BALANCE

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

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Fund Balances	General	General Obligation Debt Service	Infrastructure Improvement	General Capital Improvement	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable</u>						
Materials and supplies inventory	\$ 224,581	\$ -	\$ -	\$ -	\$ 41,741	\$ 266,322
Prepays	16,271	-	-	-	2,170	18,441
Total nonspendable	<u>240,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,911</u>	<u>284,763</u>
<u>Restricted for</u>						
Streets and highways	-	-	-	-	502,049	502,049
Streets lighting	-	-	-	-	28,452	28,452
Fire and EMS services	-	-	-	-	184,403	184,403
Capital improvements	-	-	77,522	5,053,214	-	5,130,736
Court activities	-	-	-	-	313,625	313,625
Shade tree	-	-	-	-	43,457	43,457
Police services	-	-	-	-	41,837	41,837
Cemetery	-	-	-	-	29,979	29,979
Total restricted	<u>-</u>	<u>-</u>	<u>77,522</u>	<u>5,053,214</u>	<u>1,143,802</u>	<u>6,274,538</u>
<u>Committed</u>						
Recreation	-	-	-	-	57,561	57,561
Fire and EMS services	-	-	-	-	310,136	310,136
Capital improvements	-	-	-	-	282,909	282,909
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>650,606</u>	<u>650,606</u>
<u>Assigned</u>						
Encumbrances	52,295	-	-	-	-	52,295
Next year's budget	707,607	-	-	-	-	707,607
Debt service	-	609	-	-	-	609
Total assigned	<u>759,902</u>	<u>609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>760,511</u>
Unassigned (deficit)	<u>2,053,246</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,053,246</u>
Total fund balances	<u>\$ 3,054,000</u>	<u>\$ 609</u>	<u>\$ 77,522</u>	<u>\$ 5,053,214</u>	<u>\$ 1,838,319</u>	<u>\$ 10,023,664</u>

NOTE 4 – IMPLEMENTATION OF NEW ACCOUNTING STANDARD

For 2012, the City has implemented Governmental Accounting Standards Board Statement (GASBS) No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”.

GASBS No. 63 established standards for the reporting of net position which was previously referred to as net assets. The City’s implementation had no effect on the amount of beginning net position.

For 2012, the City has implemented Governmental Accounting Standards Board Statement (GASBS) No. 65, "Items Previously Reported as Assets and Liabilities".

GASBS No. 65 established standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. The City's implementation had no effect on the amount of beginning net position. The debt issuance cost from the new bonds will be reported as a current period expense.

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 (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), and Student Loan Marketing Association (SLMA). 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 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.

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either within the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured.

Undeposited Cash: At year-end, the City had \$950 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

Deposits: At year-end, the carrying amount of the City's deposits was \$10,092,152 and the bank balance was \$10,325,417. The City's deposits were not exposed to custodial credit risk as they were either insured or secured by a collateral pool of eligible securities held at the Federal Reserve in a pledge account.

Investments: At year-end, the City held an investment in a Federal Home Loan Bank bond with a fair value of \$500,575.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest allocation is determined by the Ohio Constitution, state statutes, and local ordinances adopted under City Charter. Under these provisions, interest revenue is distributed to the general fund, certain special revenue funds, and the private purpose trust fund. Interest revenue credited to the general fund during 2012 amounted to \$16,523, which includes \$12,001 assigned from other funds.

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 certificates of deposit and security purchases to those that mature within five years unless authorized by Council. To date, no investments have been purchased with a life greater than two years.

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

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the 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. The City's investment in STAR Ohio has an AAAM credit rating.

Concentration of Credit Risk is the possibility of loss attributed to the magnitude of the City’s investment in a single issuer. More than five percent of the City’s investments are in FHLB and securities. The City’s investment policy requires diversification of the portfolio and indicates that investments shall be diversified to eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, a specific issuer, or a specific class of security. The policy requires: a) the total par amount invested in a combination of commercial paper and banker’s acceptances may not exceed 25% of the total invested funds at the time of purchase; and b) no more than 50% of the portfolio shall be invested in securities with maturities that exceed two years.

NOTE 6 – RECEIVABLES

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, accrued interest on investments, and accounts (billings for ambulance service and utility service). No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of the 2011 taxes. Property tax payments received during 2012 for tangible personal property (other than public utility property) is for 2012 taxes.

2012 real property taxes are levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35% of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$11 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

Property Category	Assessed Value	Percent
<u>Real Property</u>		
Residential and agricultural	\$ 95,969,290	60.00 %
Commercial and industrial	60,916,310	38.08
Public utilities	3,064,110	1.92
Total	<u>\$ 159,949,710</u>	<u>100 %</u>

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2012, and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred inflow of resources since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue.

Income Taxes

The City levies a 2% 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, Regional Income Tax Agency (RITA), 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.

In 2012, all income tax proceeds were allocated to the general fund, general operating reserve and payroll stabilization special revenue funds and general capital improvement reserve capital projects fund. On the GAAP basis of reporting the general operating reserve and payroll stabilization special revenue funds are included within the general fund; however, on the cash basis they are budgeted separately.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Local Government and Local Government	
Revenue Assistance	\$ 33,610
Homestead and Rollback	63,422
Gasoline and Excise Tax	298,473
Motor Vehicle License Fees	103,107
Other Reimbursements	28
Grants	<u>32,751</u>
Total	<u>\$ 531,391</u>

NOTE 7 - 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance <u>12/31/2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2012</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,802,544	\$ 96,487	\$ -	\$ 1,899,031
Land use rights	10,166	-	-	10,166
Construction in progress	<u>1,343,280</u>	<u>2,146,458</u>	<u>(1,520,705)</u>	<u>1,969,033</u>
Total capital assets, not being depreciated	<u>3,155,990</u>	<u>2,242,945</u>	<u>(1,520,705)</u>	<u>3,878,230</u>
Capital assets, being depreciated				
Land improvements	1,250,265	158,936	-	1,409,201
Buildings	9,114,317	195,758	-	9,310,075
Machinery and equipment	514,321	37,686	(12,360)	539,647
Vehicles	1,602,698	34,868	(77,187)	1,560,379
Infrastructure:				
Traffic lights	1,961,016	-	-	1,961,016
Storm sewers, bridges and culverts	14,532,979	246,071	(172,809)	14,606,241
Streets and sidewalks	<u>21,274,057</u>	<u>510,732</u>	<u>(71,148)</u>	<u>21,713,641</u>
Total capital assets, being depreciated	<u>50,249,653</u>	<u>1,184,051</u>	<u>(333,504)</u>	<u>51,100,200</u>
Less: accumulated depreciation				
Land improvements	(446,971)	(63,892)	-	(510,863)
Buildings	(2,407,505)	(187,293)	-	(2,594,798)
Machinery and equipment	(252,233)	(39,327)	8,405	(283,155)
Vehicles	(728,507)	(133,554)	75,341	(786,720)
Infrastructure:				
Traffic lights	(350,307)	(65,217)	-	(415,524)
Storm sewers, bridges and culverts	(3,209,810)	(164,345)	122,951	(3,251,204)
Streets and sidewalks	<u>(7,523,286)</u>	<u>(588,638)</u>	<u>25,292</u>	<u>(8,086,632)</u>
Total accumulated depreciation	<u>(14,918,619)</u>	<u>(1,242,266)</u>	<u>231,989</u>	<u>(15,928,896)</u>
Total capital assets, being depreciated, net	<u>35,331,034</u>	<u>(58,215)</u>	<u>(101,515)</u>	<u>35,171,304</u>
Governmental activities capital assets, net	<u>\$ 38,487,024</u>	<u>\$ 2,184,730</u>	<u>\$ (1,622,220)</u>	<u>\$ 39,049,534</u>

City of Chardon, Ohio
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Depreciation expense was charged to governmental functions as follows:

General government	\$ 213,575
Security of persons and property	78,808
Public health services	14,044
Transportation	887,381
Community environment	2,651
Leisure time activities	<u>45,807</u>
Total depreciation expense	<u>\$ 1,242,266</u>

	Balance 12/31/2011	Increases	Decreases	Balance 12/31/2012
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 320,748	\$ -	\$ -	\$ 320,748
Construction in progress	<u>-</u>	<u>8,475</u>	<u>-</u>	<u>8,475</u>
Total capital assets, not being depreciated	<u>320,748</u>	<u>8,475</u>	<u>-</u>	<u>329,223</u>
Capital assets, being depreciated				
Land improvements	242,678	-	-	242,678
Buildings	20,937,130	-	-	20,937,130
Machinery and equipment	4,056,917	-	-	4,056,917
Vehicles	317,033	-	-	317,033
Infrastructure:				
Water lines	6,651,279	60,139	(20,753)	6,690,665
Sewer lines	<u>11,146,572</u>	<u>349,069</u>	<u>(98,019)</u>	<u>11,397,622</u>
Total capital assets, being depreciated	<u>43,351,609</u>	<u>409,208</u>	<u>(118,772)</u>	<u>43,642,045</u>
Less: accumulated depreciation				
Land improvements	(109,568)	(10,578)	-	(120,146)
Buildings	(4,327,896)	(418,420)	-	(4,746,316)
Machinery and equipment	(2,970,636)	(250,836)	-	(3,221,472)
Vehicles	(164,593)	(20,715)	-	(185,308)
Infrastructure:				
Water lines	(1,515,855)	(67,318)	20,098	(1,563,075)
Sewer lines	<u>(2,253,453)</u>	<u>(115,501)</u>	<u>81,988</u>	<u>(2,286,966)</u>
Total accumulated depreciation	<u>(11,342,001)</u>	<u>(883,368)</u>	<u>102,086</u>	<u>(12,123,283)</u>
Total capital assets, being depreciated, net	<u>32,009,608</u>	<u>(474,160)</u>	<u>(16,686)</u>	<u>31,518,762</u>
Business-type activities capital assets, net	<u>\$ 32,330,356</u>	<u>\$ (465,685)</u>	<u>\$ (16,686)</u>	<u>\$ 31,847,985</u>

Depreciation expense was charged to business-type activities as follows:

Water	\$ 242,928
Sewer	<u>640,440</u>
Total depreciation expense	<u>\$ 883,368</u>

NOTE 9 - COMPENSATED ABSENCES

Accumulated Unpaid Vacation: City employees earn vacation leave at varying rates based upon length of service. 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.

Accumulated Unpaid Sick Leave: 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.

Accumulated Unpaid Compensatory Time: From time to time, employees may need, with prior approval from their supervisors, to work overtime. These overtime hours will usually be paid at the appropriate overtime rate; however, with permission of the supervisor, an employee may have the option of taking the overtime in compensatory time at one and one half times the amount of hours worked.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 10 - LONG-TERM DEBT

A schedule of changes in bonds and other long-term obligations of the City during 2012 follows:

	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/12</u>	<u>Due in</u> <u>One</u> <u>Year</u>
Governmental activities:					
<u>General obligation bonds:</u>					
2012 Municipal service					
facilities, 2.0 - 4.0%, maturing 2032	\$ -	\$ 4,945,000	\$ -	\$ 4,945,000	\$ 5,000
Premium	-	46,992	-	46,992	-
2005 Municipal building					
improvements, 4.10%, maturing 2015	<u>740,000</u>	<u>-</u>	<u>(175,000)</u>	<u>565,000</u>	<u>180,000</u>
	<u>740,000</u>	<u>4,991,992</u>	<u>(175,000)</u>	<u>5,556,992</u>	<u>185,000</u>
<u>Other long-term obligations:</u>					
Ohio Public Works Commission 0%					
Park Avenue reconstruction	262,500	-	(25,000)	237,500	25,000
Fifth Avenue improvement project	374,295	-	(23,393)	350,902	23,394
North Street improvement project	286,564	-	(17,910)	268,654	17,910
Downing Drive storm and sanitary sewer project	61,377	204,886	(6,657)	259,606	13,313
Repair Court Street, Karen Drive and Lost Pond Parkway	<u>-</u>	<u>559,829</u>	<u>-</u>	<u>559,829</u>	<u>-</u>
Total Ohio Public Works Commission	<u>984,736</u>	<u>764,715</u>	<u>(72,960)</u>	<u>1,676,491</u>	<u>79,617</u>
Compensated absences	<u>532,933</u>	<u>223,171</u>	<u>(225,068)</u>	<u>531,036</u>	<u>203,600</u>
Total other long-term obligations	<u>1,517,669</u>	<u>987,886</u>	<u>(298,028)</u>	<u>2,207,527</u>	<u>283,217</u>
Total governmental long-term liabilities	<u>\$ 2,257,669</u>	<u>\$ 5,979,878</u>	<u>\$ (473,028)</u>	<u>\$ 7,764,519</u>	<u>\$ 468,217</u>

City of Chardon, Ohio
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	Balance <u>12/31/11</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/12</u>	Due in One <u>Year</u>
Business-type activities:					
<u>Ohio Water Development Authority loans:</u>					
0.0% Wilson Mills Road					
Sanitary Sewer - 2009	\$ 58,418	\$ 42,546	\$ (6,083)	\$ 94,881	\$ -
2.0% Water treatment plant					
improvements - 2007	5,011,978	-	(259,180)	4,752,798	264,399
3.25% Eastside sanitary trunk sewer					
improvements - 2006	2,413,158	-	(127,140)	2,286,018	131,306
2.975% Waste water treatment plant					
improvements - 2002	<u>7,069,706</u>	<u>-</u>	<u>(654,280)</u>	<u>6,415,426</u>	<u>673,889</u>
Total Ohio Water Development Authority loans	<u>14,553,260</u>	<u>42,546</u>	<u>(1,046,683)</u>	<u>13,549,123</u>	<u>1,069,594</u>
<u>Other long-term obligations:</u>					
Compensated absences	<u>120,938</u>	<u>42,846</u>	<u>(40,139)</u>	<u>123,645</u>	<u>38,263</u>
Total business-type long-term obligations	<u>\$ 14,674,198</u>	<u>\$ 85,392</u>	<u>\$ (1,086,822)</u>	<u>\$ 13,672,768</u>	<u>\$ 1,107,857</u>

The Ohio Public Works Commission (“OPWC”) 2002 Park Avenue Reconstruction Loan relates to construction on City streets. 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 OPWC 2005 North Street Improvement Loan relates to construction on City streets. The loan will be repaid in semiannual installments of \$8,955 over 20 years, ending in 2027. Principal is paid out of the general fund.

The OPWC 2006 Fifth Avenue Improvement Loan relates to construction on City streets. The loan will be repaid in semiannual installments of \$11,697 over 20 years, ending in 2027. Principal is paid out of the general fund.

During the year the City obtained proceeds from two OPWC loans that relate to construction on storm and sanitary sewer on Downing Drive and street repairs to Court Street, Karen Drive and Lost Pond Parkway. The City has received the draws on the proceeds of the street repair loan however, the final debt obligation is not certain until completion of the project. The City was approved to borrow \$700,000 on this loan and the remainder of the project was financed with grants.

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 approved up to \$13,500,000 in loans to the City for this project.

The 2006 OWDA loan is for the Eastside sanitary trunk sewer improvements and began semi-annual principal and interest payments in 2007.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

During 2010, the City obtained proceeds from an Ohio Water Development Authority (“OWDA”) loan that relates to the Wilson Mills sanitary sewer line project. The City has received the first draw on the proceeds of this loan in 2011 however, the final debt obligation is not certain until completion of the project. The City was approved to borrow \$182,500 on this loan and the remainder of the project was financed with grants.

The City has agreed to set utility rates and fees sufficient to cover OWDA debt service requirements. For the OWDA wastewater treatment plant expansion and upgrade project, 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.

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 the enterprise funds. Compensated absences will be paid from the general fund, water and sewer enterprise funds.

In 2005, the City defeased the Municipal Building Improvement Bonds in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. As of December 31, 2010, all of the old bonds have been called and subsequently redeemed.

During 2012 the City issued bonds to provided funding for construction of the Municipal Service Facilities. The bonds were issued at a premium and have an interest rate from 2.0% to 4.0% and mature in 2032.

Principal and interest requirements to retire the City’s long-term obligations outstanding at December 31, 2012, are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Totals</u>		
	<u>General Obligation Bonds</u>	<u>OPWC Loans</u>	<u>Principal</u>	<u>Interest</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$ 185,000	\$ 162,682	\$ 79,617	\$ 264,617	\$ 162,682
2014	190,000	132,410	79,617	269,617	132,410
2015	205,000	124,910	79,617	284,617	124,910
2016	5,000	116,810	79,617	84,617	116,810
2017	5,000	116,710	79,617	84,617	116,710
2018-2022	1,405,000	506,450	385,584	1,790,584	506,450
2023-2027	1,610,000	349,562	273,084	1,883,084	349,562
2028-2032	1,905,000	148,425	59,909	1,964,909	148,425
	<u>\$ 5,510,000</u>	<u>\$ 1,657,959</u>	<u>\$ 1,116,662</u>	<u>\$ 6,626,662</u>	<u>\$ 1,657,959</u>

<u>Year</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,069,585	\$ 352,862
2014	1,099,398	323,048
2015	1,130,065	292,381
2016	1,161,610	260,836
2017	1,194,058	228,388
2018-2022	5,181,601	640,972
2023-2027	2,440,633	168,190
2028	177,292	1,773
	<u>\$ 13,454,242</u>	<u>\$ 2,268,450</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. 1.) The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan. 2.) The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Members accumulate retirement assets equal to the value of the member and (vested) employer contributions, plus any investment earnings thereon. 3.) The Combined Plan (CP) - a cost-sharing, multiple-employer defined benefit pension 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 MD.

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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377, or by visiting the OPERS website at <https://www.opers.org/investments/cafr.shtml>.

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2012, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2012 was 14%. The contribution rates are determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional plan for the years ended December 31, 2012, 2011 and 2010 were \$349,299, \$304,537 and \$321,771 respectively; 83.8% has been contributed for 2012 and 100% for 2011 and 2010. \$44,994 representing the unpaid contribution for fiscal year 2012 is recorded as an intergovernmental payable.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers, of which 12.75% was used to fund pension plans. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2012, 2011 and 2010 were \$104,245, \$102,865 and \$101,883 respectively. The full amount has been contributed for 2011 and 2010. 67.2% has been contributed for 2012 with the remainder being reported as a liability. \$34,192 representing the unpaid contribution for fiscal year 2012 is recorded as an intergovernmental payable.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension 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 OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, the City contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2012, 2011 and 2010 were \$139,720, \$169,187 and \$178,762 respectively; 83.8% has been contributed for 2012 and 100% for 2011 and 2010. \$22,638 representing the unpaid contribution for fiscal year 2012 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Firemen's Disability and Pension Fund

The City of Chardon contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

The Ohio Revised Code provides for contribution requirements of the participating employers and of the plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 % and 24% of covered payroll for police and fire employers, respectively. The Ohio revised Code states that the employer contribution may not exceed 19.5% of the covered payroll for police employer units and 24% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's total contributions to OP&F for police health care for the years ended December 31, 2012, 2011 and 2010 were \$55,188, \$54,458 and \$53,938, respectively, 67.2% has been contributed, for 2012 with the remainder being reported as a liability. \$18,102 representing the unpaid contribution for fiscal year 2012 is recorded as an intergovernmental payable.

NOTE 13 - CONTINGENT LIABILITIES

Litigation

The City management is of the opinion that the ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Federal and State Grants

The City participates in several federally assisted programs. These programs are subject to financial and compliance audits by the grantor or their representative. As of December 31, 2012, the audits of these programs have not been completed. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 14 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer to	Transfer from General fund
General obligation debt service fund	\$ 203,720
Infrastructure improvement capital project fund	300,000
Nonmajor governmental funds	415,000
Enterprise funds:	
Water fund	357,687
Sewer fund	528,027
Total transfers	\$ 1,804,434

In addition, capital assets were transferred from governmental activities to the water and sewer enterprise funds. The assets transferred to the water and sewer funds were from a completed construction project and valued at \$60,139 and \$349,069 respectively. These transfers of capital assets are reported as transfers on the statement of activities.

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.

NOTE 15 – ENCUMBRANCES

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

	Encumbrances
General fund	\$ 52,295
Infrastructure improvements	74,486
General capital improvements	149,264
Other governmental	223,273
Total encumbrances	\$ 499,318

**Independent Auditor’s 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 the City Council
City of Chardon, Ohio

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Chardon, Ohio (the “City”), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 27, 2013, wherein we noted the City adopted Governmental Accounting Standards Board (GASB) Statement No.’s 63 and 65 as disclosed in Note 4.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and
Members of the City Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ciuni & Paricki, Inc.

Cleveland, Ohio
June 27, 2013

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Dave Yost • 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
SEPTEMBER 10, 2013