

City of Chardon, Ohio

**Basic Financial Statements
December 31, 2009**



Mary Taylor, CPA
Auditor of State

Honorable Mayor
and Members of City Council
City of Chardon
111 Water Street
Chardon, Ohio 44024

We have reviewed the *Independent Auditors' Report* of the City of Chardon, Geauga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2009 through December 31, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 15, 2010

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City of Chardon, Ohio

For The Year Ended December 31, 2009

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Independent Auditors' Report

Honorable Mayor and
Members of City Council
Chardon, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Chardon, Ohio, (the "City") as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2009, and the respective changes in financial position and cash flows where applicable, thereof and the respective budgetary comparison for the General and Street, Construction, Maintenance, and Repair Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14, during the year ended December 31, 2009 the City implemented Governmental Accounting Standards Board (GASB) Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*.

Honorable Mayor and
Members of City Council
Chardon, Ohio

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that 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 the Governmental Accounting Standards Board, who considers it to be an essential part of the 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.

Cimini & Panichi, Inc.

Cleveland, Ohio
June 24, 2010

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For The Year Ended December 31, 2009

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, 2009. 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 2009 are as follows:

- ◆ The assets of the City of Chardon exceeded its liabilities at the close of the most recent year by \$56,527,070. Of this amount, \$4,328,729 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$1,106,215 which represents a decrease of approximately 1.4 percent under 2008. The cash balance of governmental activities decreased approximately \$1.2 million from 2008.
- ◆ Total liabilities decreased by \$644,301, which represents a decrease of 2.9 percent under 2008. There was no main factor contributing to this decrease.
- ◆ In total, net assets of the City decreased by \$461,914 during 2009. This represents a 0.8 percent decrease from 2008.

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 assets 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, 2009

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

Statement of Net Assets 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 2009”? 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 assets and changes in those assets. This change in net assets 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 Assets 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, 2009

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 24 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 27 of this report.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For The Year Ended December 31, 2009

Notes to the Financial Statements

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

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

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

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

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

Table 1 provides a summary of the City's net assets for 2009 as compared to 2008.

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Assets: | | | | | | |
| Current and other assets | \$ 7,766,854 | \$ 8,406,359 | \$ 2,754,223 | \$ 3,016,997 | \$10,521,077 | \$11,423,356 |
| Capital assets, net | <u>37,057,273</u> | <u>37,047,406</u> | <u>30,622,012</u> | <u>30,835,815</u> | <u>67,679,285</u> | <u>67,883,221</u> |
| Total Assets | <u>44,824,127</u> | <u>45,453,765</u> | <u>33,376,235</u> | <u>33,852,812</u> | <u>78,200,362</u> | <u>79,306,577</u> |
| Liabilities: | | | | | | |
| Current liabilities | 1,700,097 | 1,497,144 | 599,287 | 320,432 | 2,299,384 | 1,817,576 |
| Long-term liabilities | | | | | | |
| Due within one year | 460,406 | 499,891 | 989,788 | 975,963 | 1,450,194 | 1,475,854 |
| Due in more than one year | <u>2,306,844</u> | <u>2,515,053</u> | <u>15,616,870</u> | <u>16,509,110</u> | <u>17,923,714</u> | <u>19,024,163</u> |
| Total liabilities | <u>4,467,347</u> | <u>4,512,088</u> | <u>17,205,945</u> | <u>17,805,505</u> | <u>21,673,292</u> | <u>22,317,593</u> |
| Net Assets: | | | | | | |
| Invested in capital assets, net of related debt | 34,921,306 | 34,603,205 | 14,158,290 | 13,482,990 | 49,079,596 | 48,086,195 |
| Restricted | 3,118,745 | 3,074,603 | - | - | 3,118,745 | 3,074,603 |
| Unrestricted | <u>2,316,729</u> | <u>3,263,869</u> | <u>2,012,000</u> | <u>2,564,317</u> | <u>4,328,729</u> | <u>5,828,186</u> |
| Total net assets | <u>\$40,356,780</u> | <u>\$40,941,677</u> | <u>\$16,170,290</u> | <u>\$16,047,307</u> | <u>\$56,527,070</u> | <u>\$56,988,984</u> |

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For The Year Ended December 31, 2009

Net assets may serve over time as a useful indicator of a government's financial position. For the City of Chardon, total assets exceeded total liabilities by \$56,527,070 as of December 31, 2009. At the end of the current year, the City of Chardon is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

The largest portion of the City's net assets (86.8 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 2009 decreased \$1,106,215 or 1.4 percent when compared to 2008. The decrease in total assets was mainly due to a decrease in the cash balance reported in governmental activities of \$1,193,390. Transfers out of governmental activities as well as expenditures increased as compared to 2008.

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 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 assets of the City's business-type activities increased 0.8 percent in 2009. This increase was not due to any specific or significant activity within the water or sewer funds. The water treatment plant construction was finalized by the end of the year as well as the drawdown on the loan proceeds. The City generally can only use these net assets to finance the continuing operations of the sewer and water systems operations.

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

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For The Year Ended December 31, 2009

Table 2
Changes in Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|------------------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Program Revenue: | | | | | | |
| Charges for services | \$ 2,746,104 | \$ 2,788,537 | \$ 2,252,334 | \$ 2,210,028 | \$ 4,998,438 | \$ 4,998,565 |
| Operating grants and contributions | 552,168 | 949,274 | - | - | 552,168 | 949,274 |
| Total program revenues | <u>3,298,272</u> | <u>3,737,811</u> | <u>2,252,334</u> | <u>2,210,028</u> | <u>5,550,606</u> | <u>5,947,839</u> |
| General Revenues: | | | | | | |
| Property taxes | 1,012,698 | 1,418,897 | - | - | 1,012,698 | 1,418,897 |
| Income taxes | 4,705,040 | 5,127,628 | - | - | 4,705,040 | 5,127,628 |
| Grant and entitlements | 322,630 | 200,539 | - | - | 322,630 | 200,539 |
| Investment earnings | 79,679 | 245,312 | 2,470 | 5,735 | 82,149 | 251,047 |
| Contributions | - | 400,000 | - | - | - | 400,000 |
| Other | 88,030 | 57,964 | - | - | 88,030 | 57,964 |
| Total general revenues | <u>6,208,077</u> | <u>7,450,340</u> | <u>2,470</u> | <u>5,735</u> | <u>6,210,547</u> | <u>7,456,075</u> |
| Total revenues | <u>9,506,349</u> | <u>11,188,151</u> | <u>2,254,804</u> | <u>2,215,763</u> | <u>11,761,153</u> | <u>13,403,914</u> |
| Program Expenses: | | | | | | |
| General government | 3,466,256 | 3,150,287 | - | - | 3,466,256 | 3,150,287 |
| Security of persons and property | 2,800,142 | 2,672,575 | - | - | 2,800,142 | 2,672,575 |
| Public health services | 77,756 | 72,459 | - | - | 77,756 | 72,459 |
| Transportation | 2,078,488 | 2,517,058 | - | - | 2,078,488 | 2,517,058 |
| Community environment | 319,556 | 235,544 | - | - | 319,556 | 235,544 |
| Basic utility services | 1,433 | 15,304 | - | - | 1,433 | 15,304 |
| Leisure time activities | 273,711 | 261,528 | - | - | 273,711 | 261,528 |
| Interest and fiscal charges | 46,904 | 53,450 | - | - | 46,904 | 53,450 |
| Water | - | - | 1,126,008 | 813,224 | 1,126,008 | 813,224 |
| Sewer | - | - | 2,032,813 | 1,921,566 | 2,032,813 | 1,921,566 |
| Total program expenses | <u>9,064,246</u> | <u>8,978,205</u> | <u>3,158,821</u> | <u>2,734,790</u> | <u>12,223,067</u> | <u>11,712,995</u> |
| Excess before transfers | 442,103 | 2,209,946 | (904,017) | (519,027) | (461,914) | 1,690,919 |
| Transfers | <u>(1,027,000)</u> | <u>(312,764)</u> | <u>1,027,000</u> | <u>312,764</u> | <u>-</u> | <u>-</u> |
| Change in net assets | (584,897) | 1,897,182 | 122,983 | (206,263) | (461,914) | 1,690,919 |
| Net assets at beginning of year | <u>40,941,677</u> | <u>39,044,495</u> | <u>16,047,307</u> | <u>16,253,570</u> | <u>56,988,984</u> | <u>55,298,065</u> |
| Net assets at end of year | <u>\$ 40,356,780</u> | <u>\$ 40,941,677</u> | <u>\$ 16,170,290</u> | <u>\$ 16,047,307</u> | <u>\$ 56,527,070</u> | <u>\$ 56,988,984</u> |

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For The Year Ended December 31, 2009

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 2009 the revenues generated from this tax amounted to \$4,705,040. The decrease in revenues from 2008 was 8.2 percent. A portion of this decrease in tax is reflected as a decreased income tax receivable for 2009, which is down by 9.4 percent. These estimates are 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 92.1 percent of the governmental expenses. Currently, there are 17 sworn officers in the police department. During 2009, 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 assets by \$122,983 mainly due to an increase in net transfers from governmental funds.

Overall, the City's business-type activities generated \$2,252,334 in program revenues during 2009, program expenses were \$3,158,821. General revenues of \$2,470 and net transfers of \$1,027,000 were not 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 \$10,883,580 and expenditures and other financing uses of \$11,499,096. The net change in fund balance for the year was most significant in the general fund showing a decrease in fund balance of \$726,310 mainly attributed by a decrease in income tax and other revenues as well as an increase in transfers out to the water and sewer business-type funds.. 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, 2009

Table 3 below reports year 2009 balances compared to 2008:

Table 3
Change in Fund Balance

| | Fund Balance | | Increase (Decrease) | Percent Change |
|---|----------------------|----------------------|------------------------|-------------------|
| | December 31, 2009 | December 31, 2008 | | |
| General Fund | \$ 2,228,697 | \$ 2,955,007 | \$ (726,310) | -24.6% |
| Street Construction, Maintenance and Repair Fund | 435,451 | 590,730 | (155,279) | -26.3% |
| General Obligation Debt Service Fund | 557 | 874 | (317) | -36.3% |
| Other Governmental Funds | 2,482,246 | 2,215,856 | 266,390 | 12.0% |
| | <u>\$ 5,146,951</u> | <u>\$ 5,762,467</u> | <u>\$ (615,516)</u> | |

Table 4 below assists in illustrating the financial activities for the general fund of year 2009 balances compared to 2008:

Table 4
Change in Financial Activities for the General Fund

| | December 31, 2009 | December 31, 2008 | Increase (Decrease) | Percent Change |
|----------------------------------|----------------------|----------------------|------------------------|-------------------|
| <u>Revenues:</u> | | | | |
| Municipal income tax | \$ 4,864,815 | \$ 5,131,012 | \$ (266,197) | -5.2% |
| Property and other taxes | 339,941 | 493,851 | (153,910) | -31.2% |
| Charges for services | 87,092 | 89,288 | (2,196) | -2.5% |
| Licenses and permits | 130,785 | 261,978 | (131,193) | -50.1% |
| Fines and forfeitures | 907,340 | 885,820 | 21,520 | 2.4% |
| Intergovernmental | 353,164 | 342,713 | 10,451 | 3.0% |
| Investment income | 79,679 | 245,312 | (165,633) | -67.5% |
| Other | 129,406 | 529,231 | (399,825) | -75.5% |
| Total revenue | <u>\$ 6,892,222</u> | <u>\$ 7,979,205</u> | <u>\$ (1,086,983)</u> | |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| General government | 2,707,532 | 2,661,848 | 45,684 | 1.7% |
| Security of persons and property | 1,423,015 | 1,361,879 | 61,136 | 4.5% |
| Public health services | 12,350 | 9,750 | 2,600 | 0.0% |
| Transportation | 1,122,309 | 1,572,779 | (450,470) | -28.6% |
| Community environment | 240,389 | 168,648 | 71,741 | 42.5% |
| Capital outlay | 61,833 | 459,220 | (397,387) | -86.5% |
| Debt service: | | | | |
| Principal retirement | 66,304 | 66,304 | - | 0.0% |
| Total expenditures | <u>\$ 5,633,732</u> | <u>\$ 6,300,428</u> | <u>\$ (666,696)</u> | |

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For The Year Ended December 31, 2009

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 department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

Final budgeted revenues of \$6,874,104 were \$564,169 lower than original amount mainly due to certain revenues being unknown during the original budgeting process. Actual revenues exceeded the final amount by \$68,000. These differences were caused by the conservative budgeting nature of the original budgeting process.

Final budgeted expenditures of \$6,742,200 were less than the original budgeted expenditures by \$171,000. The majority of this change was reported in transportation. Actual expenditures for the year were \$724,668 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 fiscal 2009, the City of Chardon had \$67,679,285 invested in land and land improvements, buildings, machinery and equipment, vehicles and infrastructure.

Table 5 shows fiscal 2009 balances of Capital Assets as compared to 2008:

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For The Year Ended December 31, 2009

Table 5
Capital Assets at December 31

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|------------------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Land and land improvements | \$ 2,642,952 | \$ 2,558,708 | \$ 435,172 | \$ 436,171 | \$ 3,078,124 | \$ 2,994,879 |
| Buildings | 8,365,290 | 8,554,113 | 17,170,929 | 10,321,086 | 25,536,219 | 18,875,199 |
| Machinery and equipment | 465,092 | 424,117 | 4,038,206 | 4,038,206 | 4,503,298 | 4,462,323 |
| Vehicles | 1,537,624 | 1,490,464 | 325,675 | 325,675 | 1,863,299 | 1,816,139 |
| Infrastructure | | | | | | |
| Traffic lights | 1,914,588 | 1,631,435 | - | - | 1,914,588 | 1,631,435 |
| Streets and sidewalks | 20,379,343 | 19,172,047 | - | - | 20,379,343 | 19,172,047 |
| Storm sewers, bridges and culverts | 14,513,204 | 14,289,986 | - | - | 14,513,204 | 14,289,986 |
| Water lines | - | - | 6,651,279 | 6,728,876 | 6,651,279 | 6,728,876 |
| Sewer lines | - | - | 10,769,669 | 10,769,669 | 10,769,669 | 10,769,669 |
| Construction in progress | 1,130,454 | 1,875,727 | 762,379 | 7,087,921 | 1,892,833 | 8,963,648 |
| Less: accumulated depreciation | <u>(13,891,274)</u> | <u>(12,949,191)</u> | <u>(9,531,297)</u> | <u>(8,871,789)</u> | <u>(23,422,571)</u> | <u>(21,820,980)</u> |
| Total capital assets | <u>\$ 37,057,273</u> | <u>\$ 37,047,406</u> | <u>\$ 30,622,012</u> | <u>\$ 30,835,815</u> | <u>\$ 67,679,285</u> | <u>\$ 67,883,221</u> |

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

With regards to the infrastructure, the City's service department maintains a comprehensive listing of all the streets, bridges, culverts, storm sewer, water lines and sewer lines in the City. As part of the City's annual road maintenance program, the City's Service Director, Street Superintendent, and Engineer evaluate the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the general fund or street construction maintenance and repair fund of the City. Capital assets for governmental activities increased \$951,950 (net of decreases) mainly due to construction in progress, traffic lights, and street and storm sewer additions. This increase (net of decreases) was offset by an increase in accumulated depreciation of \$942,083. Capital assets for business-type activities increased by \$445,705, mainly due to the City's additions to buildings (Water Treatment Plant project) and new construction in progress. Accumulated depreciation for the current year increased by \$659,508 resulting in a net decrease in capital assets being reported.

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, 2009

Debt

At December 31, 2009, the City of Chardon had \$19,373,908 in outstanding debt and compensated absences, of which \$1,080,000 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>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| General obligation bonds | \$ 1,080,000 | \$ 1,240,000 | \$ - | \$ - | \$ 1,080,000 | \$ 1,240,000 |
| OPWC loans | 1,055,967 | 1,122,271 | 5,200 | 7,800 | 1,061,167 | 1,130,071 |
| OWDA loans | - | - | 16,458,522 | 17,345,025 | 16,458,522 | 17,345,025 |
| Capital lease payable | - | 81,930 | - | - | - | 81,930 |
| Accrued compensated absences | <u>631,283</u> | <u>570,743</u> | <u>142,936</u> | <u>132,248</u> | <u>774,219</u> | <u>702,991</u> |
| Total | <u>\$ 2,767,250</u> | <u>\$ 3,014,944</u> | <u>\$ 16,606,658</u> | <u>\$ 17,485,073</u> | <u>\$ 19,373,908</u> | <u>\$ 20,500,017</u> |

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

Current Related Financial Activities

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

Contacting the City of Chardon's Finance Department

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

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City of Chardon, Ohio

Statement of Net Assets

December 31, 2009

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| <u>Assets:</u> | | | |
| Equity in pooled cash and cash equivalents | \$ 4,147,169 | \$ 2,209,726 | \$ 6,356,895 |
| Receivables: | | | |
| Income tax | 1,069,123 | - | 1,069,123 |
| Property and other taxes | 1,112,286 | - | 1,112,286 |
| Accounts | 742,240 | 332,337 | 1,074,577 |
| Accrued interest | 63,748 | - | 63,748 |
| Intergovernmental | 319,353 | - | 319,353 |
| Materials and supplies inventory | 312,935 | 212,160 | 525,095 |
| Nondepreciable capital assets | 2,726,496 | 1,088,529 | 3,815,025 |
| Depreciable capital assets, net | 34,330,777 | 29,533,483 | 63,864,260 |
| Total assets | 44,824,127 | 33,376,235 | 78,200,362 |
| <u>Liabilities:</u> | | | |
| Accounts payable | 333,905 | 56,781 | 390,686 |
| Contracts payable | - | 500,529 | 500,529 |
| Accrued wages and benefits | 91,635 | 19,422 | 111,057 |
| Accrued pension | 89,717 | 11,715 | 101,432 |
| Due to other governments | 90,616 | 10,840 | 101,456 |
| Income tax refunds payable | 26,007 | - | 26,007 |
| Accrued interest payable | 3,343 | - | 3,343 |
| Deferred revenue | 1,064,874 | - | 1,064,874 |
| Long-term liabilities: | | | |
| Due within one year | 460,406 | 989,788 | 1,450,194 |
| Due in more than one year | 2,306,844 | 15,616,870 | 17,923,714 |
| Total liabilities | 4,467,347 | 17,205,945 | 21,673,292 |
| <u>Net assets:</u> | | | |
| Invested in capital assets, net of related debt | 34,921,306 | 14,158,290 | 49,079,596 |
| Restricted for: | | | |
| Capital projects | 1,465,372 | - | 1,465,372 |
| Transportation | 526,969 | - | 526,969 |
| Security of persons and property | 723,687 | - | 723,687 |
| Leisure time activities | 61,646 | - | 61,646 |
| Other purposes | 341,071 | - | 341,071 |
| Unrestricted | 2,316,729 | 2,012,000 | 4,328,729 |
| Total net assets | \$ 40,356,780 | \$ 16,170,290 | \$ 56,527,070 |

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Activities

For the Year Ended December 31, 2009

| | Expenses | Program Revenues | |
|----------------------------------|----------------------|--------------------------------|--|
| | | Charges for Services and Sales | Operating Grants, Contributions and Interest |
| <u>Governmental Activities:</u> | | | |
| General government | \$ 3,466,256 | \$ 2,157,581 | \$ 51,570 |
| Security of persons and property | 2,800,142 | 323,849 | 222,557 |
| Public health services | 77,756 | 15,650 | - |
| Transportation | 2,078,488 | 59,751 | 270,335 |
| Community environment | 319,556 | 64,253 | - |
| Basic utility services | 1,433 | 930 | - |
| Leisure time activities | 273,711 | 124,090 | 7,706 |
| Interest and fiscal charges | 46,904 | - | - |
| Total governmental activities | <u>9,064,246</u> | <u>2,746,104</u> | <u>552,168</u> |
| <u>Business-Type Activities:</u> | | | |
| Water | 1,126,008 | 850,695 | - |
| Sewer | 2,032,813 | 1,401,639 | - |
| Total business-type activities | <u>3,158,821</u> | <u>2,252,334</u> | <u>-</u> |
| Total primary government | <u>\$ 12,223,067</u> | <u>\$ 4,998,438</u> | <u>\$ 552,168</u> |

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

Change in net assets

Net assets, beginning of year
 Net assets, end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

| Primary Government | | |
|----------------------------|-----------------------------|----------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (1,257,105) | \$ - | \$ (1,257,105) |
| (2,253,736) | - | (2,253,736) |
| (62,106) | - | (62,106) |
| (1,748,402) | - | (1,748,402) |
| (255,303) | - | (255,303) |
| (503) | - | (503) |
| (141,915) | - | (141,915) |
| (46,904) | - | (46,904) |
| (5,765,974) | - | (5,765,974) |
| - | (275,313) | (275,313) |
| - | (631,174) | (631,174) |
| - | (906,487) | (906,487) |
| (5,765,974) | (906,487) | (6,672,461) |
| 307,559 | - | 307,559 |
| 705,139 | - | 705,139 |
| 4,705,040 | - | 4,705,040 |
| 322,630 | - | 322,630 |
| 79,679 | 2,470 | 82,149 |
| 88,030 | - | 88,030 |
| (1,027,000) | 1,027,000 | - |
| 5,181,077 | 1,029,470 | 6,210,547 |
| (584,897) | 122,983 | (461,914) |
| 40,941,677 | 16,047,307 | 56,988,984 |
| \$ 40,356,780 | \$ 16,170,290 | \$ 56,527,070 |

City of Chardon, Ohio

Balance Sheet

Governmental Funds

December 31, 2009

| | General | Street Construction Maintenance and Repair | General Obligation Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|---|---------------------------------------|--------------------------------|--------------------------------|
| <u>Assets:</u> | | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,655,847 | \$ 402,423 | \$ 557 | \$ 2,088,342 | \$ 4,147,169 |
| Receivables: | | | | | |
| Income tax | 1,069,123 | - | - | - | 1,069,123 |
| Property and other taxes | 394,857 | - | - | 717,429 | 1,112,286 |
| Accounts | 21,123 | - | - | 721,117 | 742,240 |
| Accrued interest | 63,748 | - | - | - | 63,748 |
| Intergovernmental | 128,076 | 117,426 | - | 73,851 | 319,353 |
| Materials and supplies inventory | 312,935 | - | - | - | 312,935 |
| Total assets | <u>\$ 3,645,709</u> | <u>\$ 519,849</u> | <u>\$ 557</u> | <u>\$ 3,600,739</u> | <u>\$ 7,766,854</u> |
| | | | | | |
| Liabilities and fund balances | | | | | |
| <u>Liabilities:</u> | | | | | |
| Accounts payable | \$ 109,491 | \$ 7,245 | \$ - | \$ 217,169 | \$ 333,905 |
| Accrued wages and benefits | 83,380 | - | - | 8,255 | 91,635 |
| Accrued pension | 42,137 | - | - | 47,580 | 89,717 |
| Due to other governments | 85,775 | - | - | 4,841 | 90,616 |
| Income tax refunds payable | 26,007 | - | - | - | 26,007 |
| Deferred revenue | 1,070,222 | 77,153 | - | 840,648 | 1,988,023 |
| Total liabilities | <u>1,417,012</u> | <u>84,398</u> | <u>-</u> | <u>1,118,493</u> | <u>2,619,903</u> |
| | | | | | |
| <u>Fund balances:</u> | | | | | |
| Reserved for encumbrances | 133,307 | 91,415 | - | 183,744 | 408,466 |
| Reserved for inventory | 312,935 | - | - | - | 312,935 |
| Unreserved, undesignated, Reported in: | | | | | |
| General fund | 1,782,455 | - | - | - | 1,782,455 |
| Special revenue funds | - | 344,036 | - | 903,950 | 1,247,986 |
| Debt service fund | - | - | 557 | - | 557 |
| Capital projects fund | - | - | - | 1,394,552 | 1,394,552 |
| Total fund balances | <u>2,228,697</u> | <u>435,451</u> | <u>557</u> | <u>2,482,246</u> | <u>5,146,951</u> |
| Total liabilities and fund balances | <u>\$ 3,645,709</u> | <u>\$ 519,849</u> | <u>\$ 557</u> | <u>\$ 3,600,739</u> | <u>\$ 7,766,854</u> |

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2009**

Total governmental fund balances \$ 5,146,951

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in funds. 37,057,273

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

| | | |
|--------------------------|---------------|---------|
| Property and other taxes | \$ 47,482 | |
| Income taxes | 581,146 | |
| Intergovernmental | 241,887 | |
| Charges for services | <u>52,634</u> | |
| Total | | 923,149 |

Accrued interest payable is not due and payable in the current
period and therefore is not reported in the funds. (3,343)

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

| | | |
|--------------------------|------------------|--------------------|
| General obligation bonds | \$ (1,080,000) | |
| OPWC loan | (1,055,967) | |
| Compensated absences | <u>(631,283)</u> | |
| Total | | <u>(2,767,250)</u> |

Net assets of governmental activities \$ 40,356,780

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, 2009

| | General | Street Construction Maintenance and Repair | General Obligation Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|---------------------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | |
| Income tax | \$ 4,864,815 | \$ - | \$ - | \$ - | \$ 4,864,815 |
| Property and other taxes | 339,941 | - | - | 729,720 | 1,069,661 |
| Charges for services | 87,092 | - | - | 287,533 | 374,625 |
| Licenses and permits | 130,785 | - | - | - | 130,785 |
| Fines and forfeitures | 907,340 | - | - | 428,946 | 1,336,286 |
| Intergovernmental | 353,164 | 250,784 | - | 243,866 | 847,814 |
| Special assessments | - | - | - | 163,943 | 163,943 |
| Investment income | 79,679 | 1,453 | - | 18 | 81,150 |
| Rentals | - | - | - | 97,500 | 97,500 |
| Other | 129,406 | - | - | 637,740 | 767,146 |
| Total revenue | <u>6,892,222</u> | <u>252,237</u> | <u>-</u> | <u>2,589,266</u> | <u>9,733,725</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 2,707,532 | - | - | 476,597 | 3,184,129 |
| Security of persons and property | 1,423,015 | - | - | 1,249,172 | 2,672,187 |
| Public health services | 12,350 | - | - | 61,489 | 73,839 |
| Transportation | 1,122,309 | 168,594 | - | 18,446 | 1,309,349 |
| Community environment | 240,389 | - | - | 65,187 | 305,576 |
| Basic utility services | - | - | - | 1,433 | 1,433 |
| Leisure time activities | - | - | - | 246,177 | 246,177 |
| Capital outlay | 61,833 | 238,922 | - | 970,279 | 1,271,034 |
| Debt service: | | | | | |
| Principal retirement | 66,304 | - | 160,000 | 81,930 | 308,234 |
| Interest and fiscal charges | - | - | 45,317 | 2,021 | 47,338 |
| Total expenditures | <u>5,633,732</u> | <u>407,516</u> | <u>205,317</u> | <u>3,172,731</u> | <u>9,419,296</u> |
| Excess of revenues over (under) expenditures | <u>1,258,490</u> | <u>(155,279)</u> | <u>(205,317)</u> | <u>(583,465)</u> | <u>314,429</u> |
| Other financing sources (uses): | | | | | |
| Sale of capital assets | - | - | - | 97,055 | 97,055 |
| Transfers - in | 47,500 | - | 205,000 | 800,300 | 1,052,800 |
| Transfers - out | <u>(2,032,300)</u> | <u>-</u> | <u>-</u> | <u>(47,500)</u> | <u>(2,079,800)</u> |
| Total other financing sources (uses) | <u>(1,984,800)</u> | <u>-</u> | <u>205,000</u> | <u>849,855</u> | <u>(929,945)</u> |
| Net change in fund balance | (726,310) | (155,279) | (317) | 266,390 | (615,516) |
| Fund balances at beginning of year | <u>2,955,007</u> | <u>590,730</u> | <u>874</u> | <u>2,215,856</u> | <u>5,762,467</u> |
| Fund balances at end of year | <u>\$ 2,228,697</u> | <u>\$ 435,451</u> | <u>\$ 557</u> | <u>\$ 2,482,246</u> | <u>\$ 5,146,951</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, 2009

Net change in fund balances - Total governmental funds \$ (615,516)

*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 | \$ 1,271,034 | |
| Capital contributions | 168 | |
| Depreciation expense | <u>(1,059,074)</u> | |
| Excess of capital outlay and capital contributions over depreciation expense | | 212,128 |

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. (202,261)

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 | \$ (56,963) | |
| Income taxes | (159,775) | |
| Intergovernmental | 19,424 | |
| Charges for services | <u>(30,062)</u> | |
| Net change in deferred revenues during the year | | (227,376) |

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:

| | | |
|----------------------------------|-------------|----------|
| Increase in compensated absences | \$ (60,540) | |
| Decrease in accrued interest | <u>434</u> | |
| Total additional expenditures | | (60,106) |

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 assets. 226,304

Payment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 81,930

Change in net assets of governmental activities \$ (584,897)

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, 2009**

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|---------------------|---|
| | Original | Final | Actual | |
| <u>Revenues:</u> | | | | |
| Income tax | \$ 5,150,000 | \$ 4,840,000 | \$ 4,842,608 | \$ 2,608 |
| Property and other taxes | 374,934 | 374,734 | 396,332 | 21,598 |
| Charges for services | 92,600 | 84,850 | 87,258 | 2,408 |
| Licenses and permits | 270,240 | 108,580 | 121,613 | 13,033 |
| Fines, licenses, and permits | 906,000 | 892,340 | 902,490 | 10,150 |
| Intergovernmental | 387,299 | 346,325 | 349,095 | 2,770 |
| Investment income | 115,000 | 111,775 | 111,837 | 62 |
| Other | 142,200 | 115,500 | 130,871 | 15,371 |
| Total revenue | <u>7,438,273</u> | <u>6,874,104</u> | <u>6,942,104</u> | <u>68,000</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| General government | 3,015,891 | 3,144,891 | 2,873,380 | 271,511 |
| Security of persons and property | 1,633,750 | 1,634,750 | 1,473,869 | 160,881 |
| Public health and welfare | 16,250 | 16,250 | 12,350 | 3,900 |
| Transportation | 1,898,228 | 1,597,228 | 1,342,665 | 254,563 |
| Community environment | 282,761 | 282,761 | 248,964 | 33,797 |
| Debt service: | | | | |
| Principal retirement | 66,320 | 66,320 | 66,304 | 16 |
| Total expenditures | <u>6,913,200</u> | <u>6,742,200</u> | <u>6,017,532</u> | <u>724,668</u> |
| Excess of revenues over expenditures | <u>525,073</u> | <u>131,904</u> | <u>924,572</u> | <u>792,668</u> |
| <u>Other financing sources (uses):</u> | | | | |
| Transfers - in | 14,942 | 51,842 | 47,500 | (4,342) |
| Transfers - out | (1,945,300) | (2,032,300) | (2,032,300) | - |
| Total other financing sources (uses) | <u>(1,930,358)</u> | <u>(1,980,458)</u> | <u>(1,984,800)</u> | <u>(4,342)</u> |
| Net change in fund balance | (1,405,285) | (1,848,554) | (1,060,228) | 788,326 |
| Fund balance at beginning of year | 1,985,265 | 1,985,265 | 1,985,265 | - |
| Prior year encumbrances appropriated | 418,029 | 418,029 | 418,029 | - |
| Fund balance at end of year | <u>\$ 998,009</u> | <u>\$ 554,740</u> | <u>\$ 1,343,066</u> | <u>\$ 788,326</u> |

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
Street Construction, Maintenance and Repair Fund
For the Year Ended December 31, 2009**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--------------------------------------|------------------|-------------------|-------------------|---|
| | Original | Final Budget | | |
| <u>Revenues:</u> | | | | |
| Intergovernmental | \$ 265,475 | \$ 254,625 | \$ 252,754 | \$ (1,871) |
| Investment income | 5,450 | 1,400 | 1,453 | 53 |
| Total revenue | <u>270,925</u> | <u>256,025</u> | <u>254,207</u> | <u>(1,818)</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Transportation | 693,297 | 563,269 | 499,681 | 63,588 |
| Capital outlay | 90,000 | 90,000 | - | 90,000 |
| Total expenditures | <u>783,297</u> | <u>653,269</u> | <u>499,681</u> | <u>153,588</u> |
| Net change in fund balance | (512,372) | (397,244) | (245,474) | 151,770 |
| Fund balance at beginning of year | 533,449 | 533,449 | 533,449 | - |
| Prior year encumbrances appropriated | 15,787 | 15,787 | 15,787 | - |
| Fund balance at end of year | <u>\$ 36,864</u> | <u>\$ 151,992</u> | <u>\$ 303,762</u> | <u>\$ 151,770</u> |

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2009

Business-Type Activities - Enterprise Funds

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|---|---------------------|---------------------|----------------------|
| <u>Assets:</u> | | | |
| Current assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 1,390,871 | \$ 818,855 | \$ 2,209,726 |
| Accounts receivable | 127,891 | 204,446 | 332,337 |
| Materials and supplies inventory | 187,533 | 24,627 | 212,160 |
| Total current assets | <u>1,706,295</u> | <u>1,047,928</u> | <u>2,754,223</u> |
| Non-current assets: | | | |
| Capital assets: | | | |
| Non-depreciable capital assets | 252,148 | 836,381 | 1,088,529 |
| Depreciable capital assets, net | 12,256,338 | 17,277,145 | 29,533,483 |
| Total non-current assets | <u>12,508,486</u> | <u>18,113,526</u> | <u>30,622,012</u> |
| Total assets | <u>14,214,781</u> | <u>19,161,454</u> | <u>33,376,235</u> |
| <u>Liabilities:</u> | | | |
| Current liabilities: | | | |
| Accounts payable | 18,681 | 38,100 | 56,781 |
| Contracts payable | - | 500,529 | 500,529 |
| Accrued wages and benefits | 12,771 | 6,651 | 19,422 |
| Accrued pension | 6,306 | 5,409 | 11,715 |
| Due to other governments | 5,158 | 5,682 | 10,840 |
| Compensated absences payable | 12,794 | 21,362 | 34,156 |
| OPWC loans payable | 2,600 | - | 2,600 |
| OWDA loans payable | 217,075 | 735,957 | 953,032 |
| Total current liabilities | <u>275,385</u> | <u>1,313,690</u> | <u>1,589,075</u> |
| Long-term liabilities: | | | |
| Compensated absences payable | 63,444 | 45,336 | 108,780 |
| OPWC loans payable, net of current portion | 2,600 | - | 2,600 |
| OWDA loans payable, net of current portion | 5,264,278 | 10,241,212 | 15,505,490 |
| Total long-term liabilities | <u>5,330,322</u> | <u>10,286,548</u> | <u>15,616,870</u> |
| Total liabilities | <u>5,605,707</u> | <u>11,600,238</u> | <u>17,205,945</u> |
| <u>Net assets:</u> | | | |
| Invested in capital assets, net of related debt | 7,021,933 | 7,136,357 | 14,158,290 |
| Unrestricted | 1,587,141 | 424,859 | 2,012,000 |
| Total net assets | <u>\$ 8,609,074</u> | <u>\$ 7,561,216</u> | <u>\$ 16,170,290</u> |

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2009

| | Business-Type Activities - Enterprise Funds | | |
|---|---|---------------------|----------------------|
| | Water | Sewer | Total |
| <u>Operating revenues:</u> | | | |
| Charges for services | \$ 837,636 | \$ 1,392,256 | \$ 2,229,892 |
| Reimbursements | 13,059 | 9,383 | 22,442 |
| Total operating revenue | <u>850,695</u> | <u>1,401,639</u> | <u>2,252,334</u> |
| <u>Operating expenses:</u> | | | |
| Personal services | 528,610 | 570,184 | 1,098,794 |
| Supplies and materials | 68,462 | 97,784 | 166,246 |
| Travel and education | 2,175 | 2,052 | 4,227 |
| Contractual services | 58,298 | 143,742 | 202,040 |
| Utilities | 110,182 | 214,156 | 324,338 |
| Depreciation | 155,155 | 510,140 | 665,295 |
| Total operating expenses | <u>922,882</u> | <u>1,538,058</u> | <u>2,460,940</u> |
| Operating loss | <u>(72,187)</u> | <u>(136,419)</u> | <u>(208,606)</u> |
| <u>Non-operating revenues (expenses):</u> | | | |
| Interest | - | 2,470 | 2,470 |
| Interest and fiscal charges | (124,530) | (350,087) | (474,617) |
| Loss on disposal of capital assets | (78,596) | (144,668) | (223,264) |
| Total non-operating revenues (expenses): | <u>(203,126)</u> | <u>(492,285)</u> | <u>(695,411)</u> |
| Loss before transfers | <u>(275,313)</u> | <u>(628,704)</u> | <u>(904,017)</u> |
| Transfers - in | 387,000 | 640,000 | 1,027,000 |
| Total transfers | <u>387,000</u> | <u>640,000</u> | <u>1,027,000</u> |
| Change in net assets | 111,687 | 11,296 | 122,983 |
| Net assets at beginning of year | <u>8,497,387</u> | <u>7,549,920</u> | <u>16,047,307</u> |
| Net assets at end of year | <u>\$ 8,609,074</u> | <u>\$ 7,561,216</u> | <u>\$ 16,170,290</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, 2009

| | Business-Type Activities - Enterprise Funds | | |
|--|---|--------------------|---------------------|
| | Water | Sewer | Total |
| Cash flows from operating activities: | | | |
| Cash received from customers | \$ 845,759 | \$ 1,370,409 | \$ 2,216,168 |
| Cash payments for personal services | (512,664) | (566,086) | (1,078,750) |
| Cash payments for travel and entertainment | (2,128) | (2,005) | (4,133) |
| Cash payments for contractual services | (58,512) | (136,717) | (195,229) |
| Cash payments to suppliers for goods and services | (74,788) | (96,241) | (171,029) |
| Cash payments for utilities | (105,762) | (198,410) | (304,172) |
| Net cash provided by operating activities | <u>91,905</u> | <u>370,950</u> | <u>462,855</u> |
| Cash flows from noncapital financing activities: | | | |
| Transfers from other funds | 387,000 | 1,049,800 | 1,436,800 |
| Transfers to other funds | - | (409,800) | (409,800) |
| Net cash provided by noncapital financing activities | <u>387,000</u> | <u>640,000</u> | <u>1,027,000</u> |
| Cash flows from capital and related financing activities: | | | |
| OWDA loan | 230,756 | - | 230,756 |
| Interest paid on debt | (124,530) | (350,817) | (475,347) |
| Principal payment on loans | (269,381) | (714,229) | (983,610) |
| Acquisition of capital assets | (368,569) | (45,295) | (413,864) |
| Net cash used for capital and related financing activities | <u>(531,724)</u> | <u>(1,110,341)</u> | <u>(1,642,065)</u> |
| Net decrease in cash and cash equivalents | (52,819) | (99,391) | (152,210) |
| Cash and cash equivalents at beginning of year | <u>1,443,690</u> | <u>918,246</u> | <u>2,361,936</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,390,871</u> | <u>\$ 818,855</u> | <u>\$ 2,209,726</u> |
| Reconciliation of operating loss to net cash provided used for operating activities: | | | |
| Operating loss | \$ (72,187) | \$ (136,419) | \$ (208,606) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | | |
| Depreciation | 155,155 | 510,140 | 665,295 |
| Change in assets and liabilities: | | | |
| (Increase) decrease in assets: | | | |
| Accounts receivable | (4,936) | (10,462) | (15,398) |
| Materials and supplies inventory | (10,426) | 139 | (10,287) |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | 12,810 | 7,569 | 20,379 |
| Accrued pension | 208 | (595) | (387) |
| Accrued wages and benefits | 302 | (2,661) | (2,359) |
| Compensated absences | 9,338 | 1,350 | 10,688 |
| Due to other governments | 1,641 | 1,889 | 3,530 |
| Net cash provided by operating activities | <u>\$ 91,905</u> | <u>\$ 370,950</u> | <u>\$ 462,855</u> |
| Non-cash capital and related financing activities: | | | |
| Acquisition of capital assets from current year liability | \$ - | \$ (501,377) | \$ (501,377) |
| Acquisition of capital assets from prior year liability | 240,485 | - | 240,485 |
| Construction in progress was cancelled and disposed | - | 126,341 | 126,341 |
| Loan proceeds reported in prior year as a receivable | 136,249 | - | 136,249 |

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Fiduciary Assets and Liabilities

December 31, 2009

| | Private Purpose Trust Cemetery | Agency |
|--|--------------------------------------|-------------------|
| <u>Assets:</u> | | |
| Equity in pooled cash and cash equivalents | \$ - | \$ 298,402 |
| Cash and cash equivalents in segregated accounts | 18,676 | 119,566 |
| Total assets | <u>\$ 18,676</u> | <u>\$ 417,968</u> |
| <u>Liabilities:</u> | | |
| Intergovernmental payable | \$ - | \$ 124,558 |
| Undistributed monies | - | 44,380 |
| Deposits held and due to others | - | 249,030 |
| Total liabilities | <u>-</u> | <u>\$ 417,968</u> |
| <u>Net assets:</u> | | |
| Held in trust for cemetery | <u>18,676</u> | |
| Total net assets | <u>\$ 18,676</u> | |

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Changes in Fiduciary Net Assets

December 31, 2009

| | Private Purpose Trust Cemetery |
|---------------------------------|--------------------------------------|
| Additions: | |
| Interest | <u>\$ 56</u> |
| Deductions: | |
| Supplies and materials | <u>180</u> |
| Change in net assets | (124) |
| Net assets at beginning of year | <u>18,800</u> |
| Net assets at end of year | <u><u>\$ 18,676</u></u> |

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and to its enterprise funds. 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. Due to this relationship, the Court is not considered a component unit of the City but rather as part of the primary government unit itself. Monies held by the Court in a fiduciary capacity are recorded as an agency fund in the accompanying financial statements.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

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

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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

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

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

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

Proprietary Funds

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

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

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

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

D. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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 revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 4). 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 non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

During 2009, 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 National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), and Federal Farm Credit Bank (FFCB).

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2009.

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 assets.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009 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.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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 assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City 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 expended. 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:

| <u>Asset Class</u> | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| 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.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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 Reserves

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net assets 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 assets are available.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for 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.

City of Chardon, Ohio

Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

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 appropriations may be transferred between the accounts with the approval of the City Manager, Finance Director and respective department head. Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

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

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. 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 official certificate of estimated resources issued during 2009. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2009.

City of Chardon, Ohio

Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

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 the general fund and at the object level for all other 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 reservations of 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.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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 as a reservation of 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).
- 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.

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> | <u>Street Construction Maintenance and Repair</u> |
| GAAP basis | \$ (726,310) | \$ (155,279) |
| Revenue accruals | (22,000) | 1,970 |
| Expenditure accruals | (142,901) | 6,496 |
| Unrecorded cash - 2009 | (159) | - |
| Municipal court collections | 73,353 | - |
| Change in fair value of investments - 2009 | (1,312) | - |
| Encumbrances (budget basis) outstanding at year end | (240,899) | (98,661) |
| Budget basis | <u>\$ (1,060,228)</u> | <u>\$ (245,474)</u> |

City of Chardon, Ohio

Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

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

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

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

Investments 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.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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 \$800 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 \$3,792,180 and the bank balance was \$4,183,838. Of the bank balance, \$1,433,838 was covered by federal deposit insurance and \$2,750,000 of the bank balance was exposed to custodial risk and was collateralized with securities held by the pledging financial institutions trust department or agent in the City's name.

Investments: At year-end, the City had the following investments.

| Investment Type | Fair Value | Maturity | Rating ⁽¹⁾ |
|------------------------|---------------------|---------------------|-----------------------|
| Federal Home Loan Bank | \$ 500,550 | 1/15/2010 | AAA |
| STAR Ohio | <u>2,500,009</u> | 61.2 ⁽²⁾ | AAAm |
| | <u>\$ 3,000,559</u> | | |

⁽¹⁾ Standard and Poor's rating

⁽²⁾ Days (Average)

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

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 2009 amounted to \$79,679, which includes \$53,402 assigned from other City 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 security purchases to those that mature within two years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than two years.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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. The City's investment policy requires diversification of the portfolio and indicates that no more than twenty percent of the total investment portfolio are to be invested in individual U.S. government agency/instrumentality securities, which includes U.S. government-sponsored enterprise investments. The following is the City's allocation as of December 31, 2009, which is in compliance with the City's investment policy:

| <u>Investment</u> | <u>Securities Percent</u> | <u>Total Portfolio Percent ⁽¹⁾</u> |
|------------------------------|-------------------------------|---|
| Federal Home Loan Bank Bonds | 100% | 9% |

⁽¹⁾ The City's investment policy defines investments in a portfolio as all CDs, repurchase agreements and U.S. government agency/instrumentality securities.

NOTE 4 – RECEIVABLES

Receivables at December 31, 2009, 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 2009 for real and public utility property taxes represents collections of the 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) is for 2009 taxes.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

2009 real property taxes are levied after October 1, 2009, on the assessed value as of January 1, 2009, the lien date. Assessed values are established by State law at 35% of appraised market value. 2009 real property taxes are collected in and intended to finance 2010.

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. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

2009 tangible personal property taxes are levied after October 1, 2008, on the value as of December 31, 2008. Collections are made in 2009. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory. The tangible personal property tax is being phased out, the assessment percentage for all property including inventory for 2009 was 0% for most taxpayer. The tax will temporarily continue to apply to telephone companies and inter-exchange telecommunications companies which is being phased out according to a different schedule. For these companies the assessment percentage will fall to zero in the 2011 tax year.

The full tax rate for all City operations for the year ended December 31, 2009, was \$11 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

| Property Category | Assessed Value | Percent |
|------------------------------|-----------------------|--------------|
| <u>Real Property</u> | | |
| Residential and agricultural | \$ 98,700,600 | 61.72 % |
| Commercial and industrial | 58,727,940 | 36.72 |
| Public utilities | <u>2,498,840</u> | <u>1.56</u> |
| Total | <u>\$ 159,927,380</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.

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

The County Treasurer collects property taxes on behalf of all taxing districts 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, 2008, and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2009 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.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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, Central Collection Agency (CCA), either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax liability quarterly and file a final return annually.

In 2009, all income tax proceeds were allocated to the general fund.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

| | <u>Amounts</u> |
|---------------------------------------|-------------------|
| <u>Governmental Activities</u> | |
| Local Government and Local Government | |
| Revenue Assistance | \$ 65,361 |
| Homestead and Rollback | 55,183 |
| Gasoline and Excise Tax | 104,984 |
| Motor Vehicle License Fees | 21,813 |
| Other Reimbursements | 50,101 |
| Grants | <u>21,911</u> |
| Total | <u>\$ 319,353</u> |

NOTE 5 - 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, 2009

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009, was as follows:

| | <u>Balance</u> <u>12/31/2008</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>12/31/2009</u> |
|--|-------------------------------------|---------------------|-----------------------|-------------------------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 1,559,952 | \$ 95,158 | \$ (59,068) | \$ 1,596,042 |
| Construction in progress | <u>1,875,727</u> | <u>1,053,123</u> | <u>(1,798,396)</u> | <u>1,130,454</u> |
| Total capital assets, not being depreciated | <u>3,435,679</u> | <u>1,148,281</u> | <u>(1,857,464)</u> | <u>2,726,496</u> |
| | | | | |
| Capital assets, being depreciated | | | | |
| Land improvements | 998,756 | 48,154 | - | 1,046,910 |
| Buildings | 8,554,113 | 11,803 | (200,626) | 8,365,290 |
| Machinery and equipment | 424,117 | 40,975 | - | 465,092 |
| Vehicles | 1,490,464 | 47,160 | - | 1,537,624 |
| Infrastructure: | | | | |
| Traffic lights | 1,631,435 | 283,153 | - | 1,914,588 |
| Storm sewers, bridges and culverts | 14,289,986 | 282,776 | (59,558) | 14,513,204 |
| Streets and sidewalks | <u>19,172,047</u> | <u>1,207,296</u> | <u>-</u> | <u>20,379,343</u> |
| Total capital assets, being depreciated | <u>46,560,918</u> | <u>1,921,317</u> | <u>(260,184)</u> | <u>48,222,051</u> |
| | | | | |
| Less: accumulated depreciation | | | | |
| Land improvements | (382,162) | (32,637) | - | (414,799) |
| Buildings | (2,103,385) | (168,770) | 100,313 | (2,171,842) |
| Machinery and equipment | (132,247) | (40,053) | - | (172,300) |
| Vehicles | (1,062,919) | (71,149) | - | (1,134,068) |
| Infrastructure: | | | | |
| Traffic lights | (166,889) | (54,381) | - | (221,270) |
| Storm sewers, bridges and culverts | (2,755,966) | (153,523) | 16,678 | (2,892,811) |
| Streets and sidewalks | <u>(6,345,623)</u> | <u>(538,561)</u> | <u>-</u> | <u>(6,884,184)</u> |
| Total accumulated depreciation | <u>(12,949,191)</u> | <u>(1,059,074)</u> | <u>116,991</u> | <u>(13,891,274)</u> |
| | | | | |
| Total capital assets, being depreciated, net | <u>33,611,727</u> | <u>862,243</u> | <u>(143,193)</u> | <u>34,330,777</u> |
| | | | | |
| Governmental activities capital assets, net | <u>\$ 37,047,406</u> | <u>\$ 2,010,524</u> | <u>\$ (2,000,657)</u> | <u>\$ 37,057,273</u> |

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|---------------------|
| General government | \$ 155,302 |
| Security of persons and property | 120,907 |
| Public health services | 927 |
| Transportation | 746,328 |
| Community environment | 8,076 |
| Leisure time activities | <u>27,534</u> |
| Total depreciation expense | <u>\$ 1,059,074</u> |

| | Balance 12/31/2008 | Increases | Decreases | Balance 12/31/2009 |
|--|-----------------------|---------------------|-----------------------|-----------------------|
| Business-type activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 327,149 | \$ - | \$ (999) | \$ 326,150 |
| Construction in progress | <u>7,087,921</u> | <u>674,756</u> | <u>(7,000,298)</u> | <u>762,379</u> |
| Total capital assets, not being depreciated | <u>7,415,070</u> | <u>674,756</u> | <u>(7,001,297)</u> | <u>1,088,529</u> |
| Capital assets, being depreciated | | | | |
| Land improvements | 109,022 | - | - | 109,022 |
| Buildings | 10,321,086 | 6,873,957 | (24,114) | 17,170,929 |
| Machinery and equipment | 4,038,206 | - | - | 4,038,206 |
| Vehicles | 325,675 | - | - | 325,675 |
| Infrastructure: | | | | |
| Water lines | 6,728,876 | - | (77,597) | 6,651,279 |
| Sewer lines | <u>10,769,669</u> | <u>-</u> | <u>-</u> | <u>10,769,669</u> |
| Total capital assets, being depreciated | <u>32,292,534</u> | <u>6,873,957</u> | <u>(101,711)</u> | <u>39,064,780</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | (109,024) | - | - | (109,024) |
| Buildings | (2,513,536) | (282,366) | 5,787 | (2,790,115) |
| Machinery and equipment | (2,752,987) | (222,635) | - | (2,975,622) |
| Vehicles | (248,256) | (9,319) | - | (257,575) |
| Infrastructure: | | | | |
| Water lines | (1,313,816) | (69,013) | - | (1,382,829) |
| Sewer lines | <u>(1,934,170)</u> | <u>(81,962)</u> | <u>-</u> | <u>(2,016,132)</u> |
| Total accumulated depreciation | <u>(8,871,789)</u> | <u>(665,295)</u> | <u>5,787</u> | <u>(9,531,297)</u> |
| Total capital assets, being depreciated, net | <u>23,420,745</u> | <u>6,208,662</u> | <u>(95,924)</u> | <u>29,533,483</u> |
| Business-type activities capital assets, net | <u>\$ 30,835,815</u> | <u>\$ 6,883,418</u> | <u>\$ (7,097,221)</u> | <u>\$ 30,622,012</u> |

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

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

| | |
|----------------------------|-------------------|
| Water | \$ 155,155 |
| Sewer | <u>510,140</u> |
| Total depreciation expense | <u>\$ 665,295</u> |

NOTE 7 - 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. Employees are also entitled to a cash payment for any unused vacation leave, limited to 1/2 of the total leave earned during that year.

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, 2009

NOTE 8 - LONG-TERM DEBT

A schedule of changes in bonds and other long-term obligations of the City during 2009 follows:

| | <u>Balance</u> <u>12/31/08</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/09</u> | <u>Due in</u> <u>One</u> <u>Year</u> |
|---|-----------------------------------|-------------------|---------------------|-----------------------------------|--|
| Governmental activities: | | | | | |
| <u>General obligation bonds:</u> | | | | | |
| 4.10% 2005 Municipal building improvements, maturing 2015 | \$ 1,240,000 | \$ - | \$ (160,000) | \$ 1,080,000 | \$ 165,000 |
| <u>Other long-term obligations:</u> | | | | | |
| 0% Ohio Public Works Commission | | | | | |
| Park Avenue reconstruction | 337,500 | - | (25,000) | 312,500 | 25,000 |
| Fifth Avenue improvement project | 444,477 | - | (23,394) | 421,083 | 23,394 |
| North Street improvement project | 340,294 | - | (17,910) | 322,384 | 17,910 |
| Total Ohio Public Works Commission | <u>1,122,271</u> | <u>-</u> | <u>(66,304)</u> | <u>1,055,967</u> | <u>66,304</u> |
| Capital lease payable | 81,930 | - | (81,930) | - | - |
| Compensated absences | <u>570,743</u> | <u>252,197</u> | <u>(191,657)</u> | <u>631,283</u> | <u>229,102</u> |
| Total other long-term obligations | <u>1,774,944</u> | <u>252,197</u> | <u>(339,891)</u> | <u>1,687,250</u> | <u>295,406</u> |
| Total governmental long-term liabilities | <u>\$ 3,014,944</u> | <u>\$ 252,197</u> | <u>\$ (499,891)</u> | <u>\$ 2,767,250</u> | <u>\$ 460,406</u> |

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

| | <u>Balance</u> <u>12/31/08</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/09</u> | <u>Due in</u> <u>One</u> <u>Year</u> |
|---|-----------------------------------|-------------------|-----------------------|-----------------------------------|--|
| Business-type activities: | | | | | |
| <u>Ohio Water Development Authority loans:</u> | | | | | |
| 2.0% Water treatment plant improvements - 2007 | \$ 5,653,627 | \$ 94,507 | \$ (266,781) | \$ 5,481,353 | \$ 217,075 |
| 3.25% Eastside sanitary trunk sewer improvements - 2006 | 2,770,886 | - | (115,420) | 2,655,466 | 119,201 |
| 2.975% Waste water treatment plant improvements - 2002 | <u>8,920,512</u> | <u>-</u> | <u>(598,809)</u> | <u>8,321,703</u> | <u>616,756</u> |
| Total Ohio Water Development Authority loans | <u>17,345,025</u> | <u>94,507</u> | <u>(981,010)</u> | <u>16,458,522</u> | <u>953,032</u> |
| <u>Other long-term obligations:</u> | | | | | |
| 0% Ohio Public Works Commission Issue II loan | 7,800 | - | (2,600) | 5,200 | 2,600 |
| Compensated absences | <u>132,248</u> | <u>40,702</u> | <u>(30,014)</u> | <u>142,936</u> | <u>34,156</u> |
| Total other long-term obligations | <u>140,048</u> | <u>40,702</u> | <u>(32,614)</u> | <u>148,136</u> | <u>36,756</u> |
| Total business-type long-term obligations | <u>\$ 17,485,073</u> | <u>\$ 135,209</u> | <u>\$ (1,013,624)</u> | <u>\$ 16,606,658</u> | <u>\$ 989,788</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 Ohio Public Works Commission (“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.

The OPWC Issue II Loan relates to water main replacements for Wilson Mills streets. The 1992 Wilson Mills street loan will be repaid in semiannual installments of \$1,300 over 20 years, ending in 2012.

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 Ohio Water Development Authority (“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, 2009

During the year, the City obtained additional proceeds from an Ohio Water Development Authority (“OWDA”) loan that relates to the water treatment plant improvements to be repaid in semi-annual principal and interest payments that began in 2009. The City has received the total proceeds on this loan however, the final debt maturity schedule has not yet been provided from OWDA. The debt maturity schedule presented below is based on an estimate the actual scheduled principal and interest will be provided when it becomes available.

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, cemetery special revenue fund and the 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, 2009, all of the old bonds have been called and subsequently redeemed.

Principal and interest requirements to retire the City’s long-term obligations outstanding at December 31, 2009, are as follows:

| Year | Governmental Activities | | | | | |
|-----------|--------------------------|-------------------|---------------------|---------------------|-------------------|--|
| | General Obligation Bonds | | OPWC Loans | Totals | | |
| | Principal | Interest | Principal | Principal | Interest | |
| 2010 | \$ 165,000 | \$ 40,116 | \$ 66,304 | \$ 231,304 | \$ 40,116 | |
| 2011 | 175,000 | 34,838 | 66,304 | 241,304 | 34,838 | |
| 2012 | 175,000 | 28,712 | 66,304 | 241,304 | 28,712 | |
| 2013 | 180,000 | 22,150 | 66,304 | 246,304 | 22,150 | |
| 2014 | 185,000 | 15,400 | 66,304 | 251,304 | 15,400 | |
| 2015-2019 | 200,000 | 8,000 | 331,519 | 531,519 | 8,000 | |
| 2020-2024 | - | - | 269,019 | 269,019 | - | |
| 2025-2027 | - | - | 123,909 | 123,909 | - | |
| | <u>\$ 1,080,000</u> | <u>\$ 149,216</u> | <u>\$ 1,055,967</u> | <u>\$ 2,135,967</u> | <u>\$ 149,216</u> | |

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

| <u>Year</u> | <u>Business-Type Activities</u> | | | | |
|-------------|---------------------------------|---------------------|------------------|----------------------|---------------------|
| | <u>OWDA Loans</u> | | <u>OPWC Loan</u> | <u>Totals</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Principal</u> | <u>Interest</u> |
| 2010 | \$ 735,957 | \$ 328,359 | \$ 2,600 | \$ 738,557 | \$ 328,359 |
| 2011 | 758,347 | 305,969 | 2,600 | 760,947 | 305,969 |
| 2012 | 781,420 | 282,897 | - | 781,420 | 282,897 |
| 2013 | 805,195 | 259,121 | - | 805,195 | 259,121 |
| 2014 | 829,695 | 234,622 | - | 829,695 | 234,622 |
| 2015-2019 | 4,542,896 | 778,686 | - | 4,542,896 | 778,686 |
| 2020-2024 | 2,130,668 | 181,707 | - | 2,130,668 | 181,707 |
| 2025-2029 | 392,991 | 16,094 | - | 392,991 | 16,094 |
| | <u>\$ 10,977,169</u> | <u>\$ 2,387,455</u> | <u>\$ 5,200</u> | <u>\$ 10,982,369</u> | <u>\$ 2,387,455</u> |

| <u>Year</u> | <u>OWDA Loan (Estimated)</u> | |
|-------------|------------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2010 | \$ 217,075 | \$ 109,063 |
| 2011 | 254,073 | 104,057 |
| 2012 | 259,180 | 98,950 |
| 2013 | 264,390 | 93,741 |
| 2014 | 269,704 | 88,426 |
| 2015-2019 | 1,432,047 | 358,604 |
| 2020-2024 | 1,581,872 | 208,780 |
| 2025-2028 | 1,203,012 | 48,671 |
| | <u>\$ 5,481,353</u> | <u>\$ 1,110,292</u> |

NOTE 9 – CAPITALIZED LEASE

In a prior year the City entered into a new capital lease for the acquisition of a fire truck. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers all benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service payments in the basic financial statements for the governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

Governmental activities capital assets consisting of equipment have been capitalized in the amount of \$525,000. The depreciation expense of this asset is reported within governmental activities. The capitalized amount equals a portion of the present value of the future minimum lease payments and the down payment respectively, at the time of acquisition. The remaining portion of the capital lease was used for noncapitalizable improvements. As of December 31, 2009 the City made the final \$83,951 payment of which \$2,021 was interest on the capital lease.

City of Chardon, Ohio

Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. 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.

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2009, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2009 was 14%, of which 7.00% was used to fund the pension benefits from January 1, 2009 to March 31, 2009 and 8.5% was used from April 1, 2009 to December 31, 2009. 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, 2009, 2008 and 2007 were \$282,256, \$184,084 and \$261,122 respectively; 88.12% has been contributed for 2009 and 100% for 2008 and 2007.

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.

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, 2009, 2008 and 2007 were \$99,516, \$94,018 and \$134,180 respectively, equal to the required contributions for each year. The full amount has been contributed for 2008 and 2007. 71.66% has been contributed for 2009 with the remainder being reported as a liability.

NOTE 11 - 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. OPERS issues a stand-alone financial report that may be obtained in writing to OPERS, 227 E. Town St., Columbus, OH, 43215-4642, or by calling (614) 222-5601.

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 2009, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent 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 Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2008. An individual entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2008 was 6.5%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .50% to 6.3%.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 3% for the next 6 years. In subsequent years (7 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

OPEBs are advanced-funded on an actuarial determined basis. The number of active contributing participants in the TP and CP was 357,584 for 2009. The number of active contributing participants for both plans used in the December 31, 2008, actuarial valuation was 356,388. Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2009, 2008 and 2007 were \$203,826, \$184,084 and \$173,023 respectively; 88.12% has been contributed for 2009 and 100% for 2008 and 2007. The actual contribution and the actuarially required contribution amounts are the same.

OPERS's net assets available for payment of benefits at December 31, 2008, (the latest available information) were \$10.7 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.6 billion and \$18.9 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1, of each year from 2006 to 2008. Rates for law and public safety employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164.

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 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

City of Chardon, Ohio

Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

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, 2009, 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, 2009, 2008 and 2007 were \$52,685, \$49,774 and \$46,426, respectively, 71.66 percent has been contributed, for 2009 with the remainder being reported as a liability.

NOTE 12 - 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, 2009, 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 13 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2009, consisted of the following:

| <u>Transfer to</u> | <u>Transfer from</u> | | <u>Total</u> |
|--------------------------------------|----------------------|------------------------------------|---------------------|
| | <u>General fund</u> | <u>Nonmajor governmental funds</u> | |
| General fund | \$ - | \$ 47,500 | \$ 47,500 |
| General obligation debt service fund | 205,000 | - | 205,000 |
| Nonmajor governmental funds | 800,300 | - | 800,300 |
| Enterprise funds: | | | |
| Water fund | 387,000 | - | 387,000 |
| Sewer fund | 640,000 | - | 640,000 |
| Subtotal enterprise fund transfers | <u>1,027,000</u> | <u>-</u> | <u>1,027,000</u> |
| Subtotal fund transfers | <u>\$ 2,032,300</u> | <u>\$ 47,500</u> | <u>\$ 2,079,800</u> |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The \$47,500 transfer from nonmajor governmental funds to the general fund was a transfer from the Court Computer Projects fund for salary in accordance with the Ohio Revised Code Section 1901.261(B)(1).

NOTE 14 – NEW ACCOUNTING AND REPORTING STANDARDS

For 2009, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 52, *Land and Other Real Estate Held as investments by Endowments*, GASB Statement No. 55, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB’s authoritative literature. The implementation of this statement did not result in any change to the financial statements.

City of Chardon, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2009

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations and subsequent events from the AICPA literature. The implementation of this statement did not result in any change to the financial statements.

**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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chardon, Ohio (the “City”) as of and for the year ended December 31, 2009, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 24, 2010, wherein we noted the City adopted GASB Statement Nos. 52, 55 and 56, as described in Note 14. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the City in a separate letter dated June 24, 2010.

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

Ciuni & Panichi, Inc.

Cleveland, Ohio
June 24, 2010



Mary Taylor, CPA
Auditor of State

CITY OF CHARDON

GEAUGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 27, 2010