

City of Chardon, Ohio

**Basic Financial Statements
December 31, 2011**



Dave Yost • Auditor of State

Members of Council
City of Chardon
11 Water Street
Chardon, OH 442024

We have reviewed the *Independent Auditor's Report* of the City of Chardon, Geauga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 19, 2012

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City of Chardon, Ohio

For The Year Ended December 31, 2011

Table of Contents	Page
Independent Auditor's Report.....	1
Management Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Basis) – General Fund.....	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Basis) – Street Construction, Maintenance and Repair Fund.....	23
Statement of Fund Net Assets – Proprietary Funds.....	24
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	25
Statement of Cash Flows – Proprietary Funds.....	26
Statement of Fiduciary Assets and Liabilities	27
Statement of Changes in Fiduciary Net Assets.....	28
Notes to Basic Financial Statements.....	29
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	58
Schedule of Prior Year Findings	60

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Independent Auditor's 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, 2011, 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 the 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, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Street, Construction, Maintenance, and Repair Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4 to the financial statements, the City implemented Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Honorable Mayor and
Members of City Council
Chardon, Ohio

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Cini & Panichi, Inc.

Cleveland, Ohio
June 29, 2012

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

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, 2011. 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 2011 are as follows:

- ◆ The assets of the City of Chardon exceeded its liabilities at the close of this year by \$61,476,397. Of this amount, \$5,129,369 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$1,108,008 which represents a decrease of approximately 1.4 percent under 2010. The cash balance of governmental activities increased approximately \$35 thousand from 2010.
- ◆ Total liabilities decreased by \$1,221,732, which represents a decrease of 6.1 percent under 2010.
- ◆ In total, net assets of the City increased by \$113,724 during 2011. This represents a .2 percent increase from 2010.

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, 2011

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 2011”? 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, 2011

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, 2011

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 2011 as compared to 2010.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets:						
Current and other assets	\$ 7,481,577	\$ 7,319,844	\$ 1,909,069	\$ 2,462,553	\$ 9,390,646	\$ 9,782,397
Capital assets, net	<u>38,487,024</u>	<u>38,138,391</u>	<u>32,330,356</u>	<u>33,395,246</u>	<u>70,817,380</u>	<u>71,533,637</u>
Total Assets	<u>45,968,601</u>	<u>45,458,235</u>	<u>34,239,425</u>	<u>35,857,799</u>	<u>80,208,026</u>	<u>81,316,034</u>
Liabilities:						
Current liabilities	1,693,412	1,583,802	106,350	116,829	1,799,762	1,700,631
Long-term liabilities						
Due within one year	466,372	471,736	1,080,739	1,054,230	1,547,111	1,525,966
Due in more than one year	<u>1,791,297</u>	<u>2,066,305</u>	<u>13,593,459</u>	<u>14,660,459</u>	<u>15,384,756</u>	<u>16,726,764</u>
Total liabilities	<u>3,951,081</u>	<u>4,121,843</u>	<u>14,780,548</u>	<u>15,831,518</u>	<u>18,731,629</u>	<u>19,953,361</u>
Net Assets:						
Invested in capital assets, net of related debt	36,762,288	36,233,728	17,777,096	17,826,965	54,539,384	54,060,693
Restricted	1,807,644	2,639,530	-	-	1,807,644	2,639,530
Unrestricted	<u>3,447,588</u>	<u>2,463,134</u>	<u>1,681,781</u>	<u>2,199,316</u>	<u>5,129,369</u>	<u>4,662,450</u>
Total net assets	<u>\$42,017,520</u>	<u>\$41,336,392</u>	<u>\$19,458,877</u>	<u>\$20,026,281</u>	<u>\$61,476,397</u>	<u>\$ 61,362,673</u>

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

Net assets may serve over time as a useful indicator of a government's financial position. For the City, total assets exceeded total liabilities by \$61,476,397 as of December 31, 2011. 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 (88.7 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 2011 decreased \$1,108,008 or 1.4 percent when compared to 2010. The decrease in total assets was mainly due to depreciation of capital assets reported in governmental and business-type activities.

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 decreased 2.8 percent in 2011. This decrease was in part, due to the replacement of some sewer lines that were less than 5 percent depreciated. 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, 2011

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Program Revenue:						
Charges for services	\$ 2,071,971	\$ 2,311,309	\$ 2,358,985	\$ 2,308,587	\$ 4,430,956	\$ 4,619,896
Operating grants and contributions	549,022	681,035	-	-	549,022	681,035
Capital grants and contributions	500,000	446,193	-	547,500	500,000	993,693
Total program revenues	<u>3,120,993</u>	<u>3,438,537</u>	<u>2,358,985</u>	<u>2,856,087</u>	<u>5,479,978</u>	<u>6,294,624</u>
General Revenues:						
Property taxes	1,135,548	1,180,584	-	-	1,135,548	1,180,584
Income taxes	5,266,161	4,816,914	-	-	5,266,161	4,816,914
Grant and entitlements	270,334	393,018	-	-	270,334	393,018
Gain on sale of capital assets	1,325	-	-	-	1,325	-
Investment earnings	32,829	41,820	399	938	33,228	42,758
Contributions	-	10,166	-	-	-	10,166
Other	266,401	98,500	-	-	266,401	98,500
Total general revenues	<u>6,972,598</u>	<u>6,541,002</u>	<u>399</u>	<u>938</u>	<u>6,972,997</u>	<u>6,541,940</u>
Total revenues	<u>10,093,591</u>	<u>9,979,539</u>	<u>2,359,384</u>	<u>2,857,025</u>	<u>12,452,975</u>	<u>12,836,564</u>
Program Expenses:						
General government	3,133,522	3,591,234	-	-	3,133,522	3,591,234
Security of persons and property	2,732,300	2,943,042	-	-	2,732,300	2,943,042
Public health services	86,340	89,810	-	-	86,340	89,810
Transportation	2,369,912	2,137,969	-	-	2,369,912	2,137,969
Community environment	214,571	261,790	-	-	214,571	261,790
Basic utility services	24	-	-	-	24	-
Leisure time activities	260,468	265,561	-	-	260,468	265,561
Interest and fiscal charges	34,328	39,678	-	-	34,328	39,678
Water	-	-	1,230,034	1,192,588	1,230,034	1,192,588
Sewer	-	-	2,277,752	1,903,320	2,277,752	1,903,320
Total program expenses	<u>8,831,465</u>	<u>9,329,084</u>	<u>3,507,786</u>	<u>3,095,908</u>	<u>12,339,251</u>	<u>12,424,992</u>
Excess before transfers	1,262,126	650,455	(1,148,402)	(238,883)	113,724	411,572
Transfers	(580,998)	(520,000)	580,998	520,000	-	-
Change in net assets	681,128	130,455	(567,404)	281,117	113,724	411,572
Net assets at beginning of year	<u>41,336,392</u>	<u>41,205,937</u>	<u>20,026,281</u>	<u>19,745,164</u>	<u>61,362,673</u>	<u>60,951,101</u>
Net assets at end of year	<u>\$ 42,017,520</u>	<u>\$ 41,336,392</u>	<u>\$ 19,458,877</u>	<u>\$ 20,026,281</u>	<u>\$ 61,476,397</u>	<u>\$ 61,362,673</u>

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

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 2011 the revenues generated from this tax amounted to \$5,266,161. The increase in income tax revenues from 2010 was 9.3 percent. A portion of this increase in tax is reflected as an increase in income tax collections for 2011. The income tax revenue amounts fluctuate from collections as well as the estimated receivable provided by a third party that collects taxes on behalf of the City. The City continues to enforce the delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

Security of persons and property, transportation and general government are the major activities of the City generating 93.3 percent of the governmental expenses. Currently, there are 17 sworn officers in the police department. During 2011, 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, decreased the City's net assets by \$567,404 from various events including increased depreciation of the infrastructure acquired in 2010 and the disposal of some slightly depreciated infrastructure this year. In addition, expenses increased compared to 2010 and revenues decreased when compared to 2010.

Overall, the City's business-type activities generated \$2,358,985 in program revenues during 2011, program expenses were \$3,507,786. General revenues of \$399 and net transfers of \$580,998 were inadequate 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 \$11,138,558 and expenditures and other financing uses of \$10,923,355. The net change in fund balance for the year was most significant in the general fund. It is showing an increase in fund balance of \$658,366; which is partially attributed an increase in revenues and a decrease in expenditures as compared to 2010.

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, 2011

Table 3 below reports year 2011 balances compared to 2010:

Table 3
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2011	December 31, 2010		
General Fund	\$ 3,071,544	\$ 2,413,178	\$ 658,366	27.3%
Street Construction, Maintenance and Repair Fund	235,858	174,134	61,724	35.4%
General Obligation Debt Service Fund	601	439	162	36.9%
Other Governmental Funds	1,661,385	2,166,434	(505,049)	-23.3%
	<u>\$ 4,969,388</u>	<u>\$ 4,754,185</u>	<u>\$ 215,203</u>	

Table 4 below assists in illustrating the financial activities for the general fund of year 2011 balances compared to 2010:

Table 4
Change in Financial Activities for the General Fund

	December 31, 2011	December 31, 2010	Increase (Decrease)	Percent Change
Revenues:				
Municipal income tax	\$ 5,488,804	\$ 4,893,513	\$ 595,291	12.2%
Property and other taxes	393,798	392,882	916	0.2%
Charges for services	72,140	75,897	(3,757)	-5.0%
Licenses and permits	155,337	108,534	46,803	43.1%
Fines and forfeitures	921,341	896,439	24,902	2.8%
Intergovernmental	279,272	429,830	(150,558)	-35.0%
Investment income	32,829	41,820	(8,991)	-21.5%
Other	194,980	269,221	(74,241)	-27.6%
Total revenue	<u>7,538,501</u>	<u>7,108,136</u>	<u>430,365</u>	
Expenditures:				
Current:				
General government	2,504,004	2,792,330	(288,326)	-10.3%
Security of persons and property	1,287,305	1,488,046	(200,741)	-13.5%
Public health services	14,150	13,650	500	3.7%
Transportation	1,551,172	1,258,092	293,080	23.3%
Community environment	150,604	217,685	(67,081)	-30.8%
Capital outlay	96,596	64,669	31,927	49.4%
Debt service:				
Principal retirement	66,304	66,304	-	0.0%
Total expenditures	<u>\$ 5,670,135</u>	<u>\$ 5,900,776</u>	<u>\$ (230,641)</u>	

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

General Fund Budgeting Highlights

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

Final budgeted revenues of \$7,180,342 were \$500,000 higher than original amount mainly due to certain revenues being unknown during the original budgeting process. Actual revenues exceeded the final amount by \$41,075. These differences were caused by the conservative budgeting nature of the original budgeting process.

Final budgeted expenditures of \$6,708,960 were more than the original budgeted expenditures by \$163,550. The change was reported mainly in general government function. Actual expenditures for the year were \$700,173 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 2011, the City had \$70,817,380 invested in land and land improvements, buildings, machinery and equipment, vehicles and infrastructure.

Table 5 shows fiscal 2011 balances of capital assets as compared to 2010:

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

Table 5
Capital Assets at December 31

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land, land use rights and land improvements	\$ 3,062,975	\$ 3,062,975	\$ 563,426	\$ 563,426	\$ 3,626,401	\$ 3,626,401
Buildings	9,114,317	9,114,317	20,937,130	20,937,130	30,051,447	30,051,447
Machinery and equipment	514,321	498,777	4,056,917	3,989,582	4,571,238	4,488,359
Vehicles	1,602,698	1,563,986	317,033	352,930	1,919,731	1,916,916
Infrastructure						
Traffic lights	1,961,016	1,914,588	-	-	1,961,016	1,914,588
Streets and sidewalks	21,274,057	20,379,343	-	-	21,274,057	20,379,343
Storm sewers, bridges and culverts	14,532,979	14,513,204	-	-	14,532,979	14,513,204
Water lines	-	-	6,651,279	6,651,279	6,651,279	6,651,279
Sewer lines	-	-	11,146,572	11,380,348	11,146,572	11,380,348
Construction in progress	1,343,280	1,427,785	-	-	1,343,280	1,427,785
Less: accumulated depreciation	<u>(14,918,619)</u>	<u>(14,336,584)</u>	<u>(11,342,001)</u>	<u>(10,479,449)</u>	<u>(26,260,620)</u>	<u>(24,816,033)</u>
Total capital assets	<u>\$ 38,487,024</u>	<u>\$ 38,138,391</u>	<u>\$ 32,330,356</u>	<u>\$ 33,395,246</u>	<u>\$ 70,817,380</u>	<u>\$ 71,533,637</u>

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as trucks for snow plowing and police cruisers are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The older vehicles are 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 (before depreciation) for governmental activities increased \$930,668 (net of decreases) mainly due to construction in progress additions. This increase (net of decreases) was offset by an increase in accumulated depreciation of \$1,101,365. Capital assets for business-type activities decreased by \$1,064,890, mainly due to significant disposals of sewer lines and depreciation expense charged for the current year.

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

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

Debt

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Current Related Financial Activities

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Contacting the City of Chardon's Finance Department

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Vj ku'h'k'p'ek'cn'r' t'gr q't'v'ku'f'g'uki p'gf "v'q'r t'q'x'k'f g'q'w't'ek'k' g'p'u."v'cz'r c'c' g'tu."k'p'x'g'u'q'tu'cpf "et'g'f k'q'tu'y k'j "c" i g'p'g't'cn'q'x'g't'x'g'y "qh'yj g' Ekv{0u'h'k'p'eg'u'cpf "v'q'uj q y "vj g'Ekv{0u'c'ee'q'w'p'cd'k'k'v' "h'q't'c'm'o p'p'g'f "k' t'g'eg'k'x'g'u."ur g'p'f u."qt "k'p'x'g'u'0'k'k'f'q'w" j c'x'g'c'p'f "s'v'g'u'k'p'u"cd'q'w'v'j ku't'gr q't'v'q't "p'g'g'f "c'f f'k'k'p'cn' h'k'p'ek'cn'l'k'p'hto cvkqp."eq'p'v'ev'F'k'g'ev't" qh'H'k'p'eg."O c'v'g'T'q'i q'p'l'le."Ekv{ "qh'Ej ctf qp."333"Y c'v'g't" U't'g'g'v'Ej ctf qp."Qj k'q'66246."v'g'r'g'r j q'p'g'662+4: 8/4692."q't'y g'd'uk'g'c'v'y y y @e'j c'tf q'p'0e'0'

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City of Chardon, Ohio

Statement of Net Assets

December 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 4,278,454	\$ 1,276,994	\$ 5,555,448
Receivables:			
Income tax	1,163,713	-	1,163,713
Property and other taxes	1,199,841	-	1,199,841
Accounts	117,854	374,039	491,893
Accrued interest	1,426	-	1,426
Intergovernmental	407,078	-	407,078
Materials and supplies inventory	291,958	253,439	545,397
Prepaid items	21,253	4,597	25,850
Nondepreciable capital assets	3,155,990	320,748	3,476,738
Depreciable capital assets, net	35,331,034	32,009,608	67,340,642
Total assets	<u>45,968,601</u>	<u>34,239,425</u>	<u>80,208,026</u>
<u>Liabilities:</u>			
Accounts payable	97,286	49,116	146,402
Contracts payable	241,651	-	241,651
Accrued wages and benefits	105,377	28,012	133,389
Accrued pension	88,806	14,447	103,253
Due to other governments	62,083	14,775	76,858
Income tax refunds payable	23,735	-	23,735
Accrued interest payable	2,393	-	2,393
Deferred revenue	1,072,081	-	1,072,081
Long-term liabilities:			
Due within one year	466,372	1,080,739	1,547,111
Due in more than one year	1,791,297	13,593,459	15,384,756
Total liabilities	<u>3,951,081</u>	<u>14,780,548</u>	<u>18,731,629</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	36,762,288	17,777,096	54,539,384
Restricted for:			
Capital projects	842,920	-	842,920
Transportation	475,314	-	475,314
Security of persons and property	255,095	-	255,095
Other purposes	234,315	-	234,315
Unrestricted	3,447,588	1,681,781	5,129,369
Total net assets	<u>\$ 42,017,520</u>	<u>\$ 19,458,877</u>	<u>\$ 61,476,397</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Activities
For the Year Ended December 31, 2011

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 3,133,522	\$ 1,369,037	\$ -	\$ -
Security of persons and property	2,732,300	344,711	90,752	-
Public health services	86,340	20,121	-	-
Transportation	2,369,912	-	439,864	500,000
Community environment	214,571	204,137	-	-
Basic utility services	24	-	-	-
Leisure time activities	260,468	133,965	18,406	-
Interest and fiscal charges	34,328	-	-	-
Total governmental activities	<u>8,831,465</u>	<u>2,071,971</u>	<u>549,022</u>	<u>500,000</u>
<u>Business-Type Activities:</u>				
Water	1,230,034	884,719	-	-
Sewer	<u>2,277,752</u>	<u>1,474,266</u>	-	-
Total business-type activities	<u>3,507,786</u>	<u>2,358,985</u>	-	-
Total primary government	<u>\$ 12,339,251</u>	<u>\$ 4,430,956</u>	<u>\$ 549,022</u>	<u>\$ 500,000</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
Gain on sale of capital assets
Investment earnings
Other
Transfers
Total general revenues, capital contributions 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
\$ (1,764,485)	\$ -	\$ (1,764,485)
(2,296,837)	-	(2,296,837)
(66,219)	-	(66,219)
(1,430,048)	-	(1,430,048)
(10,434)	-	(10,434)
(24)	-	(24)
(108,097)	-	(108,097)
(34,328)	-	(34,328)
<u>(5,710,472)</u>	<u>-</u>	<u>(5,710,472)</u>
-	(345,315)	(345,315)
-	(803,486)	(803,486)
-	<u>(1,148,801)</u>	<u>(1,148,801)</u>
<u>(5,710,472)</u>	<u>(1,148,801)</u>	<u>(6,859,273)</u>
402,817	-	402,817
732,731	-	732,731
5,266,161	-	5,266,161
270,334	-	270,334
1,325	-	1,325
32,829	399	33,228
266,401	-	266,401
<u>(580,998)</u>	<u>580,998</u>	<u>-</u>
<u>6,391,600</u>	<u>581,397</u>	<u>6,972,997</u>
681,128	(567,404)	113,724
<u>41,336,392</u>	<u>20,026,281</u>	<u>61,362,673</u>
<u>\$ 42,017,520</u>	<u>\$ 19,458,877</u>	<u>\$ 61,476,397</u>

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City of Chardon, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	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	\$ 2,142,443	\$ 191,879	\$ 601	\$ 1,943,531	\$ 4,278,454
<u>Receivables:</u>					
Income tax	1,163,713	-	-	-	1,163,713
Property and other taxes	423,404	-	-	776,437	1,199,841
Accounts	27,660	-	-	90,194	117,854
Accrued interest	1,426	-	-	-	1,426
Intergovernmental	125,350	229,255	-	52,473	407,078
Materials and supplies inventory	266,958	-	-	25,000	291,958
Prepaid items	19,155	-	-	2,098	21,253
Total assets	<u>\$ 4,170,109</u>	<u>\$ 421,134</u>	<u>\$ 601</u>	<u>\$ 2,889,733</u>	<u>\$ 7,481,577</u>
<u>Liabilities and fund balances</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 79,295	\$ 487	\$ -	\$ 17,504	\$ 97,286
Contracts payable	-	-	-	241,651	241,651
Accrued wages and benefits	94,958	-	-	10,419	105,377
Accrued pension	38,853	-	-	49,953	88,806
Due to other governments	54,789	-	-	7,294	62,083
Income tax refunds payable	23,735	-	-	-	23,735
Deferred revenue	806,935	184,789	-	901,527	1,893,251
Total liabilities	<u>1,098,565</u>	<u>185,276</u>	<u>-</u>	<u>1,228,348</u>	<u>2,512,189</u>
<u>Fund balances:</u>					
Nonspendable	286,113	-	-	27,098	313,211
Restricted	-	235,858	-	1,147,323	1,383,181
Committed	-	-	-	595,643	595,643
Assigned	756,868	-	601	-	757,469
Unassigned (Deficit)	2,028,563	-	-	(108,679)	1,919,884
Total fund balances	<u>3,071,544</u>	<u>235,858</u>	<u>601</u>	<u>1,661,385</u>	<u>4,969,388</u>
Total liabilities and fund balances	<u>\$ 4,170,109</u>	<u>\$ 421,134</u>	<u>\$ 601</u>	<u>\$ 2,889,733</u>	<u>\$ 7,481,577</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, 2011**

Total governmental fund balances \$ 4,969,388

*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. 38,487,024

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

Property and other taxes	\$ 127,760	
Income taxes	281,904	
Intergovernmental	337,050	
Charges for services	74,406	
Other	50	
Total		821,170

Accrued interest payable is not due and payable in the current
period and therefore is not reported in the funds. (2,393)

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

General obligation bonds	\$ (740,000)	
OPWC loan	(984,736)	
Compensated absences	(532,933)	
Total		(2,257,669)

Net assets of governmental activities \$ 42,017,520

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, 2011

	General	Street Construction Maintenance and Repair	General Obligation Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
Income tax	\$ 5,488,804	\$ -	\$ -	\$ -	\$ 5,488,804
Property and other taxes	393,798	-	-	726,702	1,120,500
Charges for services	72,140	-	-	265,933	338,073
Licenses and permits	155,337	-	-	-	155,337
Fines and forfeitures	921,341	-	-	376,482	1,297,823
Intergovernmental	279,272	345,926	-	647,941	1,273,139
Special assessments	-	-	-	163,019	163,019
Investment income	32,829	96	-	4	32,929
Rentals	-	-	-	90,000	90,000
Other	194,980	-	-	101,252	296,232
Total revenue	<u>7,538,501</u>	<u>346,022</u>	<u>-</u>	<u>2,371,333</u>	<u>10,255,856</u>
Expenditures:					
Current:					
General government	2,504,004	-	-	516,250	3,020,254
Security of persons and property	1,287,305	-	-	1,355,302	2,642,607
Public health services	14,150	-	-	59,333	73,483
Transportation	1,551,172	487	-	36	1,551,695
Community environment	150,604	-	-	57,262	207,866
Basic utility services	-	-	-	24	24
Leisure time activities	-	-	-	223,529	223,529
Capital outlay	96,596	283,811	-	1,137,348	1,517,755
Debt service:					
Principal retirement	66,304	-	175,000	-	241,304
Interest and fiscal charges	-	-	34,838	-	34,838
Total expenditures	<u>5,670,135</u>	<u>284,298</u>	<u>209,838</u>	<u>3,349,084</u>	<u>9,513,355</u>
Excess of revenues over (under) expenditures	<u>1,868,366</u>	<u>61,724</u>	<u>(209,838)</u>	<u>(977,751)</u>	<u>742,501</u>
Other financing sources (uses):					
Proceeds of OPWC loans	-	-	-	61,377	61,377
Sale of capital assets	-	-	-	1,325	1,325
Transfers - in	100,000	-	210,000	510,000	820,000
Transfers - out	(1,310,000)	-	-	(100,000)	(1,410,000)
Total other financing sources (uses)	<u>(1,210,000)</u>	<u>-</u>	<u>210,000</u>	<u>472,702</u>	<u>(527,298)</u>
Net change in fund balance	658,366	61,724	162	(505,049)	215,203
Fund balances at beginning of year	<u>2,413,178</u>	<u>174,134</u>	<u>439</u>	<u>2,166,434</u>	<u>4,754,185</u>
Fund balances at end of year	<u>\$ 3,071,544</u>	<u>\$ 235,858</u>	<u>\$ 601</u>	<u>\$ 1,661,385</u>	<u>\$ 4,969,388</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, 2011**

Net change in fund balances - Total governmental funds	\$	215,203
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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	\$	1,517,755
Capital assets transferred		9,002
Depreciation expense		<u>(1,101,365)</u>
Excess of capital outlay and capital assets transferred over depreciation expense		425,392
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.		(76,759)
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	\$	15,048
Income taxes		(222,643)
Intergovernmental		33,354
Fines and forfeitures		(600)
Other		50
Charges for services		<u>11,201</u>
Net change in deferred revenues during the year		(163,590)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in compensated absences	\$	100,445
Decrease in accrued interest		<u>510</u>
Total additional expenditures		100,955
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.		241,304
Loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		<u>(61,377)</u>
Change in net assets of governmental activities	<u>\$</u>	<u>681,128</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
General Fund
For the Year Ended December 31, 2011**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Income tax	\$ 4,800,000	\$ 5,175,000	\$ 5,176,182	\$ 1,182
Property and other taxes	391,550	391,500	393,783	2,283
Charges for services	57,925	70,775	72,175	1,400
Licenses and permits	115,260	143,250	157,516	14,266
Fines and forfeitures	890,500	916,302	917,171	869
Intergovernmental	262,296	283,506	287,285	3,779
Investment income	25,000	19,000	26,547	7,547
Other	137,811	181,009	190,758	9,749
Total revenue	<u>6,680,342</u>	<u>7,180,342</u>	<u>7,221,417</u>	<u>41,075</u>
<u>Expenditures:</u>				
Current:				
General government	3,015,000	3,139,100	2,684,302	454,798
Security of persons and property	1,678,307	1,680,306	1,608,985	71,321
Public health and welfare	16,250	16,750	14,150	2,600
Transportation	1,551,167	1,588,117	1,441,991	146,126
Community environment	218,366	218,367	193,055	25,312
Debt service:				
Principal retirement	66,320	66,320	66,304	16
Total expenditures	<u>6,545,410</u>	<u>6,708,960</u>	<u>6,008,787</u>	<u>700,173</u>
Excess of revenues over expenditures	<u>134,932</u>	<u>471,382</u>	<u>1,212,630</u>	<u>741,248</u>
<u>Other financing sources (uses):</u>				
Transfers - in	102,214	102,214	100,000	(2,214)
Transfers - out	(1,310,000)	(1,310,000)	(1,310,000)	-
Total other financing sources (uses)	<u>(1,207,786)</u>	<u>(1,207,786)</u>	<u>(1,210,000)</u>	<u>(2,214)</u>
Net change in fund balance	(1,072,854)	(736,404)	2,630	739,034
Fund balance at beginning of year	1,612,982	1,612,982	1,612,982	-
Prior year encumbrances appropriated	188,140	188,140	188,140	-
Fund balance at end of year	<u>\$ 728,268</u>	<u>\$ 1,064,718</u>	<u>\$ 1,803,752</u>	<u>\$ 739,034</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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final Budget		
<u>Revenues:</u>				
Intergovernmental	\$ 263,625	\$ 338,550	\$ 366,929	\$ 28,379
Investment income	-	-	96	96
Total revenue	<u>263,625</u>	<u>338,550</u>	<u>367,025</u>	<u>28,475</u>
<u>Expenditures:</u>				
Current:				
Transportation	<u>409,538</u>	<u>409,538</u>	<u>350,351</u>	<u>59,187</u>
Net change in fund balance	(145,913)	(70,988)	16,674	87,662
Fund balance at beginning of year	81,592	81,592	81,592	-
Prior year encumbrances appropriated	<u>91,213</u>	<u>91,213</u>	<u>91,213</u>	<u>-</u>
Fund balance at end of year	<u>\$ 26,892</u>	<u>\$ 101,817</u>	<u>\$ 189,479</u>	<u>\$ 87,662</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2011

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	\$ 665,820	\$ 611,174	\$ 1,276,994
Accounts receivable	142,323	231,716	374,039
Materials and supplies inventory	200,962	52,477	253,439
Prepaid items	1,093	3,504	4,597
Total current assets	<u>1,010,198</u>	<u>898,871</u>	<u>1,909,069</u>
Non-current assets:			
Capital assets:			
Non-depreciable capital assets	246,746	74,002	320,748
Depreciable capital assets, net	12,046,593	19,963,015	32,009,608
Total non-current assets	<u>12,293,339</u>	<u>20,037,017</u>	<u>32,330,356</u>
Total assets	<u>13,303,537</u>	<u>20,935,888</u>	<u>34,239,425</u>
<u>Liabilities:</u>			
Current liabilities:			
Accounts payable	32,622	16,494	49,116
Accrued wages and benefits	16,725	11,287	28,012
Accrued pension	7,466	6,981	14,447
Due to other governments	7,038	7,737	14,775
Compensated absences payable	15,760	24,379	40,139
OWDA loans payable	259,180	781,420	1,040,600
Total current liabilities	<u>338,791</u>	<u>848,298</u>	<u>1,187,089</u>
Long-term liabilities:			
Compensated absences payable	55,933	24,866	80,799
OWDA loans payable, net of current portion	4,752,798	8,759,862	13,512,660
Total long-term liabilities	<u>4,808,731</u>	<u>8,784,728</u>	<u>13,593,459</u>
Total liabilities	<u>5,147,522</u>	<u>9,633,026</u>	<u>14,780,548</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	7,281,361	10,495,735	17,777,096
Unrestricted	874,654	807,127	1,681,781
Total net assets	<u>\$ 8,156,015</u>	<u>\$ 11,302,862</u>	<u>\$ 19,458,877</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, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating revenues:</u>			
Charges for services	\$ 860,760	\$ 1,456,420	\$ 2,317,180
Reimbursements	23,959	17,846	41,805
Total operating revenue	<u>884,719</u>	<u>1,474,266</u>	<u>2,358,985</u>
<u>Operating expenses:</u>			
Personal services	557,431	593,917	1,151,348
Supplies and materials	112,355	98,592	210,947
Travel and education	3,737	5,010	8,747
Contractual services	114,255	161,572	275,827
Utilities	91,783	206,856	298,639
Depreciation	246,416	688,192	934,608
Total operating expenses	<u>1,125,977</u>	<u>1,754,139</u>	<u>2,880,116</u>
Operating loss	<u>(241,258)</u>	<u>(279,873)</u>	<u>(521,131)</u>
<u>Non-operating revenues (expenses):</u>			
Interest	-	399	399
Interest and fiscal charges	(104,057)	(305,968)	(410,025)
Loss on disposal of capital assets	(4,501)	(222,146)	(226,647)
Total non-operating revenues (expenses):	<u>(108,558)</u>	<u>(527,715)</u>	<u>(636,273)</u>
Loss before transfers	<u>(349,816)</u>	<u>(807,588)</u>	<u>(1,157,404)</u>
Transfers - in	<u>-</u>	<u>590,000</u>	<u>590,000</u>
Change in net assets	(349,816)	(217,588)	(567,404)
Net assets at beginning of year	<u>8,505,831</u>	<u>11,520,450</u>	<u>20,026,281</u>
Net assets at end of year	<u>\$ 8,156,015</u>	<u>\$ 11,302,862</u>	<u>\$ 19,458,877</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, 2011

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 881,554	\$ 1,471,706	\$ 2,353,260
Cash payments for personal services	(569,581)	(607,432)	(1,177,013)
Cash payments for travel and entertainment	(3,752)	(5,025)	(8,777)
Cash payments for contractual services	(119,058)	(164,026)	(283,084)
Cash payments to suppliers for goods and services	(110,852)	(100,777)	(211,629)
Cash payments for utilities	(92,727)	(206,478)	(299,205)
Net cash provided by (used for) operating activities	<u>(14,416)</u>	<u>387,968</u>	<u>373,552</u>
Cash flows from noncapital financing activities:			
Transfers from other funds	-	590,000	590,000
Cash flows from capital and related financing activities:			
Interest paid on debt	(104,057)	(305,968)	(410,025)
Principal payment on loans	(256,673)	(758,348)	(1,015,021)
Sale of capital assets	3,243	8,557	11,800
Acquisition of capital assets	(37,470)	(71,836)	(109,306)
Net cash used for capital and related financing activities	<u>(394,957)</u>	<u>(1,127,595)</u>	<u>(1,522,552)</u>
Cash flows from investing activities:			
Investment income	-	399	399
Net decrease in cash and cash equivalents	(409,373)	(149,228)	(558,601)
Cash and cash equivalents at beginning of year	1,075,193	760,402	1,835,595
Cash and cash equivalents at end of year	<u>\$ 665,820</u>	<u>\$ 611,174</u>	<u>\$ 1,276,994</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:			
Operating loss	\$ (241,258)	\$ (279,873)	\$ (521,131)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	246,416	688,192	934,608
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(3,165)	(2,560)	(5,725)
Materials and supplies inventory	3,746	1,459	5,205
Prepaid items	(1,093)	(3,504)	(4,597)
Increase (decrease) in liabilities:			
Accounts payable	(7,252)	(3,408)	(10,660)
Accrued pension	(146)	511	365
Accrued wages and benefits	(1,081)	521	(560)
Compensated absences	(10,923)	(14,547)	(25,470)
Due to other governments	340	1,177	1,517
Net cash provided by (used for) operating activities	<u>\$ (14,416)</u>	<u>\$ 387,968</u>	<u>\$ 373,552</u>
Non-cash activity:			
Capital asset was acquired with a trade-in	\$ 9,900	\$ -	\$ 9,900

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fiduciary Assets and Liabilities
December 31, 2011

	Private Purpose Trust Cemetery	Agency
	<u> </u>	<u> </u>
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ -	\$ 285,629
Cash and cash equivalents in segregated accounts	17,789	100,803
Intergovernmental receivable	<u>-</u>	<u>58,601</u>
Total assets	<u>\$ 17,789</u>	<u>\$ 445,033</u>
 <u>Liabilities:</u>		
Accounts payable	\$ -	\$ 54,585
Intergovernmental payable	-	96,946
Undistributed monies	-	44,028
Deposits held and due to others	<u>-</u>	<u>249,474</u>
Total liabilities	<u>-</u>	<u>\$ 445,033</u>
 <u>Net assets:</u>		
Held in trust for cemetery	<u>17,789</u>	
Total net assets	<u>\$ 17,789</u>	

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Changes in Fiduciary Net Assets

For the Year Ending December 31, 2011

	Private Purpose Trust Cemetery
Additions:	
Interest	<u>\$ 18</u>
Deductions:	
Supplies and materials	<u>222</u>
Change in net assets	(204)
Net assets at beginning of year	<u>17,993</u>
Net assets at end of year	<u><u>\$ 17,789</u></u>

See accompanying notes to the basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Chardon have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The 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 FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. 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.

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:

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.

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.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, 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, 2011, but which were levied to finance year 2011 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.

During 2011, 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, 2011.

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, 2011 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure or expense is reported in the year in which services are consumed.

J. Capitalization of Interest

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

K. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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 reports all land parcels and maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. For proprietary funds and business-type activities, any material amount of interest incurred during the construction of capital assets is also capitalized.

All capital assets are depreciated except for land and construction and progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<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.

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Fund Balance

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

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

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

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

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

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

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

O. Net 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.

R. Interfund Activity

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

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

S. Estimates

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

T. Budgetary Process

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

Tax Budget

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

Estimated Resources

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

On or about January 1 the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the Finance Director determines that revenue to be collected will be greater than or less than the prior estimates and the budget commission find the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2011. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2011.

Appropriations

A temporary appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds must be legally enacted on or about January 1. A permanent appropriation ordinance is legally enacted before March 31. Appropriations may not exceed estimated resources as established in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted by Council action. During the year, several supplemental appropriation measures were necessary. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first permanent appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations

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

Budgeted Level of Expenditure

The primary level of budgetary control is at the object level within each department for all funds. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. The appropriations set by Council must remain fixed unless amended by Council ordinance. More detailed appropriations allocations may be made by the City Manager or Finance Director as long as the allocations are within Council's appropriated amount.

Encumbrances

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and Street Construction, Maintenance and Repair are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are identified as follows:

- a. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- b. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- c. Encumbrances are treated as expenditures (budget) rather than assigned fund balance (GAAP).
- d. Advances in and advances out (“repayment of advances”) are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- 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>	Street Construction Maintenance <u>and Repair</u>
GAAP basis	\$ 658,366	\$ 61,724
Revenue accruals	(246,454)	21,003
Expenditure accruals	(72,827)	(63,653)
Municipal court collections	(71,750)	-
Miscellaneous cash adjustments	(108)	-
Change in fair value of investments	1,228	-
Encumbrances (budget basis) outstanding at year end	<u>(265,825)</u>	<u>(2,400)</u>
Budget basis	<u>\$ 2,630</u>	<u>\$ 16,674</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 3 – FUND BALANCE

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

Fund Balances	<u>General</u>	<u>Street Construction Maintenance and Repair</u>	<u>General Obligation Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable</u>					
Materials and supplies inventory	\$ 266,958	\$ -	\$ -	\$ 25,000	\$ 291,958
Prepays	<u>19,155</u>	<u>-</u>	<u>-</u>	<u>2,098</u>	<u>21,253</u>
Total nonspendable	<u>286,113</u>	<u>-</u>	<u>-</u>	<u>27,098</u>	<u>313,211</u>
<u>Restricted for</u>					
Streets and highways	-	235,858	-	14,684	250,542
Streets lighting	-	-	-	35,615	35,615
Fire and EMS services	-	-	-	91,491	91,491
Capital improvements	-	-	-	716,869	716,869
Court activities	-	-	-	185,017	185,017
Shade tree	-	-	-	53,909	53,909
Police services	-	-	-	31,155	31,155
Cemetery	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,583</u>	<u>18,583</u>
Total restricted	<u>-</u>	<u>235,858</u>	<u>-</u>	<u>1,147,323</u>	<u>1,383,181</u>
<u>Committed</u>					
Recreation	-	-	-	55,592	55,592
Fire and EMS services	-	-	-	413,331	413,331
Capital improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,720</u>	<u>126,720</u>
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>595,643</u>	<u>595,643</u>
<u>Assigned</u>					
Encumbrances	165,465	-	-	-	165,465
Next year's budget	591,403	-	-	-	591,403
Debt service	<u>-</u>	<u>-</u>	<u>601</u>	<u>-</u>	<u>601</u>
Total assigned	<u>756,868</u>	<u>-</u>	<u>601</u>	<u>-</u>	<u>757,469</u>
Unassigned (deficit)	<u>2,028,563</u>	<u>-</u>	<u>-</u>	<u>(108,679)</u>	<u>1,919,884</u>
Total fund balances	<u>\$ 3,071,544</u>	<u>\$ 235,858</u>	<u>\$ 601</u>	<u>\$ 1,661,385</u>	<u>\$ 4,969,388</u>

NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For 2011, the City has implemented Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in a change in total fund balance, but only the classification of fund balance on the City's financial statements. The implementation of GASB Statement No. 54 had the following effect on fund balance of the major and nonmajor funds as they were previously reported. The implementation of this statement did not result in a change in total fund balance, but only the classification of fund balance on the City's financial statements.

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), and Student Loan Marketing Association (SLMA). All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer’s investment pool (STAROhio).

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

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

Undeposited Cash: At year-end, the City had \$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 \$3,707,420 and the bank balance was \$4,155,649. The City’s deposits were not exposed to custodial credit risk as they were either insured or secured by a collateral pool of eligible securities held at the Federal Reserve in a pledge account.

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

Investment Type	Fair Value	Securities	Portfolio	Maturity	Rating ⁽¹⁾
Federal Farm Credit Bank	\$ 500,000	33.30%	22%	4/4/2013	AAA
Federal Farm Credit Bank	500,000	33.30%	22%	12/27/2013	AAA
U.S. Treasury Note	<u>501,445</u>	<u>33.40%</u>	<u>22%</u>	5/31/2012	AAA
Subtotal securities	<u>1,501,445</u>	<u>100.00%</u>			
STAR Ohio	<u>750,004</u>		<u>33%</u>	57 ⁽²⁾	AAAm
	<u>\$ 2,251,449</u>		<u>100%</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 2011 amounted to \$32,829, which includes \$20,835 assigned from other funds.

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

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 FFCB and U.S. Treasury securities. 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 table above is the City's allocation as of December 31, 2011, which is in compliance with the City's investment policy.

NOTE 6 – RECEIVABLES

Receivables at December 31, 2011, 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 2011 for real and public utility property taxes represents collections of the 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) is for 2011 taxes.

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35% of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$11 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Property Category	Assessed Value	Percent
<u>Real Property</u>		
Residential and agricultural	\$ 99,537,950	61.13 %
Commercial and industrial	60,328,420	37.05
Public utilities	<u>2,958,770</u>	<u>1.82</u>
Total	<u>\$ 162,825,140</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.

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, 2011, 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 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue.

Income Taxes

The City levies a 2% income tax on substantially all earned income within the City as well as on income of residents that is earned outside the City. Employers within the City are required to withhold income tax on employees' compensation and remit the tax to the City's agent, Regional Income Tax Agency (RITA), either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax liability quarterly and file a final return annually.

In 2011, all income tax proceeds were allocated to the general fund.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Local Government and Local Government	
Revenue Assistance	\$ 52,358
Homestead and Rollback	55,664
Gasoline and Excise Tax	189,236
Motor Vehicle License Fees	56,841
Other Reimbursements	37,807
Grants	<u>15,172</u>
Total	<u>\$ 407,078</u>

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risk of loss related to torts, theft, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The City maintains comprehensive insurance coverage with private insurance carriers for real property, building contents, vehicle and general liability insurance, and police professional liability insurance.

The City continues to carry health insurance through a private carrier. There were no reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three fiscal years.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Balance</u> <u>12/31/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2011</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,802,544	\$ -	\$ -	\$ 1,802,544
Land use rights	10,166	-	-	10,166
Construction in progress	<u>1,427,785</u>	<u>1,220,765</u>	<u>(1,305,270)</u>	<u>1,343,280</u>
Total capital assets, not being depreciated	<u>3,240,495</u>	<u>1,220,765</u>	<u>(1,305,270)</u>	<u>3,155,990</u>
Capital assets, being depreciated				
Land improvements	1,250,265	-	-	1,250,265
Buildings	9,114,317	-	-	9,114,317
Machinery and equipment	498,777	15,544	-	514,321
Vehicles	1,563,986	141,581	(102,869)	1,602,698
Infrastructure:				
Traffic lights	1,914,588	46,428	-	1,961,016
Storm sewers, bridges and culverts	14,513,204	19,775	-	14,532,979
Streets and sidewalks	<u>20,379,343</u>	<u>1,387,934</u>	<u>(493,220)</u>	<u>21,274,057</u>
Total capital assets, being depreciated	<u>49,234,480</u>	<u>1,611,262</u>	<u>(596,089)</u>	<u>50,249,653</u>
Less: accumulated depreciation				
Land improvements	(391,947)	(55,024)	-	(446,971)
Buildings	(2,228,042)	(179,463)	-	(2,407,505)
Machinery and equipment	(214,718)	(37,515)	-	(252,233)
Vehicles	(694,195)	(135,588)	101,276	(728,507)
Infrastructure:				
Traffic lights	(285,090)	(65,217)	-	(350,307)
Storm sewers, bridges and culverts	(3,049,161)	(160,649)	-	(3,209,810)
Streets and sidewalks	<u>(7,473,431)</u>	<u>(467,909)</u>	<u>418,054</u>	<u>(7,523,286)</u>
Total accumulated depreciation	<u>(14,336,584)</u>	<u>(1,101,365)</u>	<u>519,330</u>	<u>(14,918,619)</u>
Total capital assets, being depreciated, net	<u>34,897,896</u>	<u>509,897</u>	<u>(76,759)</u>	<u>35,331,034</u>
Governmental activities capital assets, net	<u>\$ 38,138,391</u>	<u>\$ 1,730,662</u>	<u>\$ (1,382,029)</u>	<u>\$ 38,487,024</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Depreciation expense was charged to governmental functions as follows:

General government	\$ 207,495
Security of persons and property	75,815
Public health services	14,044
Transportation	762,347
Community environment	4,725
Leisure time activities	36,939
Total depreciation expense	<u>\$ 1,101,365</u>

	Balance 12/31/2010	Increases	Decreases	Balance 12/31/2011
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 320,748	\$ -	\$ -	\$ 320,748
Capital assets, being depreciated				
Land improvements	242,678	-	-	242,678
Buildings	20,937,130	-	-	20,937,130
Machinery and equipment	3,989,582	67,335	-	4,056,917
Vehicles	352,930	50,730	(86,627)	317,033
Infrastructure:				
Water lines	6,651,279	-	-	6,651,279
Sewer lines	11,380,348	-	(233,776)	11,146,572
Total capital assets, being depreciated	<u>43,553,947</u>	<u>118,065</u>	<u>(320,403)</u>	<u>43,351,609</u>
Less: accumulated depreciation				
Land improvements	(98,990)	(10,578)	-	(109,568)
Buildings	(3,909,476)	(418,420)	-	(4,327,896)
Machinery and equipment	(2,719,800)	(250,836)	-	(2,970,636)
Vehicles	(203,746)	(25,329)	64,482	(164,593)
Infrastructure:				
Water lines	(1,449,342)	(66,513)	-	(1,515,855)
Sewer lines	(2,098,095)	(162,932)	7,574	(2,253,453)
Total accumulated depreciation	<u>(10,479,449)</u>	<u>(934,608)</u>	<u>72,056</u>	<u>(11,342,001)</u>
Total capital assets, being depreciated, net	<u>33,074,498</u>	<u>(816,543)</u>	<u>(248,347)</u>	<u>32,009,608</u>
Business-type activities capital assets, net	<u>\$ 33,395,246</u>	<u>\$ (816,543)</u>	<u>\$ (248,347)</u>	<u>\$ 32,330,356</u>

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

Water	\$ 246,416
Sewer	<u>688,192</u>
Total depreciation expense	<u>\$ 934,608</u>

NOTE 9 - COMPENSATED ABSENCES

Accumulated Unpaid Vacation: City employees earn vacation leave at varying rates based upon length of service. Employees are encouraged to use their vacation leave within one year from their anniversary date, but are entitled to carryover eighty hours into the next year. City employees are paid for earned, unused vacation leave at the time of the termination of their employment. 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, 2011

NOTE 10 - LONG-TERM DEBT

A schedule of changes in bonds and other long-term obligations of the City during 2011 follows:

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</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	\$ 915,000	\$ -	\$ (175,000)	\$ 740,000	\$ 175,000
<u>Other long-term obligations:</u>					
0% Ohio Public Works Commission					
Park Avenue reconstruction	287,500	-	(25,000)	262,500	25,000
Fifth Avenue improvement project	397,689	-	(23,394)	374,295	23,394
North Street improvement project	304,474	-	(17,910)	286,564	17,910
Downing Drive storm and sanitary sewer project	-	61,377	-	61,377	-
Total Ohio Public Works Commission	<u>989,663</u>	<u>61,377</u>	<u>(66,304)</u>	<u>984,736</u>	<u>66,304</u>
Compensated absences	<u>633,378</u>	<u>314,979</u>	<u>(415,424)</u>	<u>532,933</u>	<u>225,068</u>
Total other long-term obligations	<u>1,623,041</u>	<u>376,356</u>	<u>(481,728)</u>	<u>1,517,669</u>	<u>291,372</u>
Total governmental long-term liabilities	<u>\$ 2,538,041</u>	<u>\$ 376,356</u>	<u>\$ (656,728)</u>	<u>\$ 2,257,669</u>	<u>\$ 466,372</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due in</u> <u>One</u> <u>Year</u>
Business-type activities:					
<u>Ohio Water Development Authority loans:</u>					
0.0% Wilson Mills Road					
Sanitary Sewer - 2009	\$ 58,418	\$ -	\$ -	\$ 58,418	\$ -
2.0% Water treatment plant					
improvements - 2007	5,266,051	-	(254,073)	5,011,978	259,180
3.25% Eastside sanitary trunk sewer					
improvements - 2006	2,536,265	-	(123,107)	2,413,158	127,140
2.975% Waste water treatment plant					
improvements - 2002	<u>7,704,947</u>	<u>-</u>	<u>(635,241)</u>	<u>7,069,706</u>	<u>654,280</u>
Total Ohio Water Development					
Authority loans	<u>15,565,681</u>	<u>-</u>	<u>(1,012,421)</u>	<u>14,553,260</u>	<u>1,040,600</u>
<u>Other long-term obligations:</u>					
0% Ohio Public Works Commission					
Issue II loan	2,600	-	(2,600)	-	-
Compensated absences	<u>146,408</u>	<u>41,171</u>	<u>(66,641)</u>	<u>120,938</u>	<u>40,139</u>
Total other long-term obligations	<u>149,008</u>	<u>41,171</u>	<u>(69,241)</u>	<u>120,938</u>	<u>40,139</u>
Total business-type long-term obligations	<u>\$ 15,714,689</u>	<u>\$ 41,171</u>	<u>\$ (1,081,662)</u>	<u>\$ 14,674,198</u>	<u>\$ 1,080,739</u>

The Ohio Public Works Commission (“OPWC”) 2002 Park Avenue Reconstruction Loan relates to construction on City streets. The loan will be repaid in semiannual installments of \$12,500 over 20 years, ending in 2022. Principal is paid out of the general fund.

The OPWC 2005 North Street Improvement Loan relates to construction on City streets. The loan will be repaid in semiannual installments of \$8,955 over 20 years, ending in 2027. Principal is paid out of the general fund.

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

During the year the City obtained proceeds from an OPWC loan that relates to construction on storm and sanitary sewer on Downing Drive. The City has received the first draw on the proceeds of this loan however, the final debt obligation is not certain until completion of the project. The City was approved to borrow \$526,700 on this loan and the remainder of the project was financed with grants.

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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

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

The City has agreed to set utility rates and fees sufficient to cover OWDA debt service requirements. For the OWDA wastewater treatment plant expansion and upgrade project, approximately two-thirds of the revenue will be generated through a system development charge to all of the new developments in an effort to fund the expansion portion of the project. The remaining one-third of the revenue will be generated by a surcharge to the existing users that will be used for the upgrade portion of the project.

Principal and interest payments on general obligation bonds are paid out of the general obligation debt service fund. Principal and interest payments on OPWC loans are paid out of the general fund as well as user charges from the appropriate enterprise fund. OWDA loans will be paid from the enterprise funds. Compensated absences will be paid from the general fund, water and sewer enterprise funds.

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

Principal and interest requirements to retire the City’s long-term obligations outstanding at December 31, 2011, are as follows:

Year	<u>Governmental Activities</u>					
	<u>General Obligation Bonds</u>		<u>OPWC Loans</u>	<u>Totals</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 175,000	\$ 34,838	\$ 66,304	\$ 241,304	\$ 34,838	
2013	180,000	22,150	66,304	246,304	22,150	
2014	185,000	15,400	66,304	251,304	15,400	
2015	200,000	8,000	66,304	266,304	8,000	
2016	-	-	66,304	66,304	-	
2017-2021	-	-	331,518	331,518	-	
2022-2026	-	-	219,018	219,018	-	
2027	-	-	41,303	41,303	-	
	<u>\$ 740,000</u>	<u>\$ 80,388</u>	<u>\$ 923,359</u>	<u>\$ 1,663,359</u>	<u>\$ 80,388</u>	

<u>Year</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,040,600	\$ 381,847
2013	1,069,585	352,862
2014	1,099,398	323,048
2015	1,130,065	292,381
2016	1,161,610	260,836
2017-2021	5,883,903	798,422
2022-2026	2,583,053	230,313
2027-2028	526,628	10,567
	<u>\$ 14,494,842</u>	<u>\$ 2,650,276</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

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

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

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2011, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2011 was 14%. The contribution rates are determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional plan for the years ended December 31, 2011, 2010 and 2009 were \$304,537, \$321,771 and \$282,256 respectively; 87.6% has been contributed for 2011 and 100% for 2010 and 2009. \$37,676 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan.

That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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, 2011, 2010 and 2009 were 102,865, \$101,883 and \$99,516 respectively. The full amount has been contributed for 2010 and 2009. 71.6% has been contributed for 2011 with the remainder being reported as a liability. \$29,191 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

NOTE 12 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) – a defined contribution plan; and the combined plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the City contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2011, 2010 and 2009 were \$169,187, \$178,762 and \$203,826 respectively; 87.6% has been contributed for 2011 and 100% for 2010 and 2009. \$20,931 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

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.

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, 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, 2011, 2010 and 2009 were \$54,458, \$53,938 and \$52,685, respectively, 71.6% has been contributed, for 2011 with the remainder being reported as a liability. \$15,454 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

NOTE 13 - CONTINGENT LIABILITIES

Litigation

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

Federal and State Grants

The City participates in several federally assisted programs. These programs are subject to financial and compliance audits by the grantor or their representative. As of December 31, 2011, the audits of these programs have not been completed. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 14 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2011, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>		<u>Total</u>
	<u>General fund</u>	<u>Nonmajor governmental fund</u>	
General fund	\$ -	\$ 100,000	\$ 100,000
General obligation debt service fund	210,000	-	210,000
Nonmajor governmental funds	510,000	-	510,000
Enterprise funds:			
Sewer fund	<u>590,000</u>	<u>-</u>	<u>590,000</u>
Total transfers	<u>\$ 1,310,000</u>	<u>\$ 100,000</u>	<u>\$ 1,410,000</u>

In addition, capital assets were transferred from the water and sewer enterprise funds to governmental activities. The assets value of \$9,002 is reported as a transfer on the statement of activities.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The \$100,000 transfer from nonmajor governmental fund to the general fund was a transfer from the special projects fund for the Municipal Center Space Reallocation Project in accordance with the Ohio Revised Code Section 1901.261(B)(1).

NOTE 15 - ACCOUNTABILITY

At December 31, 2011, the infrastructure capital projects fund had a deficit fund balance of \$108,679. This deficit was caused by the application of GAAP; namely in the reporting of various liabilities attributable to the fiscal year. These deficit balances will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at December 31.

**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, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 29, 2012, wherein we noted the City implemented *GASB No. 54* as discussed in Note 4. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered then 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 City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 a 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 was not designed to 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

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*.

This information is intended solely for the use of City Council, the Finance and Audit Committees, management of the City, 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.

Cini & Panichi, Inc.

Cleveland, Ohio
June 29, 2012

City of Chardon

Schedule of Prior Year Findings

December 31, 2011

Findings	Findings Summary	Corrected
2010-001	Financial reporting significant deficiency due to a restatement of capital assets and audit adjustments made for accounts payable and related CIP.	Yes

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Dave Yost • Auditor of State

CITY OF CHARDON

GEAUGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 02, 2012