



Dave Yost • Auditor of State

**CITY OF CHARDON
 GEAUGA COUNTY
 DECEMBER 31, 2016 AND 2015**

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GEAUGA COUNTY
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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Chardon
Geauga County
111 Water Street
Chardon, Ohio 44024

To the members of City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chardon, Geauga County, Ohio (the City), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chardon, Geauga County, Ohio, as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

August 1, 2018

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City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

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, 2016. 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 2016 are as follows:

- ◆ The assets of the City of Chardon exceeded its liabilities at the close of this year by \$64,715,412. Of this amount, \$3,775,479 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ City's total net position increased \$1,039,034 during 2016. Net position of the governmental activities increased \$228,568, while net position of business-type activities increased by \$810,466.
- ◆ The general fund, the City's largest major governmental fund, had revenues of \$7,689,825 in 2016, or 66.3 percent of total governmental funds. Expenditures of the general fund were \$5,968,847, or 52.1 percent of total governmental funds. The general fund balance increased \$783,749, or 16 percent in 2016.
- ◆ Business-type operations reflected an operating income of \$3,086,678 during 2016, and business-type unrestricted net position was \$1,325,301 at December 31, 2016.
- ◆ A deletion of \$1,951,357 was made to construction in progress reported in governmental activities during the year as various infrastructure projects were completed.

Using this Annual Financial Report

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

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

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

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

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and answers the question, “How did we do financially during 2016”? These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies.

This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid. These two statements report the City’s net position and changes in that position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions and other factors.

The Statement of Net Position and the Statement of Activities divides 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, infrastructure improvement fund and the general obligation debt service fund. An analysis of the City’s major governmental funds begins on page 13.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

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 27 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 30 of this report.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

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 32 of this report.

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

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

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

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

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Table 1 provides a summary of the City's net position for 2016 as compared to 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 12,400,158	\$ 11,707,989	\$ 2,175,329	\$ 1,815,192	\$ 14,575,487	\$ 13,523,181
Capital assets, net	45,009,598	44,094,075	29,939,424	30,633,344	74,949,022	74,727,419
Total assets	<u>57,409,756</u>	<u>55,802,064</u>	<u>32,114,753</u>	<u>32,448,536</u>	<u>89,524,509</u>	<u>88,250,600</u>
Deferred outflows of resources:						
Pension	<u>1,811,567</u>	<u>632,458</u>	<u>368,880</u>	<u>113,531</u>	<u>2,180,447</u>	<u>745,989</u>
Liabilities:						
Current liabilities	655,132	578,188	61,086	58,163	716,218	636,351
Long-term liabilities						
Due within one year	365,961	323,284	1,267,212	1,232,085	1,633,173	1,555,369
Due in more than one year:						
Net pension liability	5,699,761	4,480,506	987,296	720,631	6,687,057	5,201,137
Other amounts	<u>7,749,972</u>	<u>6,806,249</u>	<u>8,616,902</u>	<u>9,835,685</u>	<u>16,366,874</u>	<u>16,641,934</u>
Total liabilities	<u>14,470,826</u>	<u>12,188,227</u>	<u>10,932,496</u>	<u>11,846,564</u>	<u>25,403,322</u>	<u>24,034,791</u>
Deferred inflows of resources:						
Property taxes	1,225,969	1,190,135	-	-	1,225,969	1,190,135
Payments in lieu of taxes	60,510	40,950	-	-	60,510	40,950
Pension	<u>261,915</u>	<u>41,675</u>	<u>37,828</u>	<u>12,660</u>	<u>299,743</u>	<u>54,335</u>
Total deferred inflows of resources	<u>1,548,394</u>	<u>1,272,760</u>	<u>37,828</u>	<u>12,660</u>	<u>1,586,222</u>	<u>1,285,420</u>
Net Position:						
Net investment in capital assets						
Restricted	37,431,555	37,438,704	20,188,008	19,686,238	57,619,563	57,124,942
Unrestricted	3,320,370	3,647,859	-	-	3,320,370	3,647,859
Total net position	<u>\$ 43,202,103</u>	<u>\$ 42,973,535</u>	<u>\$ 21,513,309</u>	<u>\$ 20,702,843</u>	<u>\$ 64,715,412</u>	<u>\$ 63,676,378</u>

Net position may serve over time as a useful indicator of a government's financial position. For the City, total assets exceeded total liabilities by \$64,715,412 as of December 31, 2016. At the end of the current year, the City of Chardon is able to report positive balances in all three categories of net position, both for the government as a whole as well as for its separate governmental and business-type activities.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

The largest portion of the City's net position (89 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 2016 increased \$1,273,909 or 1.4 percent when compared to 2015. The increase in total assets was mainly due from an increase in capital assets acquired during the year as well as an increase in cash balances from 2015.

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 being low over the past few years, the investments have shifted from callable federal government-sponsored enterprise issues to a greater reliance on non callable federal government-sponsored enterprise issues, money market accounts and certificates of deposits. State statute and City investment policy allows for investments with maturities of five years or less. As of December 31, 2016, the City has staggered the maturities of these investments with some maturing each year for the next four years.

The net position of the City's business-type activities increased 3.9 percent in 2016. This increase was due to conservative spending not significant to any single item during the year. The City generally can only use this net position to finance the continuing operations of the sewer and water systems operations.

The City's statement of activities prepared on an accrual basis of accounting includes an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows. The City is also reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting in the statement of net position.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

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

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenue:						
Charges for services	\$ 2,317,794	\$ 2,140,761	\$ 3,086,678	\$ 3,032,522	\$ 5,404,472	\$ 5,173,283
Operating grants and contributions	1,028,922	1,640,023	7,045	-	1,035,967	1,640,023
Capital grants and contributions	352,527	1,043,516	-	-	352,527	1,043,516
Total program revenues	<u>3,699,243</u>	<u>4,824,300</u>	<u>3,093,723</u>	<u>3,032,522</u>	<u>6,792,966</u>	<u>7,856,822</u>
General Revenues:						
Property taxes	1,265,893	1,266,421	-	-	1,265,893	1,266,421
Income taxes	6,025,286	5,928,199	-	-	6,025,286	5,928,199
Grant and entitlements	162,238	164,809	-	-	162,238	164,809
Payments in lieu of taxes	40,950	-	-	-	40,950	-
Gain on sale of capital assets	11,027	-	-	12,088	11,027	12,088
Investment earnings	91,553	79,987	1,825	1,052	93,378	81,039
Contributions	-	-	-	-	-	-
Other	277,586	229,198	-	-	277,586	229,198
Total general revenues	<u>7,874,533</u>	<u>7,668,614</u>	<u>1,825</u>	<u>13,140</u>	<u>7,876,358</u>	<u>7,681,754</u>
Total revenues	<u>11,573,776</u>	<u>12,492,914</u>	<u>3,095,548</u>	<u>3,045,662</u>	<u>14,669,324</u>	<u>15,538,576</u>
Program Expenses:						
General government	3,450,744	3,294,104	-	-	3,450,744	3,294,104
Security of persons and property	3,497,043	3,127,389	-	-	3,497,043	3,127,389
Public health services	100,152	101,308	-	-	100,152	101,308
Transportation	2,973,955	2,310,370	-	-	2,973,955	2,310,370
Community environment	240,555	236,803	-	-	240,555	236,803
Leisure time activities	362,194	263,880	-	-	362,194	263,880
Interest and fiscal charges	113,336	120,764	-	-	113,336	120,764
Water	-	-	1,093,677	1,043,224	1,093,677	1,043,224
Sewer	-	-	1,798,634	1,776,633	1,798,634	1,776,633
Total program expenses	<u>10,737,979</u>	<u>9,454,618</u>	<u>2,892,311</u>	<u>2,819,857</u>	<u>13,630,290</u>	<u>12,274,475</u>
Excess before transfers and contributions	835,797	3,038,296	203,237	225,805	1,039,034	3,264,101
Transfers	<u>(607,229)</u>	<u>(644,202)</u>	<u>607,229</u>	<u>644,202</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 228,568</u>	<u>\$ 2,394,094</u>	<u>\$ 810,466</u>	<u>\$ 870,007</u>	<u>\$ 1,039,034</u>	<u>\$ 3,264,101</u>
Net position at beginning of year	<u>42,973,535</u>	<u>40,579,441</u>	<u>20,702,843</u>	<u>19,832,836</u>	<u>63,676,378</u>	<u>60,412,277</u>
Net position at end of year	<u>\$43,202,103</u>	<u>\$42,973,535</u>	<u>\$21,513,309</u>	<u>\$20,702,843</u>	<u>\$64,715,412</u>	<u>\$63,676,378</u>

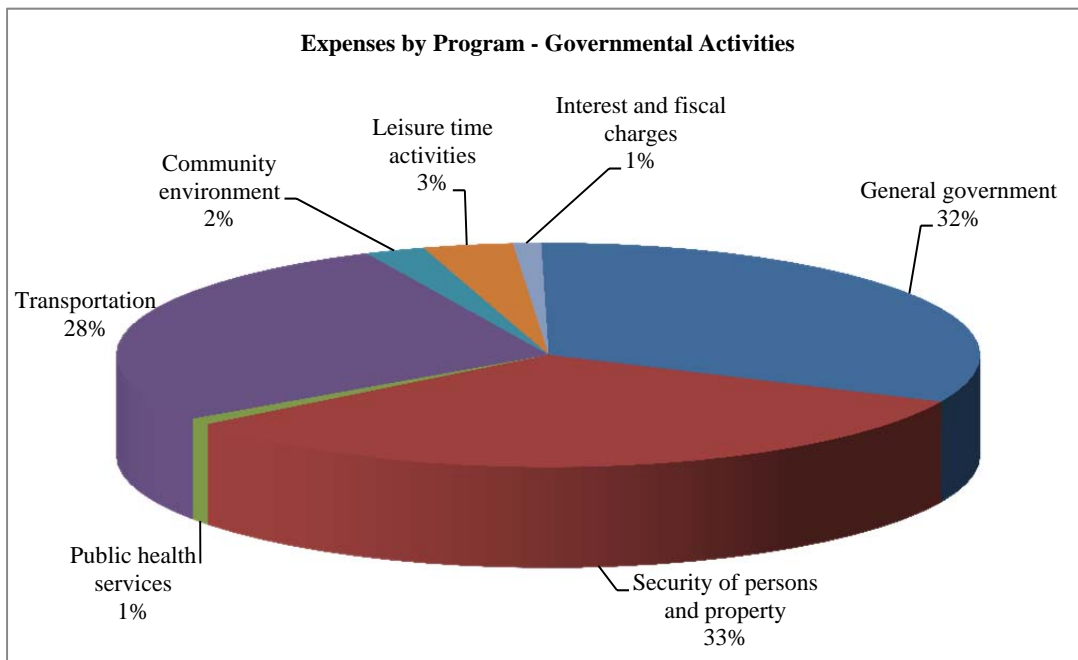
City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Governmental Activities

Several revenue sources fund the 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, capped at an income tax rate of 1.0 percent on gross income.

During 2016 the revenues generated from this tax amounted to \$6,025,286. The increase in income tax revenues from 2015 was 1.6 percent. 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 use the delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

Security of persons and property, transportation and general government are the major activities of the City generating 92.4 percent of the governmental expenses. Currently, there are 19 sworn officers in the police department. During 2016, 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.



City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Business-Type Activities

The business-type activities of the City, which include the City's sewer and water operations, increased the City's net position by \$810,466 from various events. The increase in net position was a result of an increase in primarily charges for services exceeding the increase in expenses. These increases were not related to any single event.

Overall, the City's business-type activities generated \$3,093,723 in program revenues during 2016, while program expenses were \$2,892,311. General revenues of \$1,825 and net transfers of \$607,229 were adequate to cover the program expenses.

In the prior year, the City implemented the accounting standard for pension plans. As a result of implementing the new accounting standard, the City is reporting a significant net pension liability, related deferred inflows of resources and an increase in expenses related to pension for the fiscal year which have a negative effect on net position. In addition, the City is reporting deferred outflows of resources, which have a positive consequence on net position. The increase in pension expense is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. These two amounts can be found in the reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities. To further explain the impact of this new accounting standard on the City's net position, additional information is presented below.

	2016	2015	2016	2015
	Governmental	Governmental	Business-Type	Business-Type
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Deferred outflows - pension	\$ 1,811,567	\$ 632,458	\$ 368,880	\$ 113,531
Deferred inflows - pension	(261,915)	(41,675)	(37,828)	(12,660)
Net pension liability	<u>(5,699,761)</u>	<u>(4,480,506)</u>	<u>(987,296)</u>	<u>(720,631)</u>
Impact of GASB 68 on net position	<u>\$ (4,150,109)</u>	<u>\$ (3,889,723)</u>	<u>\$ (656,244)</u>	<u>\$ (619,760)</u>

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 22. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$12,973,024 and expenditures and other financing uses of \$12,384,406. The net change in fund balance for the year was significant in the general fund. It is showing an increase in fund balance of \$783,749; which is attributed to an increase in revenues primarily income tax.

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, 2016

Table 3 below reports year 2016 balances compared to 2015:

Table 3
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2016	December 31, 2015		
General fund	\$ 5,692,162	\$ 4,908,413	\$ 783,749	16.0%
General obligation debt service fund	143,138	264,948	(121,810)	-46.0%
Infrastructure improvement	(33,006)	122,179	(155,185)	-127.0%
Other governmental funds	3,185,938	3,104,074	81,864	2.6%
	<u>\$ 8,988,232</u>	<u>\$ 8,399,614</u>	<u>\$ 588,618</u>	

Table 4 below assists in illustrating the financial activities for the general fund of year 2016 balances compared to 2015:

Table 4
Change in Financial Activities for the General Fund

	December 31, 2016	December 31, 2015	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Municipal income tax	\$ 5,799,995	\$ 5,606,867	\$ 193,128	3.4%
Property and other taxes	385,311	390,442	(5,131)	(1.3%)
Charges for services	30,030	21,501	8,529	39.7%
Licenses and permits	72,236	150,455	(78,219)	(52.0%)
Fines and forfeitures	793,683	770,476	23,207	3.0%
Intergovernmental	160,976	170,730	(9,754)	(5.7%)
Special assessments	10,445	-	10,445	n/a
Investment income	91,553	79,987	11,566	14.5%
Rentals	105,798	92,694	13,104	14.1%
Other	239,798	197,222	42,576	21.6%
Total revenue	<u>7,689,825</u>	<u>7,480,374</u>	<u>209,451</u>	
<u>Expenditures:</u>				
Current:				
General government	2,434,290	2,404,813	29,477	1.2%
Security of persons and property	1,753,393	1,604,825	148,568	9.3%
Public health services	20,700	20,000	700	3.5%
Transportation	1,586,787	1,172,526	414,261	35.3%
Community environment	168,366	163,861	4,505	2.7%
Debt service:				
Principal retirement	5,311	5,311	-	0.0%
Total expenditures	<u>\$ 5,968,847</u>	<u>\$ 5,371,336</u>	<u>\$ 597,511</u>	

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

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 \$7,007,990 were equal to the original budgeted amount. Actual revenues exceeded the final amount by \$164,180. These differences were caused by the conservative budgeting nature of the original budgeting process.

Final budgeted expenditures (excluding transfers-out) of \$7,491,418 were more than the original budgeted expenditures by \$426,000. This change was reported mainly in general government and transportation functions. Actual expenditures (excluding transfers-out) for the year were \$1,031,287 less than the final budgeted amounts. This change was mainly due to close monitoring of expenditures, actual cost of living wage increase (3.5%) being less than budgeted (4.0%), and lower sidewalk repair costs due to more property owners completing the repairs and lower costs per square foot. Likewise, actual transfers-out in the general fund were \$27,760 less than the final budgeted amount, due to higher balances in other funds.

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 2016, the City had \$74,949,022 invested in land and land improvements, buildings, machinery and equipment, vehicles and infrastructure.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Table 5 shows fiscal 2016 balances of capital assets as compared to 2015:

Table 5
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and land use rights	\$ 3,101,670	\$ 3,101,670	\$ 320,748	\$ 320,748	\$ 3,422,418	\$ 3,422,418
Construction in progress	2,310,958	2,026,722	26,584	24,675	2,337,542	2,051,397
Land improvements	2,182,008	1,457,492	242,678	242,678	2,424,686	1,700,170
Buildings	15,075,248	15,037,381	20,888,823	20,888,823	35,964,071	35,926,204
Machinery and equipment	995,953	926,653	4,147,565	4,133,311	5,143,518	5,059,964
Vehicles	1,671,311	1,633,143	339,266	339,266	2,010,577	1,972,409
Infrastructure						
Traffic lights	1,961,016	1,961,016	-	-	1,961,016	1,961,016
Streets and sidewalks	23,490,604	22,597,874	-	-	23,490,604	22,597,874
Storm sewers, bridges and culverts	14,639,035	14,606,241	-	-	14,639,035	14,606,241
Water lines	-	-	6,886,697	6,886,697	6,886,697	6,886,697
Sewer lines	-	-	12,205,147	12,205,147	12,205,147	12,205,147
Less: accumulated depreciation	<u>(20,418,205)</u>	<u>(19,254,117)</u>	<u>(15,118,084)</u>	<u>(14,408,001)</u>	<u>(35,536,289)</u>	<u>(33,662,118)</u>
Total capital assets	<u>\$ 45,009,598</u>	<u>\$ 44,094,075</u>	<u>\$ 29,939,424</u>	<u>\$ 30,633,344</u>	<u>\$ 74,949,022</u>	<u>\$ 74,727,419</u>

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

With regards to the infrastructure, the City's service department maintains a comprehensive listing of all the streets, bridges, culverts, storm sewer, water lines and sewer lines in the City. As part of the City's annual road maintenance program, the City's Service Director, Street Superintendent, and Engineer evaluate the condition of each street after each winter and prioritize the streets in need of repair or replacement. After approval from Council, the projects are bid typically in late winter or early spring to get the best possible pricing from contractors. This program is paid for out of the general fund, the general capital improvement fund, or the street construction maintenance and repair fund of the City. Capital assets (before depreciation) for governmental activities increased \$2,079,611 mainly due to continuing construction in progress, completed land improvement and infrastructure projects. This was offset by an increase in accumulated depreciation of \$1,164,088, which includes an adjustment for disposals. Capital assets for business-type activities decreased by \$693,920, mainly due to current year depreciation expense exceeded current year additions for the current year.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. The City has a five-year capital plan in place that provides for street improvements, storm sewers, water and sanitary sewer lines and addressing facility and equipment needs.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Debt

At December 31, 2016, the City of Chardon had \$18,000,047 in outstanding debt and compensated absences, of which \$4,925,000 was in general obligation bonds. Table 6 summarizes the outstanding obligations of the City.

Table 6
Outstanding Debt at Year End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 4,925,000	\$ 4,930,000	\$ -	\$ -	\$ 4,925,000	\$ 4,930,000
Premium on bonds	33,106	36,572	-	-	33,106	36,572
OPWC loans	2,619,937	1,688,799	-	-	2,619,937	1,688,799
OWDA loans	-	-	9,751,416	10,947,106	9,751,416	10,947,106
Compensated absences	<u>537,890</u>	<u>474,162</u>	<u>132,698</u>	<u>120,664</u>	<u>670,588</u>	<u>594,826</u>
Total	<u>\$ 8,115,933</u>	<u>\$ 7,129,533</u>	<u>\$ 9,884,114</u>	<u>\$ 11,067,770</u>	<u>\$ 18,000,047</u>	<u>\$ 18,197,303</u>

More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Current Related Financial Activities

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

Contacting the City of Chardon's Finance Department

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

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City of Chardon, Ohio

Statement of Net Position

December 31, 2016

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 7,921,918	\$ 1,276,122	\$ 9,198,040
Receivables:			
Income tax	1,819,236	-	1,819,236
Property and other taxes	1,291,353	-	1,291,353
Accounts	293,885	517,801	811,686
Special assessments	83,331	-	83,331
Accrued interest	25,853	-	25,853
Intergovernmental	593,802	-	593,802
Revenue in lieu of taxes	60,510	-	60,510
Materials and supplies inventory	292,488	378,644	671,132
Prepaid items	17,782	2,762	20,544
Nondepreciable capital assets	5,412,628	347,332	5,759,960
Depreciable capital assets	60,015,175	44,710,176	104,725,351
Accumulated depreciation	(20,418,205)	(15,118,084)	(35,536,289)
Total assets	<u>57,409,756</u>	<u>32,114,753</u>	<u>89,524,509</u>
<u>Deferred outflows of resources:</u>			
Pension	1,811,567	368,880	2,180,447
<u>Liabilities:</u>			
Accounts payable	538,647	38,988	577,635
Contracts payable	-	1,909	1,909
Accrued wages and benefits	74,008	17,708	91,716
Accrued pension	11,430	2,481	13,911
Income tax refunds payable	21,321	-	21,321
Accrued interest payable	9,726	-	9,726
Long-term liabilities:			
Due within one year	365,961	1,267,212	1,633,173
Due in more than one year:			
Net pension liability	5,699,761	987,296	6,687,057
Other amounts due in more than one year	7,749,972	8,616,902	16,366,874
Total liabilities	<u>14,470,826</u>	<u>10,932,496</u>	<u>25,403,322</u>
<u>Deferred inflows of resources:</u>			
Property taxes	1,225,969	-	1,225,969
Payments in lieu of taxes	60,510	-	60,510
Pension	261,915	37,828	299,743
Total deferred inflows of resources	<u>1,548,394</u>	<u>37,828</u>	<u>1,586,222</u>
<u>Net position:</u>			
Net investment in capital assets	37,431,555	20,188,008	57,619,563
Restricted for:			
Capital projects	259,582	-	259,582
Transportation	1,714,654	-	1,714,654
Security of persons and property	766,606	-	766,606
Other purposes	579,528	-	579,528
Unrestricted	2,450,178	1,325,301	3,775,479
Total net position	<u>\$ 43,202,103</u>	<u>\$ 21,513,309</u>	<u>\$ 64,715,412</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Activities
For the Year Ended December 31, 2016

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 3,450,744	\$ 1,373,291	\$ 21,903	\$ -
Security of persons and property	3,497,043	424,195	95,285	-
Public health services	100,152	27,527	11	-
Transportation	2,973,955	204,077	910,619	326,093
Community environment	240,555	134,552	600	-
Leisure time activities	362,194	154,152	504	26,434
Interest and fiscal charges	113,336	-	-	-
Total governmental activities	<u>10,737,979</u>	<u>2,317,794</u>	<u>1,028,922</u>	<u>352,527</u>
<u>Business-Type Activities:</u>				
Water	1,093,677	1,258,055	-	-
Sewer	<u>1,798,634</u>	<u>1,828,623</u>	<u>7,045</u>	<u>-</u>
Total business-type activities	<u>2,892,311</u>	<u>3,086,678</u>	<u>7,045</u>	<u>-</u>
Total primary government	<u>\$ 13,630,290</u>	<u>\$ 5,404,472</u>	<u>\$ 1,035,967</u>	<u>\$ 352,527</u>

General revenues:
Property taxes levied for:
 General purposes
 Security of persons and property
Income tax levied for:
 General purposes
 Capital projects
Grants and entitlements not restricted to specific programs
Payments in lieu of taxes
Gain on sale of capital assets
Investment earnings
Other
Transfers
Total general revenues and transfers

Change in net assets

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

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,055,550)	\$ -	\$ (2,055,550)
(2,977,563)	-	(2,977,563)
(72,614)	-	(72,614)
(1,533,166)	-	(1,533,166)
(105,403)	-	(105,403)
(181,104)	-	(181,104)
(113,336)	-	(113,336)
(7,038,736)	-	(7,038,736)
-	164,378	164,378
-	37,034	37,034
-	201,412	201,412
(7,038,736)	201,412	(6,837,324)
381,323	-	381,323
884,570	-	884,570
5,843,887	-	5,843,887
181,399	-	181,399
162,238	-	162,238
40,950	-	40,950
11,027	-	11,027
91,553	1,825	93,378
277,586	-	277,586
(607,229)	607,229	-
7,267,304	609,054	7,876,358
228,568	810,466	1,039,034
42,973,535	20,702,843	63,676,378
\$ 43,202,103	\$ 21,513,309	\$ 64,715,412

City of Chardon, Ohio

Balance Sheet

Governmental Funds

December 31, 2016

	General	General Obligation Debt Service	Infrastructure Improvement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in pooled cash and cash equivalents	\$ 4,613,867	\$ 143,138	\$ 168,313	\$ 2,996,600	\$ 7,921,918
<u>Receivables:</u>					
Income tax	1,764,659	-	-	54,577	1,819,236
Property and other taxes	389,831	-	-	901,522	1,291,353
Accounts	64,321	-	-	229,564	293,885
Special assessments	83,331	-	-	-	83,331
Accrued interest	25,853	-	-	-	25,853
Intergovernmental	61,979	-	-	531,823	593,802
Revenue in lieu of taxes	-	-	-	60,510	60,510
Materials and supplies inventory	160,629	-	-	131,859	292,488
Prepaid items	15,439	-	-	2,343	17,782
Total assets	<u>\$ 7,179,909</u>	<u>\$ 143,138</u>	<u>\$ 168,313</u>	<u>\$ 4,908,798</u>	<u>\$ 12,400,158</u>
<u>Liabilities, deferred inflows of resources and fund balances:</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 146,165	\$ -	\$ 201,319	\$ 191,163	\$ 538,647
Accrued wages and benefits	63,361	-	-	10,647	74,008
Accrued pension	9,793	-	-	1,637	11,430
Income tax refunds payable	21,321	-	-	-	21,321
Total liabilities	<u>240,640</u>	<u>-</u>	<u>201,319</u>	<u>203,447</u>	<u>645,406</u>
<u>Deferred inflows of resources:</u>					
Property taxes	369,880	-	-	856,089	1,225,969
Payments in lieu of taxes	-	-	-	60,510	60,510
Unavailable revenue - delinquent property taxes	11,606	-	-	26,273	37,879
Unavailable revenue - other	865,621	-	-	576,541	1,442,162
Total deferred inflows of resources	<u>1,247,107</u>	<u>-</u>	<u>-</u>	<u>1,519,413</u>	<u>2,766,520</u>
<u>Fund balances:</u>					
Nonspendable	176,068	-	-	134,202	310,270
Restricted	-	-	-	2,819,202	2,819,202
Committed	-	-	-	232,534	232,534
Assigned	1,971,704	143,138	-	-	2,114,842
Unassigned	3,544,390	-	(33,006)	-	3,511,384
Total fund balances	<u>5,692,162</u>	<u>143,138</u>	<u>(33,006)</u>	<u>3,185,938</u>	<u>8,988,232</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,179,909</u>	<u>\$ 143,138</u>	<u>\$ 168,313</u>	<u>\$ 4,908,798</u>	<u>\$ 12,400,158</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

**Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2016**

Total governmental fund balances \$ 8,988,232

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in funds. 45,009,598

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

Property and other taxes	\$ 38,048	
Income taxes	717,388	
Intergovernmental	425,994	
Charges for services	265,823	
Other	32,788	
Total	<u>1,480,041</u>	1,480,041

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds:

Deferred outflows - pension	\$ 1,811,567	
Deferred inflows - pension	(261,915)	
Net pension liability	<u>(5,699,761)</u>	
Total		(4,150,109)

Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. (9,726)

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

General obligation bonds	\$ (4,925,000)	
Premium	(33,106)	
OPWC loan	(2,619,937)	
Compensated absences	(537,890)	
Total	<u>(8,115,933)</u>	(8,115,933)

Net position of governmental activities \$ 43,202,103

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, 2016

	General	General Obligation Debt Service	Infrastructure Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Income tax	\$ 5,799,995	\$ -	\$ -	\$ 180,041	\$ 5,980,036
Property and other taxes	385,311	-	-	892,069	1,277,380
Charges for services	30,030	-	-	447,757	477,787
Licenses and permits	72,236	-	-	-	72,236
Fines and forfeitures	793,683	-	-	355,138	1,148,821
Intergovernmental	160,976	-	383,286	1,149,632	1,693,894
Special assessments	10,445	-	-	300,069	310,514
Investment income	91,553	-	-	8,997	100,550
Payments in lieu of taxes	-	-	-	40,950	40,950
Rentals	105,798	-	-	101,101	206,899
Other	239,798	-	-	42,679	282,477
Total revenue	<u>7,689,825</u>	<u>-</u>	<u>383,286</u>	<u>3,518,433</u>	<u>11,591,544</u>
Expenditures:					
Current:					
General government	2,434,290	-	-	585,826	3,020,116
Security of persons and property	1,753,393	-	-	1,476,352	3,229,745
Public health services	20,700	-	-	71,652	92,352
Transportation	1,586,787	-	9,976	353,979	1,950,742
Community environment	168,366	-	-	65,578	233,944
Leisure time activities	-	-	-	269,337	269,337
Capital outlay	-	-	1,568,948	850,868	2,419,816
Debt service:					
Principal retirement	5,311	5,000	-	104,004	114,315
Interest and fiscal charges	-	116,810	-	-	116,810
Total expenditures	<u>5,968,847</u>	<u>121,810</u>	<u>1,578,924</u>	<u>3,777,596</u>	<u>11,447,177</u>
Excess of revenues over (under) expenditures	<u>1,720,978</u>	<u>(121,810)</u>	<u>(1,195,638)</u>	<u>(259,163)</u>	<u>144,367</u>
Other financing sources (uses):					
Proceeds of OPWC loans	-	-	1,040,453	-	1,040,453
Proceeds from Sale of Capital Assets	-	-	-	11,027	11,027
Transfers - in	-	-	-	330,000	330,000
Transfers - out	(937,229)	-	-	-	(937,229)
Total other financing sources (uses)	<u>(937,229)</u>	<u>-</u>	<u>1,040,453</u>	<u>341,027</u>	<u>444,251</u>
Net change in fund balance	783,749	(121,810)	(155,185)	81,864	588,618
Fund balances at beginning of year	<u>4,908,413</u>	<u>264,948</u>	<u>122,179</u>	<u>3,104,074</u>	<u>8,399,614</u>
Fund balances at end of year	<u>\$ 5,692,162</u>	<u>\$ 143,138</u>	<u>\$ (33,006)</u>	<u>\$ 3,185,938</u>	<u>\$ 8,988,232</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, 2016**

Net change in fund balances - Total governmental funds \$ 588,618

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

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

In the current period, these amounts are:

Capital outlay	\$ 2,419,816	
Depreciation expense	(1,477,841)	
Excess of capital outlay and capital assets transferred over depreciation expense		941,975

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. (26,452)

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	\$ (11,487)	
Income taxes	45,250	
Intergovernmental	(172,249)	
Other	32,788	
Charges for services	76,903	
Net change in deferred inflows of resources during the year		(28,795)

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

Increase in compensated absences	\$ (63,728)	
Decrease in accrued interest	8	
Total additional expenditures		(63,720)

Contractually required pension contributions are reported as expenditures in the governmental funds however, the statement of activities reports these amounts as deferred outflows. 450,529

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (710,915)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 114,315

Loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. (1,040,453)

The amortization of bond premium is reflected as an expense in the statement of activities. 3,466

Change in net position of governmental activities \$ 228,568

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, 2016**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Income tax	\$ 5,227,250	\$ 5,227,250	\$ 5,272,484	\$ 45,234
Property and other taxes	370,676	370,676	386,675	15,999
Charges for services	25,500	25,500	30,030	4,530
Licenses and permits	121,300	121,300	71,382	(49,918)
Fines and forfeitures	764,000	764,000	793,683	29,683
Intergovernmental	193,764	193,764	177,504	(16,260)
Special assessments	-	-	10,445	10,445
Investment income	45,000	45,000	95,695	50,695
Rent	88,500	88,500	105,798	17,298
Other	172,000	172,000	228,474	56,474
Total revenue	7,007,990	7,007,990	7,172,170	164,180
Expenditures:				
Current:				
General government	2,984,790	3,029,790	2,642,554	387,236
Security of persons and property	2,071,731	2,071,731	1,789,357	282,374
Public health and welfare	25,000	25,000	20,700	4,300
Transportation	1,785,849	2,166,849	1,835,439	331,410
Community environment	198,048	198,048	172,081	25,967
Total expenditures	7,065,418	7,491,418	6,460,131	1,031,287
Excess of revenues over expenditures	(57,428)	(483,428)	712,039	1,195,467
Other financing sources (uses):				
Sale of capital assets	2,000	2,000	-	(2,000)
Transfers - in	31,181	31,181	20,000	(11,181)
Transfers - out	(1,070,300)	(970,300)	(942,540)	27,760
Total other financing sources (uses)	(1,037,119)	(937,119)	(922,540)	14,579
Net change in fund balance	(1,094,547)	(1,420,547)	(210,501)	1,210,046
Fund balance at beginning of year	2,410,497	2,410,497	2,410,497	-
Prior year encumbrances appropriated	267,988	267,988	267,988	-
Fund balance at end of year	\$ 1,583,938	\$ 1,257,938	\$ 2,467,984	\$ 1,210,046

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2016

Business-Type Activities - Enterprise Funds

	Water	Sewer	Total
<u>Assets:</u>			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 646,635	\$ 629,487	\$ 1,276,122
Accounts receivable	215,302	302,499	517,801
Materials and supplies inventory	320,895	57,749	378,644
Prepaid items	1,381	1,381	2,762
Total current assets	<u>1,184,213</u>	<u>991,116</u>	<u>2,175,329</u>
Noncurrent assets:			
Capital assets:			
Nondepreciable capital assets	273,330	74,002	347,332
Depreciable capital assets	14,817,970	29,892,206	44,710,176
Accumulated depreciation	<u>(3,622,614)</u>	<u>(11,495,470)</u>	<u>(15,118,084)</u>
Total noncurrent assets	<u>11,468,686</u>	<u>18,470,738</u>	<u>29,939,424</u>
Total assets	<u>12,652,899</u>	<u>19,461,854</u>	<u>32,114,753</u>
<u>Deferred outflows of resources:</u>			
Pension	<u>155,631</u>	<u>213,249</u>	<u>368,880</u>
<u>Liabilities:</u>			
Current liabilities:			
Accounts payable	9,500	29,488	38,988
Contracts payable	1,909	-	1,909
Accrued wages and benefits	7,126	10,582	17,708
Accrued pension	999	1,482	2,481
Compensated absences payable	12,389	25,930	38,319
OWDA loans payable	<u>286,296</u>	<u>942,597</u>	<u>1,228,893</u>
Total current liabilities	<u>318,219</u>	<u>1,010,079</u>	<u>1,328,298</u>
Long-term liabilities:			
Compensated absences payable	49,660	44,719	94,379
OWDA loans payable, net of current portion	3,376,628	5,145,895	8,522,523
Net pension liability	<u>421,564</u>	<u>565,732</u>	<u>987,296</u>
Total long-term liabilities	<u>3,847,852</u>	<u>5,756,346</u>	<u>9,604,198</u>
Total liabilities	<u>4,166,071</u>	<u>6,766,425</u>	<u>10,932,496</u>
<u>Deferred inflows of resources:</u>			
Pension	<u>16,031</u>	<u>21,797</u>	<u>37,828</u>
<u>Net position:</u>			
Net investment in capital assets	7,805,762	12,382,246	20,188,008
Unrestricted	<u>820,666</u>	<u>504,635</u>	<u>1,325,301</u>
Total net position	<u>\$ 8,626,428</u>	<u>\$ 12,886,881</u>	<u>\$ 21,513,309</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2016

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating revenues:</u>			
Charges for services	\$ 1,212,555	\$ 1,755,581	\$ 2,968,136
Reimbursements	14,405	14,502	28,907
Other	31,095	58,540	89,635
Total operating revenue	<u>1,258,055</u>	<u>1,828,623</u>	<u>3,086,678</u>
<u>Operating expenses:</u>			
Personal services	523,942	717,785	1,241,727
Supplies and materials	45,042	119,802	164,844
Travel and education	3,672	5,319	8,991
Contractual services	112,454	117,724	230,178
Utilities	78,155	177,938	256,093
Depreciation	252,936	457,147	710,083
Total operating expenses	<u>1,016,201</u>	<u>1,595,715</u>	<u>2,611,916</u>
Operating income	<u>241,854</u>	<u>232,908</u>	<u>474,762</u>
<u>Nonoperating revenues (expenses):</u>			
State subsidies	-	7,045	7,045
Interest	-	1,825	1,825
Interest and fiscal charges	(77,476)	(202,919)	(280,395)
Total nonoperating revenues (expenses):	<u>(77,476)</u>	<u>(194,049)</u>	<u>(271,525)</u>
Income before transfers	164,378	38,859	203,237
Transfers - in	<u>14,215</u>	<u>593,014</u>	<u>607,229</u>
Change in net position	178,593	631,873	810,466
Net position at beginning of year	<u>8,447,835</u>	<u>12,255,008</u>	<u>20,702,843</u>
Net position at end of year	<u>\$ 8,626,428</u>	<u>\$ 12,886,881</u>	<u>\$ 21,513,309</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, 2016

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,222,154	\$ 1,777,676	\$ 2,999,830
Cash payments for personal services	(497,425)	(685,757)	(1,183,182)
Cash payments for travel and entertainment	(6,472)	(5,319)	(11,791)
Cash payments for contractual services	(113,453)	(118,408)	(231,861)
Cash payments to suppliers for goods and services	(96,152)	(125,650)	(221,802)
Cash payments for utilities	(78,429)	(179,060)	(257,489)
Net cash provided by operating activities	<u>430,223</u>	<u>663,482</u>	<u>1,093,705</u>
Cash flows from noncapital financing activities:			
State subsidy	-	7,045	7,045
Transfers from other funds	14,215	593,014	607,229
Net cash provided by noncapital financing activities	<u>14,215</u>	<u>600,059</u>	<u>614,274</u>
Cash flows from capital and related financing activities:			
Interest paid on debt	(77,476)	(202,919)	(280,395)
Principal payment on loans	(280,655)	(915,035)	(1,195,690)
Acquisition of capital assets	(238)	(15,116)	(15,354)
Net cash used for capital and related financing activities	<u>(358,369)</u>	<u>(1,133,070)</u>	<u>(1,491,439)</u>
Cash flows from investing activities:			
Investment income	-	1,825	1,825
Net increase in cash and cash equivalents	86,069	132,296	218,365
Cash and cash equivalents at beginning of year	560,566	497,191	1,057,757
Cash and cash equivalents at end of year	<u>\$ 646,635</u>	<u>\$ 629,487</u>	<u>\$ 1,276,122</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 241,854	\$ 232,908	\$ 474,762
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	252,936	457,147	710,083
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(35,901)	(50,947)	(86,848)
Materials and supplies inventory	(53,844)	(2,318)	(56,162)
Prepaid items	619	619	1,238
(Increase) in deferred outflows of resources - pension	(106,905)	(148,444)	(255,349)
Increase (decrease) in liabilities:			
Accounts payable	424	(2,889)	(2,465)
Accrued pension	475	758	1,233
Accrued wages and benefits	3,383	5,411	8,794
Compensated absences	6,687	5,347	12,034
Due to other governments	(2,382)	(3,066)	(5,448)
Net pension liability	112,280	154,385	266,665
Increase in deferred inflows of resources - pension	10,597	14,571	25,168
Net cash provided by operating activities	<u>\$ 430,223</u>	<u>\$ 663,482</u>	<u>\$ 1,093,705</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fiduciary Net Position
December 31, 2016

	Private Purpose Trust Cemetery	Agency
	<u> </u>	<u> </u>
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ -	\$ 150,503
Cash and cash equivalents in segregated accounts	17,383	95,664
	<u> </u>	<u> </u>
Total assets	<u>\$ 17,383</u>	<u>\$ 246,167</u>
<u>Liabilities:</u>		
Intergovernmental payable	\$ -	\$ 95,738
Undistributed monies	-	17,597
Deposits held and due to others	-	132,832
	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>\$ 246,167</u>
<u>Net position:</u>		
Held in trust for cemetery	17,383	
	<u> </u>	
Total net position	<u>\$ 17,383</u>	

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Changes in Fiduciary Net Position

For the Year Ending December 31, 2016

	Private Purpose Trust Cemetery
Additions:	
Interest	<u>\$ 9</u>
Deductions:	
Supplies and materials	<u>82</u>
Change in net position	(73)
Net position at beginning of year	<u>17,456</u>
Net position at end of year	<u><u>\$ 17,383</u></u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Chardon have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

A. Reporting Entity

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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Chardon, this includes police protection, parks and recreation, planning, zoning, street maintenance and repair, water and sewer utilities, municipal court and general administrative services. The City's departments include Police, Public Service, Manager, Finance, Legal, Planning and Zoning, Recreation and Municipal Court. Included within the Department of Public Service are the Division of Streets and Cemetery, Lands and Buildings and Water and Sewer. The City contracts with the Chardon Volunteer Fire Department, Inc. to provide fire service and ambulance services. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The Chardon Municipal Court

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

B. Basis of Presentation

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

Infrastructure Improvement Fund - This fund is used to accumulate resources from State grants and loans which are used for expenditures for the acquisition of capital assets and infrastructure within governmental funds.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have an internal service fund.

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.

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

Fiduciary Funds

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

D. Measurement Focus

Government-wide Financial Statements

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Fund Financial Statements

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

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements, shared revenues and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenues. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the government wide statement of net position and the governmental funds balance sheet, and represents receivables/revenues which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Equity in Pooled Cash and Cash Equivalents

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

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

During 2016, investments were limited to certificates of deposits, commercial paper and government-sponsored enterprise investments. The government-sponsored enterprise (GSE) investments, which are not backed by the full faith and credit of the federal government, were held as investments at year-end by the City. The GSE investments held were issued from Federal Home Loan Bank (FHLB) and Federal Home Loan Mortgage Corporation (FHLMC).

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost.

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

G. Inventory

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

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

Inventory consists of expendable supplies held for consumption.

H. Interfund Balances

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure or expense is reported in the year in which services are consumed.

J. Capitalization of Interest

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

K. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition 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 expended. For proprietary funds and business-type activities, any material amount of interest incurred during the construction of capital assets is also capitalized.

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

Asset <u>Class</u>	Estimated Useful <u>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. Net pension liability and pension expense

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

The current accounting standard requires Cities to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. Under the new standards, the net pension liability equals the City's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

City of Chardon, Ohio
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For the Year Ended December 31, 2016

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded portion of this benefit of exchange is a liability of the City. However, the City is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The City has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

M. 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, when applicable, 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.

N. 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.

City of Chardon, Ohio
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For the Year Ended December 31, 2016

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.

O. 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. 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. In addition, the Director of Finance is authorized to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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.

P. Net Position

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

Net position restricted for other purposes include cemetery operations, police and computer and special project programs. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. None of the restricted net position for the City was restricted by enabling legislation.

Q. 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.

R. 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.

S. 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

T. 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.

U. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. With authorization by the Finance Director or City Manager, line item budgets may be transferred within the appropriation accounts approved by Council. 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 second amended official certificate of estimated resources issued during 2016. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2016.

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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Lapsing of Appropriations

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

Budgeted Level of Expenditure

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

Encumbrances

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund is 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

Net Change in Fund Balance	
	<u>General</u>
GAAP basis	\$ 783,749
Revenue accruals	(77,560)
Expenditure accruals	(21,398)
Perspective differences from funds budgeted as special revenue funds:	
Revenues	(420,095)
Encumbrances (budget basis) outstanding at year end	<u>(475,197)</u>
Budget basis	<u><u>\$ (210,501)</u></u>

NOTE 3 – FUND BALANCE

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Fund Balances	<u>General</u>	<u>General Obligation Debt Service</u>	<u>Infrastructure Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable</u>					
Materials and supplies inventory	\$ 160,629	\$ -	\$ -	\$ 131,859	\$ 292,488
Prepays	15,439	-	-	2,343	17,782
Total nonspendable	<u>176,068</u>	<u>-</u>	<u>-</u>	<u>134,202</u>	<u>310,270</u>
<u>Restricted for</u>					
Streets and highways	-	-	-	1,253,241	1,253,241
Streets lighting	-	-	-	17,036	17,036
Sidewalks	-	-	-	205,249	205,249
Fire and EMS services	-	-	-	616,179	616,179
Capital improvements	-	-	-	271,066	271,066
Court activities	-	-	-	323,439	323,439
Shade tree	-	-	-	33,421	33,421
Police services	-	-	-	73,039	73,039
Cemetery	-	-	-	26,532	26,532
Total restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,819,202</u>	<u>2,819,202</u>
<u>Committed</u>					
Recreation	-	-	-	85,931	85,931
Fire and EMS services	-	-	-	144,776	144,776
Capital improvements	-	-	-	1,827	1,827
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,534</u>	<u>232,534</u>
<u>Assigned</u>					
Encumbrances	355,332	-	-	-	355,332
Next year's budget	1,616,372	-	-	-	1,616,372
Debt service	-	143,138	-	-	143,138
Total assigned	<u>1,971,704</u>	<u>143,138</u>	<u>-</u>	<u>-</u>	<u>2,114,842</u>
Unassigned	<u>3,544,390</u>	<u>-</u>	<u>(33,006)</u>	<u>-</u>	<u>3,511,384</u>
Total fund balances	<u>\$ 5,692,162</u>	<u>\$ 143,138</u>	<u>\$ (33,006)</u>	<u>\$ 3,185,938</u>	<u>\$ 8,988,232</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
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NOTE 4 - 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-sponsored enterprise, agency or instrumentality, including but not limited to, the Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), and Student Loan Marketing Association (SLMA). All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

Deposits: At year-end, the carrying amount of the City's deposits was \$2,957,948 and the bank balance was \$3,194,952. The City's deposits were not exposed to custodial credit risk as they were either insured or secured by a collateral pool of eligible securities held at the Federal Reserve in a pledge account.

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

Investment Type	Fair Value	Investment Maturities (in Years)			Percentage of Investments
		< 1 year	< 2 years	3-5 years	
Government Sponsored Enterprise Bonds:					
Federal Home Loan Mortgage Corporation	\$ 1,529,887	\$ -	\$ -	\$ 1,529,887	23.53%
Federal Home Loan Bank	498,180	-	-	498,180	7.66%
Total Government Sponsored Enterprise Bonds	<u>2,028,067</u>	<u>-</u>	<u>-</u>	<u>2,028,067</u>	
Other investments:					
Various negotiable certificates of deposit	3,186,155	745,358	500,561	1,940,236	49.00%
Various commercial paper	<u>1,288,470</u>	<u>1,288,470</u>	<u>-</u>	<u>-</u>	19.81%
Total other investments	<u>4,474,625</u>	<u>2,033,828</u>	<u>500,561</u>	<u>1,940,236</u>	
Total investments	<u>\$ 6,502,692</u>	<u>\$ 2,033,828</u>	<u>\$ 500,561</u>	<u>\$ 3,968,303</u>	

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above tables identify the City's recurring fair value measurement as of December 31, 2016. All investments of the City are valued using quoted market prices (Level 1 inputs).

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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 2016 amounted to \$91,553, which includes \$57,829 assigned from other funds.

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

Custodial Credit 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. The investments in the Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and commercial paper are held by the counterparty's trust department or agent and not in the City's name. All of the City's negotiable certificates of deposit are registered securities.

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. The City's investments in FHLMC and FHLB bonds are registered and carry a rating AA+ by Standard & Poor's. The City's investments in commercial paper have an A-1 or an A-1+ 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 FHLMC and FHLB. The table above summarizes the City's percentage of investments at year end. The City's investment policy requires diversification of the portfolio and indicates that investments shall be diversified to eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, a specific issuer, or a specific class of security. The policy includes certificates of deposit and money market accounts as investments even when they are not considered an investment for financial reporting purposes. The policy requires: a) the total par amount invested in a combination of commercial paper and banker's acceptances may not exceed 25% of the total invested funds at the time of purchase; and b) no more than 50% of the portfolio shall be invested in securities with maturities that exceed two years.

NOTE 5 – RECEIVABLES

Receivables at December 31, 2016, 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections of 2015 taxes.

2016 real property taxes were levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

Real property taxes are payable annually or semi-annually. If paid annually, 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.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes which became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2016, was \$12.0 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2016 property tax receipts were based are as follows:

Property Category	Assessed Value	Percent
<u>Real Property</u>		
Residential and agricultural	\$ 95,580,660	60.34 %
Commercial and industrial	58,898,830	37.18
Public utilities	<u>3,923,430</u>	<u>2.48</u>
Total	<u>\$ 158,402,920</u>	<u>100.00 %</u>

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, 2016, and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred inflow of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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 2016, all income tax proceeds were allocated to the general fund, general operating reserve and payroll stabilization special revenue funds and general capital improvement reserve capital projects fund. On the GAAP basis of reporting the general operating reserve and payroll stabilization special revenue funds are included within the general fund; however, on the cash basis they are budgeted separately.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Local government and local government	
Revenue assistance	\$ 24,208
Homestead and rollback	63,809
Gasoline and excise tax	364,139
Motor vehicle license fees	123,831
Other intergovernmental	147
State shared revenue and grants	<u>17,668</u>
Total	<u>\$ 593,802</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Balance</u> <u>12/31/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2016</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,892,298	\$ -	\$ -	\$ 2,892,298
Land use rights	209,372	-	-	209,372
Construction in progress	<u>2,026,722</u>	<u>2,235,593</u>	<u>(1,951,357)</u>	<u>2,310,958</u>
Total capital assets, not being depreciated	<u>5,128,392</u>	<u>2,235,593</u>	<u>(1,951,357)</u>	<u>5,412,628</u>
Capital assets, being depreciated				
Land improvements	1,457,492	724,516	-	2,182,008
Buildings	15,037,381	37,867	-	15,075,248
Machinery and equipment	926,653	69,300	-	995,953
Vehicles	1,633,143	104,549	(66,381)	1,671,311
Infrastructure:				
Traffic lights	1,961,016	-	-	1,961,016
Storm sewers, bridges and culverts	14,606,241	90,381	(57,587)	14,639,035
Streets and sidewalks	<u>22,597,874</u>	<u>1,108,967</u>	<u>(216,237)</u>	<u>23,490,604</u>
Total capital assets, being depreciated	<u>58,219,800</u>	<u>2,135,580</u>	<u>(340,205)</u>	<u>60,015,175</u>
Less: accumulated depreciation				
Land improvements	(683,251)	(98,894)	-	(782,145)
Buildings	(3,228,165)	(301,715)	-	(3,529,880)
Machinery and equipment	(436,366)	(79,785)	-	(516,151)
Vehicles	(1,097,500)	(129,710)	66,381	(1,160,829)
Infrastructure:				
Traffic lights	(611,175)	(65,217)	-	(676,392)
Storm sewers, bridges and culverts	(3,725,161)	(160,425)	41,298	(3,844,288)
Streets and sidewalks	<u>(9,472,499)</u>	<u>(642,095)</u>	<u>206,074</u>	<u>(9,908,520)</u>
Total accumulated depreciation	<u>(19,254,117)</u>	<u>(1,477,841)</u>	<u>313,753</u>	<u>(20,418,205)</u>
Total capital assets, being depreciated, net	<u>38,965,683</u>	<u>657,739</u>	<u>(26,452)</u>	<u>39,596,970</u>
Governmental activities capital assets, net	<u>\$ 44,094,075</u>	<u>\$ 2,893,332</u>	<u>\$ (1,977,809)</u>	<u>\$ 45,009,598</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Depreciation expense was charged to governmental functions as follows:

General government	\$ 339,882
Security of persons and property	79,069
Public health services	6,203
Transportation	963,736
Community environment	844
Leisure time activities	<u>88,107</u>
Total depreciation expense	<u>\$ 1,477,841</u>

	Balance <u>12/31/2015</u>	Increases	Decreases	Balance <u>12/31/2016</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 320,748	\$ -	\$ -	\$ 320,748
Construction in progress	<u>24,675</u>	<u>1,909</u>	-	<u>26,584</u>
Total capital assets, not being depreciated	<u>345,423</u>	<u>1,909</u>	-	<u>347,332</u>
Capital assets, being depreciated				
Land improvements	242,678	-	-	242,678
Buildings	20,888,823	-	-	20,888,823
Machinery and equipment	4,133,311	14,254	-	4,147,565
Vehicles	339,266	-	-	339,266
Infrastructure:				
Water lines	6,886,697	-	-	6,886,697
Sewer lines	<u>12,205,147</u>	<u>-</u>	<u>-</u>	<u>12,205,147</u>
Total capital assets, being depreciated	<u>44,695,922</u>	<u>14,254</u>	-	<u>44,710,176</u>
Less: accumulated depreciation				
Land improvements	(151,880)	(10,341)	-	(162,221)
Buildings	(5,965,509)	(417,776)	-	(6,383,285)
Machinery and equipment	(3,688,929)	(67,476)	-	(3,756,405)
Vehicles	(207,910)	(22,940)	-	(230,850)
Infrastructure:				
Water lines	(1,764,353)	(69,024)	-	(1,833,377)
Sewer lines	<u>(2,629,420)</u>	<u>(122,526)</u>	<u>-</u>	<u>(2,751,946)</u>
Total accumulated depreciation	<u>(14,408,001)</u>	<u>(710,083)</u>	-	<u>(15,118,084)</u>
Total capital assets, being depreciated, net	<u>30,287,921</u>	<u>(695,829)</u>	-	<u>29,592,092</u>
Business-type activities capital assets, net	<u>\$ 30,633,344</u>	<u>\$ (693,920)</u>	<u>\$ -</u>	<u>\$ 29,939,424</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

Water	\$ 252,936
Sewer	<u>457,147</u>
Total depreciation expense	<u>\$ 710,083</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.

NOTE 8 - COMPENSATED ABSENCES

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

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

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

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 9 - LONG-TERM DEBT

A schedule of changes in bonds and other long-term obligations of the City during 2016 follows:

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due in</u> <u>One</u> <u>Year</u>
Governmental activities:					
<u>General obligation bonds:</u>					
2012 Municipal service					
facilities, 2.0 - 4.0%, maturing 2032	\$ 4,930,000	\$ -	\$ (5,000)	\$ 4,925,000	\$ 5,000
Premium	<u>36,572</u>	<u>-</u>	<u>(3,466)</u>	<u>33,106</u>	<u>-</u>
	<u>4,966,572</u>	<u>-</u>	<u>(8,466)</u>	<u>4,958,106</u>	<u>5,000</u>
 <u>Other long-term obligations:</u>					
Ohio Public Works Commission 0%					
Park Avenue reconstruction	162,500	-	(25,000)	137,500	25,000
Fifth Avenue improvement project	280,721	-	(23,394)	257,327	23,394
North Street improvement project	214,924	-	(17,910)	197,014	17,910
Downing Drive storm and sanitary sewer project	219,666	-	(13,313)	206,353	13,313
Repair Court Street, Karen Drive and Lost Pond Parkway	519,721	-	(29,698)	490,023	29,698
Multi road improvements	291,267	75,233	-	366,500	18,325
Maple Avenue improvement project	<u>-</u>	<u>965,220</u>	<u>-</u>	<u>965,220</u>	<u>-</u>
Total Ohio Public Works Commission	<u>1,688,799</u>	<u>1,040,453</u>	<u>(109,315)</u>	<u>2,619,937</u>	<u>127,640</u>
 Net pension liability:					
OPERS	2,372,201	902,919	-	3,275,120	-
OP&F	2,108,305	316,336	-	2,424,641	-
Compensated absences	<u>474,162</u>	<u>272,697</u>	<u>(208,969)</u>	<u>537,890</u>	<u>233,321</u>
Total other long-term obligations	<u>6,643,467</u>	<u>2,532,405</u>	<u>(318,284)</u>	<u>8,857,588</u>	<u>360,961</u>
 Total governmental long-term liabilities					
	<u>\$ 11,610,039</u>	<u>\$ 2,532,405</u>	<u>\$ (326,750)</u>	<u>\$ 13,815,694</u>	<u>\$ 365,961</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/16</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	\$ 81,707	\$ -	\$ (7,105)	\$ 74,602	\$ 7,105
2.0% Water treatment plant					
improvements - 2007	3,943,579	-	(280,655)	3,662,924	286,296
3.25% Eastside sanitary trunk sewer					
improvements - 2006	1,879,054	-	(144,639)	1,734,415	149,378
2.975% Waste water treatment plant					
improvements - 2002	4,332,561	-	(736,316)	3,596,245	758,384
2.78% SW Sanitary sewer trunk					
Meadowlands Drive - 2014	<u>710,205</u>	<u>-</u>	<u>(26,975)</u>	<u>683,230</u>	<u>27,730</u>
Total Ohio Water Development					
Authority loans	<u>10,947,106</u>	<u>-</u>	<u>(1,195,690)</u>	<u>9,751,416</u>	<u>1,228,893</u>
<u>Other long-term obligations:</u>					
Net pension liability:					
Water fund - OPERS	309,284	112,280	-	421,564	-
Sewer fund - OPERS	411,347	154,385	-	565,732	-
Compensated absences	<u>120,664</u>	<u>48,429</u>	<u>(36,395)</u>	<u>132,698</u>	<u>38,319</u>
Total other long-term obligations	<u>841,295</u>	<u>315,094</u>	<u>(36,395)</u>	<u>1,119,994</u>	<u>38,319</u>
Total business-type long-term obligations	<u>\$ 11,788,401</u>	<u>\$ 315,094</u>	<u>\$ (1,232,085)</u>	<u>\$ 10,871,410</u>	<u>\$ 1,267,212</u>

The Ohio Public Works Commission (“OPWC”) 2002 Park Avenue reconstruction loan relates to construction on City streets. The loan will be repaid in annual installments of \$25,000, maturing in 2022. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2005 North Street improvement loan relates to construction on City streets. The loan will be repaid in annual installments of \$17,910, maturing in 2027. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2006 Fifth Avenue improvement loan relates to construction on City streets. The loan will be repaid in annual installments of approximately \$23,394, maturing in 2027. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2011 Downing Drive storm and sanitary sewer improvement loan relates to construction on City streets, water lines, storm and sanitary sewers. The loan will be repaid in annual installments of approximately \$13,313, maturing in 2032. Principal is paid out of the street construction, maintenance and repair fund and a portion was paid by the general fund.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

The OPWC 2012 Repair Court Street, Karen Drive and Lost Pond Parkway loan relates to repairs on City streets. The loan will be repaid in annual installments of approximately \$29,698, maturing in 2033. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2015 Multi road improvements loan relates to repairs on City streets. This loan will be repaid in annual installments of approximately \$18,325, maturing in 2036. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2016 Maple Avenue Improvement loan is related to street repairs. This loan has not yet been finalized. Current operations are expected to provide cash flows for the repayment of this loan. Until a loan is fully disbursed or closed with the OPWC Chief Engineer, a final amortization is not available for the loan.

The 2002 Ohio Water Development Authority (“OWDA”) loan relates to a wastewater treatment plant expansion and upgrade project, maturing in 2021. The upgrade portion of the project was mandated by the Ohio Environmental Protection Agency. For this 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. During the year a principal payment in the amount of \$736,316 was made on the loan. Principal and interest is paid out of the sewer fund.

The 2006 OWDA loan is for the Eastside sanitary trunk sewer improvements, maturing in 2026. During the year a principal payment in the amount of \$144,639 was made on the loan. Principal and interest is paid out of the sewer fund.

The 2009 OWDA loan is for the Wilson Mills sanitary sewer line project, maturing in 2027. During the year a principal payment in the amount of \$7,105 was made on the loan. Principal is paid out of the sewer fund.

The 2007 OWDA loan is for the water treatment plant, maturing in 2028. During the year a principal payment in the amount of \$280,655 was made on the loan. Principal and interest is paid out of the water fund.

The 2014 OWDA loan is for the Meadowland Drive SW sanitary trunk sewer improvements, maturing in 2035. During the year a principal payment of \$26,975 was paid from the sewer fund.

The City has agreed to set utility rates and fees sufficient to cover OWDA debt service requirements.

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.

The City issued bonds in September 2012 in the principal amount of \$4,945,000, for construction of the Municipal Service Facilities. The bonds were issued at a premium and have an interest rate from 2.0% to 4.0% and mature in 2032. Principal and interest payments are paid out of the general obligation debt service fund.

Principal and interest requirements to retire the City’s long-term obligations outstanding at December 31, 2016, are as follows:

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

<u>Year</u>	<u>Governmental Activities</u>				
	<u>General Obligation Bonds</u>		<u>OPWC Loans</u>	<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 5,000	\$ 116,710	\$ 127,640	\$ 132,640	\$ 116,710
2018	270,000	116,610	127,640	397,640	116,610
2019	275,000	105,810	127,640	402,640	105,810
2020	280,000	100,310	127,640	407,640	100,310
2021	285,000	94,710	127,641	412,641	94,710
2022-2026	1,560,000	382,775	525,701	2,085,701	382,775
2027-2031	1,840,000	193,562	347,986	2,187,986	193,562
2032-2036	410,000	10,660	142,829	552,829	10,660
	<u>\$ 4,925,000</u>	<u>\$ 1,121,147</u>	<u>\$ 1,654,717</u>	<u>\$ 6,579,717</u>	<u>\$ 1,121,147</u>

<u>Year</u>	<u>OWDA Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,228,893	\$ 247,191
2018	1,263,048	213,036
2019	1,298,182	177,902
2020	1,334,323	141,761
2021	941,615	104,582
2022-2026	2,786,914	294,637
2027-2031	723,435	49,973
2032-2035	175,006	11,123
	<u>\$ 9,751,416</u>	<u>\$ 1,240,205</u>

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net pension liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

City of Chardon, Ohio
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The Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation, including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Ohio Public Employees Retirement System

Plan Description – The City employees, other than full-time police and firefighters, 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. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; the following disclosure focuses on the traditional plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

City of Chardon, Ohio
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For the Year Ended December 31, 2016

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after <u>January 7, 2013</u>	20 years of service credit prior to January 7, 2013 or eligible to retire after <u>ten years after January 7, 2013</u>	Members not in other Groups and members hired on or after <u>January 7, 2013</u>
State and Local	State and Local	State and Local
Age and service requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and service requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and service requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2016 Statutory maximum contribution rates	
Employer	14.00 %
Employee	10.00 %
2016 Actual contribution rates	
Employer:	
Pension	12.00 %
Post-employment health care benefits	<u>2.00</u>
Total employer	<u>14.00 %</u>
Employee	<u>10.00 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$361,387 for 2016. Of this amount, \$8,672 is reported as an intergovernmental payable.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Ohio Police and Fire Pension Fund

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. 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, required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	<u>Police</u>	<u>Firefighters</u>
2016 Statutory maximum contribution rates		
Employer	19.50%	24.00%
Employee:		
January 1, 2016 through December 31, 2016	12.25%	12.25%
2016 Actual contribution rates		
Employer:		
Pension	19.00%	23.50%
Post-employment health care benefits	<u>0.50%</u>	<u>0.50%</u>
Total employer	<u>19.50%</u>	<u>24.00%</u>
Employee:		
January 1, 2016 through December 31, 2016	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$171,538 for 2016. Of this amount \$3,696 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability - prior measurement date	0.025643%	0.040698%	
Proportion of the net pension liability - current measurement date	<u>0.024608%</u>	<u>0.037690%</u>	
Change in proportionate share	<u>-0.001035%</u>	<u>-0.003008%</u>	
Proportionate share of the net pension liability	\$ 4,262,416	\$ 2,424,641	\$ 6,687,057
Pension expense	\$ 514,344	\$ 315,451	\$ 829,795

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 1,252,884	\$ 394,638	\$ 1,647,522
City contributions subsequent to the measurement date	<u>361,387</u>	<u>171,538</u>	<u>532,925</u>
Total deferred outflows of resources	<u>\$ 1,614,271</u>	<u>\$ 566,176</u>	<u>\$ 2,180,447</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 82,358	\$ 6,808	\$ 89,166
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>82,363</u>	<u>128,214</u>	<u>210,577</u>
Total deferred inflows of resources	<u>\$ 164,721</u>	<u>\$ 135,022</u>	<u>\$ 299,743</u>

\$532,925 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year ending December 31:			
2017	\$ 236,017	\$ 77,903	\$ 313,920
2018	256,049	77,903	333,952
2019	312,569	77,902	390,471
2020	283,528	56,866	340,394
2021	-	(26,016)	(26,016)
Thereafter	<u>-</u>	<u>(4,942)</u>	<u>(4,942)</u>
Total	<u>\$ 1,088,163</u>	<u>\$ 259,616</u>	<u>\$ 1,347,779</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Wage inflation	3.75 percent
Future salary increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment rate of return	8 percent
Actuarial cost method	Individual entry age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the Member-Directed retiree medical accounts funded through the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4% for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

<u>Asset class</u>	<u>Target allocation</u>	<u>Weighted average long-term expected real rate of return (arithmetic)</u>
Fixed income	23.00%	2.31%
Domestic equities	20.70%	5.84%
Real estate	10.00%	4.25%
Private equity	10.00%	9.25%
International equities	18.30%	7.40%
Other investments	<u>18.00%</u>	<u>4.59%</u>
Total	<u>100.00%</u>	<u>5.27%</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current discount rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
City's proportionate share of the net pension liability	\$ 6,791,070	\$ 4,262,416	\$ 2,129,576

Changes between Measurement Date and Report Date In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City’s net pension liability is expected to be significant.

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 percent and 3.00 percent

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2015 are summarized below:

<u>Asset class</u>	<u>Target Allocation</u>	<u>10 year expected real rate of return**</u>	<u>30 year expected real rate of return**</u>
Cash and cash equivalents	0.00%	0.00%	0.00%
Domestic equity	16.00%	6.50%	7.80%
Non-US equity	16.00%	6.70%	8.00%
Core fixed income *	20.00%	3.50%	5.35%
Global inflation protected *	20.00%	3.50%	4.73%
High yield	15.00%	6.35%	7.21%
Real estate	12.00%	5.80%	7.43%
Private markets	8.00%	9.50%	10.73%
Timber	5.00%	6.55%	7.35%
Master limited partnerships	<u>8.00%</u>	9.65%	10.75%
Total	<u>120.00%</u>		

* levered 2x

**numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease <u>(7.25%)</u>	Current discount rate <u>(8.25%)</u>	1% Increase <u>(9.25%)</u>
City's proportionate share of the net pension liability	\$ 3,197,777	\$ 2,424,641	\$ 1,769,719

NOTE 11 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to OPEB (other postemployment benefits). OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CP), all of which are described in Note 10.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit 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 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 2016, the City contributed at a rate of 14.0 percent of covered payroll.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2016, 2015 and 2014 were \$70,036, \$66,303 and \$65,829 respectively; 97.9% has been contributed for 2016 and 100% for 2015 and 2014. \$1,445 representing the unpaid contribution for fiscal year 2016 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

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 postretirement health care coverage to 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 are codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

The Ohio Revised Code provides for contribution requirements of the participating employers and of 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 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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 administrated 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. The portion of employer contributions allocated to healthcare was 0.5% of covered payroll from January 1, 2016 through December 31, 2016. 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 115 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, 2016, 2015 and 2014 were \$4,514, \$4,418 and \$4,321, respectively, 97.9% has been contributed, for 2016 with the remainder being reported as a liability. \$97 representing the unpaid contribution for fiscal year 2016 is recorded as an intergovernmental payable.

NOTE 12 - CONTINGENT LIABILITIES

Litigation

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

Federal and State Grants

The City participates in several federally assisted programs. These programs are subject to financial and compliance audits by the grantor or their representative. As of December 31, 2016, 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 13 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2016, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u> General fund
Nonmajor governmental funds	\$ 330,000
Enterprise funds:	
Water fund	14,215
Sewer fund	593,014
Total transfers from general fund	<u>\$ 937,229</u>

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

NOTE 14 – ENCUMBRANCES

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

	<u>Encumbrances</u>
General fund:	
General government	\$ 81,795
Security of persons and property	31,031
Community and economic development	3,832
Transportation	238,674
Total general fund	<u>\$ 355,332</u>
General capital improvement fund	99,938
Nonmajor governmental funds	318,798
Total encumbrances	<u>\$ 774,068</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2016. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

Valley Enforcement Regional Council of Governments

The City is a member of Valley Enforcement Regional Council of Governments (VERCOG), a regional council of governments formed under Chapter 167 of the Ohio Revised Code. VERCOG was formed to continue to foster cooperation among political subdivisions through sharing of facilities for their common benefit. It includes the supervision and control of the Valley Enforcement Group (“VEG”), which has been a mutual aid organization providing the mutual interchange and sharing of police personnel and police equipment. VERCOG is currently comprised of fifteen communities located within the Chagrin Valley which exercise law enforcement authority under Ohio law and whose law enforcement agency consists of four (4) or more full-time, sworn law enforcement officers. VERCOG is authorized to acquire and own police equipment and other property, to be used by all participating members, and may do any other thing permitted by law to accomplish its general purposes. The City contributed \$7,000 to VERCOG in 2016. Financial information can be obtained by contacting the City of Pepper Pike, 28000 Shaker Blvd., Pepper Pike, Ohio 44124.

NOTE 16 - ACCOUNTABILITY

At December 31, 2016, the infrastructure improvement capital project fund had a deficit fund balance of \$33,006. This deficit was caused by the application of GAAP; namely in the reporting of various liabilities attributable to the fiscal year. This deficit balance will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at December 31.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 17 – TAX ABATEMENTS

In 1984, Chardon City Council approved the creation of a Community Reinvestment Area (CRA) pursuant to Ohio Revised Code Chapter 5709. The CRA's main purpose is to encourage development and revitalization in the defined area of the community. The CRA program's main mechanism is the use of tax incentives granted to property owners for real property improvements to their buildings. The real property improvements include building and structural modifications such as an addition, new façade and major structural repairs. Property improvements that result in an increase of property valuation may be eligible for abatement of the additional property tax. The amount of the abatement is deducted from the recipient's property tax bill.

One major property currently falls within the CRA, beginning in tax year 2016. The improvement value of this property was \$8,919,400 in tax year 2016. According to the County Auditor, the amount of property tax abated was \$227,321 in tax year 2016. In addition, the City has two other properties that fall within the CRA, which began in tax years 2009 and 2016, respectively. The improvement value of these two properties was \$891,600 and \$668,100 in tax year 2016, respectively.

Pursuant to Section 5709.82 of the Ohio Revised Code, the City is required to share 50 percent of municipal income tax withholdings paid by the employer in the CRA with the Chardon Local School District (the School District) when their gross payroll exceeds \$1 million. The major employer's payroll exceeded this threshold during 2016 and as a result, the City paid \$36,767 in 2017 to the School District.

Required Supplementary Information

City of Chardon, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Last Three Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Ohio Public Employees Retirement System - Traditional Plan			
City's proportion of the net pension liability	0.024608%	0.025643%	0.025643%
City's proportionate share of the net pension liability	\$ 4,262,416	\$ 3,092,832	\$ 3,022,976
City's covered employee payroll	\$ 2,685,283	\$ 2,666,075	\$ 2,722,900
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	158.73%	116.01%	111.02%
Plan fiduciary net position as a percentage of total pension liability	81.08%	86.45%	86.36%
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Ohio Police and Fire Pension Fund			
City's proportion of the net pension liability	0.037690%	0.040698%	0.040698%
City's proportionate share of the net pension liability	\$ 2,424,641	\$ 2,108,305	\$ 1,982,101
City's covered employee payroll	\$ 883,500	\$ 806,557	\$ 809,900
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	274.44%	261.40%	244.73%
Plan fiduciary net position as a percentage of total pension liability	66.77%	71.71%	73.00% (2)

(1) Information prior to 2014 is not available and the amounts presented are as of the City's measurement date which is the prior year end.

(2) Restated during 2015.

City of Chardon, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Last Four Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Public Employees Retirement System - Traditional Plan				
Contractually required contribution	\$ 361,387	\$ 322,234	\$ 319,929	\$ 353,977
Contributions in relation to contractually required contribution	<u>(361,387)</u>	<u>(322,234)</u>	<u>(319,929)</u>	<u>(353,977)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 3,011,558	\$ 2,685,283	\$ 2,666,075	\$ 2,722,900
Contributions as a percentage of covered employee payroll	12.00%	12.00%	12.00%	13.00%

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Police and Fire Pension Fund				
Contractually required contribution	\$ 171,538	\$ 167,865	\$ 164,215	\$ 138,331
Contributions in relation to contractually required contribution	<u>(171,538)</u>	<u>(167,865)</u>	<u>(164,215)</u>	<u>(138,331)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 902,832	\$ 883,500	\$ 806,557	\$ 809,900
Contributions as a percentage of covered employee payroll	19.00%	19.00%	20.36%	17.08%

(1) Information prior to 2013 is not available.

City of Chardon, Ohio
Notes to Required Supplementary Information
For the Year Ended December 31, 2016

Ohio Public Employees Retirement System - Traditional Plan

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

Ohio Police and Fire Pension Fund

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

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City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

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, 2015. 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 2015 are as follows:

- ◆ The assets of the City of Chardon exceeded its liabilities at the close of this year by \$63,676,378. Of this amount, \$2,903,577 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ City's total net position increased \$3,264,101 during 2015. Net position of the governmental activities increased \$2,394,094, while net position of business-type activities increased by \$870,007.
- ◆ A deletion of \$778,610 was made to construction in progress reported in governmental activities during the year as the Heritage House project, as well as other various projects were completed.

Using this Annual Financial Report

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

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

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

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and answers the question, "How did we do financially during 2015"? These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the City's net position and changes in that position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions and other factors.

The Statement of Net Position and the Statement of Activities divides 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, general capital improvement fund and the general obligation debt service fund. An analysis of the City's major governmental funds begins on page 86.

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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 99 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 102 of this report.

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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 104 of this report.

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

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

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

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

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Table 1 provides a summary of the City's net position for 2015 as compared to 2014.

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and other assets	\$ 11,707,989	\$ 10,462,831	\$ 1,815,192	\$ 1,981,552	\$ 13,523,181	\$ 12,444,383
Capital assets, net	44,094,075	42,920,815	30,633,344	30,306,795	74,727,419	73,227,610
Total assets	<u>55,802,064</u>	<u>53,383,646</u>	<u>32,448,536</u>	<u>32,288,347</u>	<u>88,250,600</u>	<u>85,671,993</u>
Deferred outflows of resources:						
Pension	<u>632,458</u>	<u>409,600</u>	<u>113,531</u>	<u>74,544</u>	<u>745,989</u>	<u>484,144</u>
Liabilities:						
Current liabilities	578,188	553,995	58,163	116,467	636,351	670,462
Long-term liabilities						
Due within one year	323,284	511,836	1,232,085	1,319,437	1,555,369	1,831,273
Due in more than one year:						
Net pension liability	4,480,506	4,300,723	720,631	704,354	5,201,137	5,005,077
Other amounts	<u>6,806,249</u>	<u>6,636,721</u>	<u>9,835,685</u>	<u>10,389,797</u>	<u>16,641,934</u>	<u>17,026,518</u>
Total liabilities	<u>12,188,227</u>	<u>12,003,275</u>	<u>11,846,564</u>	<u>12,530,055</u>	<u>24,034,791</u>	<u>24,533,330</u>
Deferred inflows of resources:						
Property taxes	1,190,135	1,197,447	-	-	1,190,135	1,197,447
Payments in lieu of taxes	40,950	13,083	-	-	40,950	13,083
Pension	<u>41,675</u>	<u>-</u>	<u>12,660</u>	<u>-</u>	<u>54,335</u>	<u>-</u>
Total deferred inflows of resources	<u>1,272,760</u>	<u>1,210,530</u>	<u>12,660</u>	<u>-</u>	<u>1,285,420</u>	<u>1,210,530</u>
Net Position:						
Net investment in capital assets	37,438,704	36,238,926	19,686,238	18,751,936	57,124,942	54,990,862
Restricted	3,647,859	2,984,646	-	-	3,647,859	2,984,646
Unrestricted	<u>1,886,972</u>	<u>1,355,869</u>	<u>1,016,605</u>	<u>1,080,900</u>	<u>2,903,577</u>	<u>2,436,769</u>
Total net position	<u>\$ 42,973,535</u>	<u>\$ 40,579,441</u>	<u>\$ 20,702,843</u>	<u>\$ 19,832,836</u>	<u>\$ 63,676,378</u>	<u>\$ 60,412,277</u>

Net position may serve over time as a useful indicator of a government's financial position. For the City, total assets exceeded total liabilities by \$63,676,378 as of December 31, 2015. At the end of the current year, the City of Chardon is able to report positive balances in all three categories of net position, both for the government as a whole as well as for its separate governmental and business-type activities.

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The largest portion of the City's net position (89.7 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 2015 increased \$2,578,607 or 3.0 percent when compared to 2014. The increase in total assets was mainly due from an increase in capital assets acquired during the year as well as an increase in cash balances from 2014.

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 being low over the past few years, the investments have shifted from callable federal government-sponsored enterprise issues to a greater reliance on non callable federal government-sponsored enterprise issues, money market accounts and certificates of deposits. State statute and City investment policy allows for investments with maturities of five years or less. As of December 31, 2015, the City has staggered the maturities of these investments with some maturing each year for the next four years.

The net position of the City's business-type activities increased 4.4 percent in 2015. This increase was due to decreased spending not significant to any single item during the year. The City generally can only use this net position to finance the continuing operations of the sewer and water systems operations.

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. Users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension. This implementation also had the effect of restating net position at December 31, 2014, from \$44,470,564 to \$40,579,441 for governmental activities and from \$20,462,646 to \$19,832,836 for business-type activities. See Note 2 to the basic financial statements for further discussion on the implementation of GASB 68.

The City's statement of activities prepared on an accrual basis of accounting includes an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows. The City is also reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting in the statement of net position.

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

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Revenue:						
Charges for services	\$ 2,140,761	\$ 2,092,321	\$ 3,032,522	\$ 3,237,649	\$ 5,173,283	\$ 5,329,970
Operating grants and contributions	1,640,023	1,169,893	-	-	1,640,023	1,169,893
Capital grants and contributions	1,043,516	98,012	-	-	1,043,516	98,012
Total program revenues	<u>4,824,300</u>	<u>3,360,226</u>	<u>3,032,522</u>	<u>3,237,649</u>	<u>7,856,822</u>	<u>6,597,875</u>
General Revenues:						
Property taxes	1,266,421	1,344,855	-	-	1,266,421	1,344,855
Income taxes	5,928,199	5,711,061	-	-	5,928,199	5,711,061
Grant and entitlements	164,809	166,854	-	-	164,809	166,854
Gain on sale of capital assets	-	-	12,088	-	12,088	-
Investment earnings	79,987	39,142	1,052	1,244	81,039	40,386
Other	229,198	617,533	-	-	229,198	617,533
Total general revenues	<u>7,668,614</u>	<u>7,879,445</u>	<u>13,140</u>	<u>1,244</u>	<u>7,681,754</u>	<u>7,880,689</u>
Total revenues	<u>12,492,914</u>	<u>11,239,671</u>	<u>3,045,662</u>	<u>3,238,893</u>	<u>15,538,576</u>	<u>14,478,564</u>
Program Expenses:						
General government	3,294,104	3,358,298	-	-	3,294,104	3,358,298
Security of persons and property	3,127,389	3,119,513	-	-	3,127,389	3,119,513
Public health services	101,308	95,152	-	-	101,308	95,152
Transportation	2,310,370	2,399,299	-	-	2,310,370	2,399,299
Community environment	236,803	221,325	-	-	236,803	221,325
Leisure time activities	263,880	270,935	-	-	263,880	270,935
Interest and fiscal charges	120,764	128,313	-	-	120,764	128,313
Water	-	-	1,043,224	1,084,934	1,043,224	1,084,934
Sewer	-	-	1,776,633	2,014,993	1,776,633	2,014,993
Total program expenses	<u>9,454,618</u>	<u>9,592,835</u>	<u>2,819,857</u>	<u>3,099,927</u>	<u>12,274,475</u>	<u>12,692,762</u>
Excess before transfers and contributions	3,038,296	1,646,836	225,805	138,966	3,264,101	1,785,802
Transfers	(644,202)	(371,089)	644,202	371,089	-	-
Contributions	-	315,249	-	-	-	315,249
Change in net assets	<u>\$ 2,394,094</u>	<u>\$ 1,590,996</u>	<u>\$ 870,007</u>	<u>\$ 510,055</u>	<u>\$ 3,264,101</u>	<u>\$ 2,101,051</u>

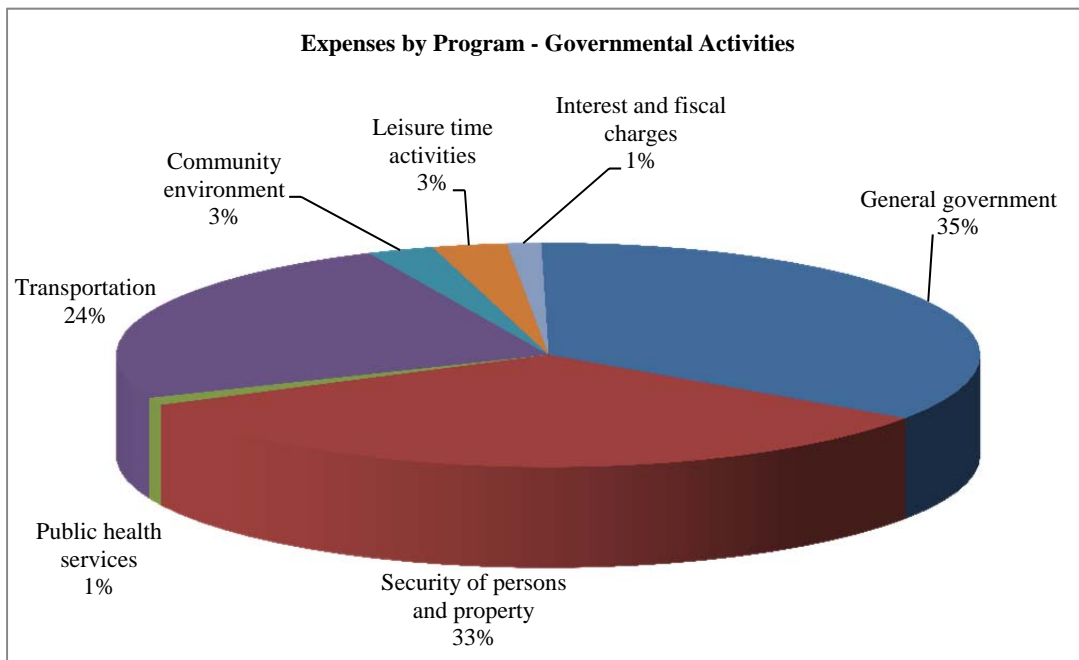
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Governmental Activities

Several revenue sources fund the 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, capped at an income tax rate of 1.0 percent on gross income.

During 2015 the revenues generated from this tax amounted to \$5,928,199. The increase in income tax revenues from 2014 was 3.8 percent. 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 use the delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

Security of persons and property, transportation and general government are the major activities of the City generating 92.4 percent of the governmental expenses. Currently, there are 19 sworn officers in the police department. During 2014, 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.



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Business-Type Activities

The business-type activities of the City, which include the City's sewer and water operations, increased the City's net position by \$870,007 from various events. The increase in net position was a result of the decrease in expenses exceeding the decrease in revenues. These decreases were not related to any single event.

Overall, the City's business-type activities generated \$3,032,522 in program revenues during 2015, while program expenses were \$2,819,857. General revenues of \$13,140 and net transfers of \$644,202 were adequate to cover the program expenses.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$484,144 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$478,649. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Total 2015 program expenses under GASB 68	\$ 9,454,618	\$ 2,819,857	\$ 12,274,475
Pension expense under GASB 68	(413,619)	(65,030)	(478,649)
2015 contractually required contribution	<u>415,019</u>	<u>75,080</u>	<u>490,099</u>
Adjusted 2015 program expenses	9,456,018	2,829,907	12,285,925
Total 2014 program expenses under GASB 27	<u>9,592,835</u>	<u>3,099,927</u>	<u>12,692,762</u>
Decrease in program expenses not related to pension	<u>\$ (136,817)</u>	<u>\$ (270,020)</u>	<u>\$ (406,837)</u>

As a result of GASB 68, the City is reporting a significant net pension liability and related deferred inflows of resources which have a negative effect on net position. In addition, the City is reporting deferred outflows of resources and a reduction of expenses related to pension for this fiscal year, which have a positive consequence on net position. This expense amount is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. These two amounts can be found in the reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities. To further explain the impact of this new accounting standard on the City's net position, additional information is presented below.

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	Governmental Activities	Business-Type Activities	Total
Net position	\$ 42,973,535	\$ 20,702,843	\$ 63,676,378
Deferred outflows - pension	(632,458)	(113,531)	(745,989)
Deferred inflows - pension	41,675	12,660	54,335
Net pension liability	<u>4,480,506</u>	<u>720,631</u>	<u>5,201,137</u>
Net position without new standard	<u>\$ 46,863,258</u>	<u>\$ 21,322,603</u>	<u>\$ 68,185,861</u>
Impact of GASB 68 on net position end of year	\$ (3,889,723)	\$ (619,760)	\$ (4,509,483)
Pension expense under GASB 68	413,619	65,030	478,649
Contractually required contribution	<u>(415,019)</u>	<u>(75,080)</u>	<u>(490,099)</u>
Impact of GASB 68 on net position beginning of year	<u>\$ (3,891,123)</u>	<u>\$ (629,810)</u>	<u>\$ (4,520,933)</u>

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 94. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$13,126,088 and expenditures and other financing uses of \$12,061,592. The net change in fund balance for the year was significant in the general fund. It is showing an increase in fund balance of \$957,749; which is attributed to a decrease in expenses mainly related to payroll and various increase in revenues primarily income tax.

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

Table 3 below reports year 2015 balances compared to 2014:

	Fund Balance			
	December 31, 2015	December 31, 2014	Increase (Decrease)	Percent Change
General fund	\$ 4,908,413	\$ 3,950,664	\$ 957,749	24.2%
General obligation debt service fund	264,948	386,858	(121,910)	-31.5%
General capital improvement	222,314	351,713	(129,399)	-36.8%
Other governmental funds	<u>3,003,939</u>	<u>2,645,883</u>	<u>358,056</u>	13.5%
	<u>\$ 8,399,614</u>	<u>\$ 7,335,118</u>	<u>\$ 1,064,496</u>	

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Table 4 below assists in illustrating the financial activities for the general fund of year 2015 balances compared to 2014:

Table 4
Change in Financial Activities for the General Fund

	December 31, <u>2015</u>	December 31, <u>2014</u>	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Municipal income tax	\$ 5,606,867	\$ 5,440,015	\$ 166,852	3.1%
Property and other taxes	390,442	399,014	(8,572)	-2.1%
Charges for services	21,501	93,199	(71,698)	-76.9%
Licenses and permits	150,455	184,030	(33,575)	-18.2%
Fines and forfeitures	770,476	780,120	(9,644)	-1.2%
Intergovernmental	170,730	189,099	(18,369)	-9.7%
Investment income	79,987	39,142	40,845	104.4%
Rentals	92,694	-	92,694	0.0%
Other	<u>197,222</u>	<u>231,351</u>	<u>(34,129)</u>	-14.8%
Total revenue	<u>7,480,374</u>	<u>7,355,970</u>	<u>124,404</u>	
<u>Expenditures:</u>				
Current:				
General government	2,404,813	2,545,345	(140,532)	-5.5%
Security of persons and property	1,604,825	1,744,639	(139,814)	-8.0%
Public health services	20,000	16,800	3,200	19.0%
Transportation	1,172,526	1,274,494	(101,968)	-8.0%
Community environment	163,861	157,202	6,659	4.2%
Debt service:				
Principal retirement	<u>5,311</u>	<u>5,311</u>	<u>-</u>	0.0%
Total expenditures	<u>\$ 5,371,336</u>	<u>\$ 5,743,791</u>	<u>\$ (372,455)</u>	

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 \$7,055,011 were \$340,000 higher than original amount mainly due to income tax revenues. Monitoring the actual collections revealed an increase in net profit income tax collections, which warranted an increase in the income tax budget. Actual revenues exceeded the final amount by \$221,978. These differences were caused by the conservative budgeting nature of the original budgeting process, as well as the receipt of municipal court revenues that would normally have been receipted in January 2016.

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Final budgeted expenditures (excluding transfers-out) of \$6,747,253 were more than the original budgeted expenditures by \$334,500. This change was reported mainly in general government and transportation functions. Actual expenditures (excluding transfers-out) for the year were \$880,707 less than the final budgeted amounts. This change was due to close monitoring of expenditures and employees not receiving a wage increase related to cost of living. Likewise, actual transfers-out in the general fund were \$100,000 less than the final budgeted amount, due to increases in revenues from the sanitary sewer impact fee related to new development and higher balances in other funds. The impact fee revenue was then used to help pay the debt related to the expansion portion of the wastewater treatment plant, reducing transfers from the general fund.

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 2015, the City had \$74,727,419 invested in land and land improvements, buildings, machinery and equipment, vehicles and infrastructure.

Table 5 shows fiscal 2015 balances of capital assets as compared to 2014:

Table 5
Capital Assets at December 31

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land and land use rights	\$ 3,101,670	\$ 2,983,870	\$ 320,748	\$ 320,748	\$ 3,422,418	\$ 3,304,618
Construction in progress	2,026,722	376,496	24,675	148,030	2,051,397	524,526
Land improvements	1,457,492	1,457,492	242,678	242,678	1,700,170	1,700,170
Buildings	15,037,381	14,443,362	20,888,823	20,888,823	35,926,204	35,332,185
Machinery and equipment	926,653	817,517	4,133,311	4,083,264	5,059,964	4,900,781
Vehicles	1,633,143	1,621,189	339,266	317,033	1,972,409	1,938,222
Infrastructure						
Traffic lights	1,961,016	1,961,016	-	-	1,961,016	1,961,016
Streets and sidewalks	22,597,874	22,576,696	-	-	22,597,874	22,576,696
Storm sewers, bridges and culverts	14,606,241	14,606,241	-	-	14,606,241	14,606,241
Water lines	-	-	6,886,697	6,690,665	6,886,697	6,690,665
Sewer lines	-	-	12,205,147	11,433,449	12,205,147	11,433,449
Less: accumulated depreciation	<u>(19,254,117)</u>	<u>(17,923,064)</u>	<u>(14,408,001)</u>	<u>(13,817,895)</u>	<u>(33,662,118)</u>	<u>(31,740,959)</u>
Total capital assets	<u>\$ 44,094,075</u>	<u>\$ 42,920,815</u>	<u>\$ 30,633,344</u>	<u>\$ 30,306,795</u>	<u>\$ 74,727,419</u>	<u>\$ 73,227,610</u>

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For the Year Ended December 31, 2015

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

With regards to the infrastructure, the City's service department maintains a comprehensive listing of all the streets, bridges, culverts, storm sewer, water lines and sewer lines in the City. As part of the City's annual road maintenance program, the City's Service Director, Street Superintendent, and Engineer evaluate the condition of each street after each winter and prioritize the streets in need of repair or replacement. After approval from Council, the projects are bid typically in late winter or early spring to get the best possible pricing from contractors. This program is paid for out of the general fund, the general capital improvement fund, or the street construction maintenance and repair fund of the City. Capital assets (before depreciation) for governmental activities increased \$2,504,313 (net of decreases) mainly due to continuing construction in progress and completed building additions. This increase (net of decreases) was offset by an increase in accumulated depreciation of \$1,414,276. Capital assets for business-type activities increased by \$326,549, mainly due to current year additions exceeded current year 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. The City has a five-year capital plan in place that provides for street improvements, storm sewers, water and sanitary sewer lines and addressing facility and equipment needs.

Debt

At December 31, 2015, the City of Chardon had \$18,197,303 in outstanding debt and compensated absences, of which \$4,930,000 was in general obligation bonds. Table 6 summarizes the outstanding obligations of the City.

Table 6
 Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 4,930,000	\$ 5,135,000	\$ -	\$ -	\$ 4,930,000	\$ 5,135,000
Premium on bonds	36,572	40,042	-	-	36,572	40,042
OPWC loans	1,688,799	1,506,847	-	-	1,688,799	1,506,847
OWDA loans	-	-	10,947,106	11,432,145	10,947,106	11,432,145
Land purchase agreement	-	-	-	122,714	-	122,714
Compensated absences	474,162	466,668	120,664	154,375	594,826	621,043
Total	<u>\$ 7,129,533</u>	<u>\$ 7,148,557</u>	<u>\$ 11,067,770</u>	<u>\$ 11,709,234</u>	<u>\$ 18,197,303</u>	<u>\$ 18,857,791</u>

More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

City of Chardon, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

Current Related Financial Activities

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

Contacting the City of Chardon's Finance Department

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

City of Chardon, Ohio

Statement of Net Position

December 31, 2015

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 7,351,889	\$ 1,057,757	\$ 8,409,646
Receivables:			
Income tax	1,632,138	-	1,632,138
Property and other taxes	1,270,254	-	1,270,254
Accounts	241,873	430,953	672,826
Accrued interest	19,426	-	19,426
Intergovernmental	732,596	-	732,596
Revenue in lieu of taxes	40,950	-	40,950
Materials and supplies inventory	406,139	322,482	728,621
Prepaid items	12,724	4,000	16,724
Nondepreciable capital assets	5,128,392	345,423	5,473,815
Depreciable capital assets	58,219,800	44,695,922	102,915,722
Accumulated depreciation	(19,254,117)	(14,408,001)	(33,662,118)
Total assets	<u>55,802,064</u>	<u>32,448,536</u>	<u>88,250,600</u>
<u>Deferred outflows of resources:</u>			
Pension	632,458	113,531	745,989
<u>Liabilities:</u>			
Accounts payable	411,617	41,453	453,070
Contracts payable	-	1,100	1,100
Accrued wages and benefits	42,298	8,914	51,212
Accrued pension	6,413	1,248	7,661
Due to other governments	23,630	5,448	29,078
Income tax refunds payable	84,496	-	84,496
Accrued interest payable	9,734	-	9,734
Long-term liabilities:			
Due within one year	323,284	1,232,085	1,555,369
Due in more than one year:			
Net pension liability	4,480,506	720,631	5,201,137
Other amounts due in more than one year	6,806,249	9,835,685	16,641,934
Total liabilities	<u>12,188,227</u>	<u>11,846,564</u>	<u>24,034,791</u>
<u>Deferred inflows of resources:</u>			
Property taxes	1,190,135	-	1,190,135
Payments in lieu of taxes	40,950	-	40,950
Pension	41,675	12,660	54,335
Total deferred inflows of resources	<u>1,272,760</u>	<u>12,660</u>	<u>1,285,420</u>
<u>Net position:</u>			
Net investment in capital assets	37,438,704	19,686,238	57,124,942
Restricted for:			
Capital projects	440,226	-	440,226
Transportation	1,882,111	-	1,882,111
Security of persons and property	821,520	-	821,520
Other purposes	504,002	-	504,002
Unrestricted	1,886,972	1,016,605	2,903,577
Total net position	<u>\$ 42,973,535</u>	<u>\$ 20,702,843</u>	<u>\$ 63,676,378</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Activities
For the Year Ended December 31, 2015

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 3,294,104	\$ 1,323,890	\$ 51,800	\$ 13,160
Security of persons and property	3,127,389	373,932	102,181	-
Public health services	101,308	33,261	1,412	-
Transportation	2,310,370	75,746	1,237,506	682,554
Community environment	236,803	213,009	150	-
Leisure time activities	263,880	120,923	246,974	347,802
Interest and fiscal charges	120,764	-	-	-
Total governmental activities	<u>9,454,618</u>	<u>2,140,761</u>	<u>1,640,023</u>	<u>1,043,516</u>
<u>Business-Type Activities:</u>				
Water	1,043,224	1,226,873	-	-
Sewer	1,776,633	1,805,649	-	-
Total business-type activities	<u>2,819,857</u>	<u>3,032,522</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 12,274,475</u>	<u>\$ 5,173,283</u>	<u>\$ 1,640,023</u>	<u>\$ 1,043,516</u>

General revenues:
Property taxes levied for:
 General purposes
 Security of persons and property
Income tax levied for:
 General purposes
 Capital projects
Grants and entitlements not restricted to specific programs
Payments in lieu of taxes
Gain on sale of capital assets
Investment earnings
Other
Transfers
Total general revenues and transfers

Change in net assets

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

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,905,254)	\$ -	\$ (1,905,254)
(2,651,276)	-	(2,651,276)
(66,635)	-	(66,635)
(314,564)	-	(314,564)
(23,644)	-	(23,644)
451,819	-	451,819
(120,764)	-	(120,764)
<u>(4,630,318)</u>	<u>-</u>	<u>(4,630,318)</u>
-	183,649	183,649
-	29,016	29,016
-	<u>212,665</u>	<u>212,665</u>
<u>(4,630,318)</u>	<u>212,665</u>	<u>(4,417,653)</u>
383,264	-	383,264
883,157	-	883,157
5,747,819	-	5,747,819
180,380	-	180,380
164,809	-	164,809
17,202	-	17,202
-	12,088	12,088
79,987	1,052	81,039
211,996	-	211,996
(644,202)	644,202	-
<u>7,024,412</u>	<u>657,342</u>	<u>7,681,754</u>
2,394,094	870,007	3,264,101
<u>40,579,441</u>	<u>19,832,836</u>	<u>60,412,277</u>
<u>\$ 42,973,535</u>	<u>\$ 20,702,843</u>	<u>\$ 63,676,378</u>

City of Chardon, Ohio

Balance Sheet

Governmental Funds

December 31, 2015

	General	General Obligation Debt Service	General Capital Improvement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in pooled cash and cash equivalents	\$ 3,969,658	\$ 264,948	\$ 257,873	\$ 2,859,410	\$ 7,351,889
<u>Receivables:</u>					
Income tax	1,583,174	-	48,964	-	1,632,138
Property and other taxes	385,221	-	-	885,033	1,270,254
Accounts	41,559	-	-	200,314	241,873
Accrued interest	19,426	-	-	-	19,426
Intergovernmental	62,167	-	17,274	653,155	732,596
Revenue in lieu of taxes	-	-	-	40,950	40,950
Materials and supplies inventory	152,918	-	-	253,221	406,139
Prepaid items	10,496	-	-	2,228	12,724
Total assets	<u>\$ 6,224,619</u>	<u>\$ 264,948</u>	<u>\$ 324,111</u>	<u>\$ 4,894,311</u>	<u>\$ 11,707,989</u>
<u>Liabilities, deferred inflows of resources and fund balances:</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 82,784	\$ -	\$ 81,633	\$ 247,200	\$ 411,617
Accrued wages and benefits	35,761	-	-	6,537	42,298
Accrued pension	5,425	-	-	988	6,413
Due to other governments	20,754	-	-	2,876	23,630
Income tax refunds payable	84,496	-	-	-	84,496
Total liabilities	<u>229,220</u>	<u>-</u>	<u>81,633</u>	<u>257,601</u>	<u>568,454</u>
<u>Deferred inflows of resources:</u>					
Property taxes	359,967	-	-	830,168	1,190,135
Payments in lieu of taxes	-	-	-	40,950	40,950
Unavailable revenue - delinquent property taxes	15,545	-	-	33,772	49,317
Unavailable revenue - other	711,474	-	20,164	727,881	1,459,519
Total deferred inflows of resources	<u>1,086,986</u>	<u>-</u>	<u>20,164</u>	<u>1,632,771</u>	<u>2,739,921</u>
<u>Fund balances:</u>					
Nonspendable	163,414	-	-	255,449	418,863
Restricted	-	-	222,314	2,573,355	2,795,669
Committed	-	-	-	175,135	175,135
Assigned	1,036,435	264,948	-	-	1,301,383
Unassigned	3,708,564	-	-	-	3,708,564
Total fund balances	<u>4,908,413</u>	<u>264,948</u>	<u>222,314</u>	<u>3,003,939</u>	<u>8,399,614</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,224,619</u>	<u>\$ 264,948</u>	<u>\$ 324,111</u>	<u>\$ 4,894,311</u>	<u>\$ 11,707,989</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

**Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2015**

Total governmental fund balances \$ 8,399,614

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in funds. 44,094,075

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

Property and other taxes	\$ 49,535	
Income taxes	672,138	
Intergovernmental	598,243	
Charges for services	188,920	
Total	<u>1,508,836</u>	1,508,836

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds:

Deferred outflows - pension	\$ 632,458	
Deferred inflows - pension	(41,675)	
Net pension liability	<u>(4,480,506)</u>	
Total		(3,889,723)

Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. (9,734)

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

General obligation bonds	\$ (4,930,000)	
Premium	(36,572)	
OPWC loan	(1,688,799)	
Compensated absences	(474,162)	
Total	<u>(7,129,533)</u>	(7,129,533)

Net position of governmental activities \$ 42,973,535

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, 2015

	General	General Obligation Debt Service	General Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Income tax	\$ 5,606,867	\$ -	\$ 176,021	\$ -	\$ 5,782,888
Property and other taxes	390,442	-	-	898,130	1,288,572
Charges for services	21,501	-	-	435,693	457,194
Licenses and permits	150,455	-	-	-	150,455
Fines and forfeitures	770,476	-	-	363,066	1,133,542
Intergovernmental	170,730	-	494,766	2,010,142	2,675,638
Special assessments	-	-	-	263,203	263,203
Investment income	79,987	-	98	2,260	82,345
Payments in lieu of taxes	-	-	-	17,202	17,202
Rentals	92,694	-	-	99,486	192,180
Other	197,222	-	15,215	79,165	291,602
Total revenue	<u>7,480,374</u>	<u>-</u>	<u>686,100</u>	<u>4,168,347</u>	<u>12,334,821</u>
Expenditures:					
Current:					
General government	2,404,813	-	-	573,693	2,978,506
Security of persons and property	1,604,825	-	-	1,425,018	3,029,843
Public health services	20,000	-	-	64,716	84,716
Transportation	1,172,526	-	-	199,397	1,371,923
Community environment	163,861	-	-	73,122	236,983
Leisure time activities	-	-	-	217,006	217,006
Capital outlay	-	-	815,499	1,736,602	2,552,101
Debt service:					
Principal retirement	5,311	205,000	-	104,004	314,315
Interest and fiscal charges	-	124,910	-	-	124,910
Total expenditures	<u>5,371,336</u>	<u>329,910</u>	<u>815,499</u>	<u>4,393,558</u>	<u>10,910,303</u>
Excess of revenues over (under) expenditures	<u>2,109,038</u>	<u>(329,910)</u>	<u>(129,399)</u>	<u>(225,211)</u>	<u>1,424,518</u>
Other financing sources (uses):					
Proceeds of OPWC loans	-	-	-	291,267	291,267
Transfers - in	-	208,000	-	292,000	500,000
Transfers - out	<u>(1,151,289)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,151,289)</u>
Total other financing sources (uses)	<u>(1,151,289)</u>	<u>208,000</u>	<u>-</u>	<u>583,267</u>	<u>(360,022)</u>
Net change in fund balance	957,749	(121,910)	(129,399)	358,056	1,064,496
Fund balances at beginning of year	<u>3,950,664</u>	<u>386,858</u>	<u>351,713</u>	<u>2,645,883</u>	<u>7,335,118</u>
Fund balances at end of year	<u>\$ 4,908,413</u>	<u>\$ 264,948</u>	<u>\$ 222,314</u>	<u>\$ 3,003,939</u>	<u>\$ 8,399,614</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, 2015**

Net change in fund balances - Total governmental funds \$ 1,064,496

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

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

In the current period, these amounts are:

Capital outlay	\$ 2,552,101	
Capital contributions	22,855	
Capital assets transferred	7,087	
Depreciation expense	<u>(1,398,380)</u>	
Excess of capital outlay and capital assets transferred over depreciation expense		1,183,663

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. (10,403)

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	\$ (22,151)	
Income taxes	145,311	
Intergovernmental	68,332	
Other	(441)	
Charges for services	<u>(55,813)</u>	
Net change in deferred inflows of resources during the year		135,238

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

Increase in compensated absences	\$ (7,494)	
Decrease in accrued interest	<u>676</u>	
Total additional expenditures		(6,818)

Contractually required pension contributions are reported as expenditures in the governmental funds however, the statement of activities reports these amounts as deferred outflows. 415,019

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (413,619)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 314,315

Loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. (291,267)

The amortization of bond premium is reflected as an expense in the statement of activities. 3,470

Change in net position of governmental activities \$ 2,394,094

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, 2015**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Income tax	\$ 5,075,000	\$ 5,415,000	\$ 5,420,642	\$ 5,642
Property and other taxes	371,693	371,693	389,430	17,737
Charges for services	20,500	20,500	26,035	5,535
Licenses and permits	123,800	123,800	149,823	26,023
Fines and forfeitures	708,000	708,000	770,476	62,476
Intergovernmental	158,018	158,018	161,330	3,312
Investment income	15,000	15,000	72,931	57,931
Rent	75,000	75,000	92,694	17,694
Other	168,000	168,000	193,628	25,628
Total revenue	6,715,011	7,055,011	7,276,989	221,978
Expenditures:				
Current:				
General government	2,767,526	2,942,926	2,578,994	363,932
Security of persons and property	1,982,436	2,037,936	1,706,858	331,078
Public health and welfare	20,000	20,000	20,000	-
Transportation	1,456,110	1,554,310	1,386,217	168,093
Community environment	186,681	192,081	174,477	17,604
Total expenditures	6,412,753	6,747,253	5,866,546	880,707
Excess of revenues over expenditures	302,258	307,758	1,410,443	1,102,685
Other financing sources (uses):				
Sale of capital assets	2,000	2,000	-	(2,000)
Transfers - in	93,611	173,811	136,664	(37,147)
Transfers - out	(1,256,600)	(1,256,600)	(1,156,600)	100,000
Total other financing sources (uses)	(1,160,989)	(1,080,789)	(1,019,936)	60,853
Net change in fund balance	(858,731)	(773,031)	390,507	1,163,538
Fund balance at beginning of year	1,808,957	1,808,957	1,808,957	-
Prior year encumbrances appropriated	211,033	211,033	211,033	-
Fund balance at end of year	\$ 1,161,259	\$ 1,246,959	\$ 2,410,497	\$ 1,163,538

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2015

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Assets:</u>			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 560,566	\$ 497,191	\$ 1,057,757
Accounts receivable	179,401	251,552	430,953
Materials and supplies inventory	267,051	55,431	322,482
Prepaid items	2,000	2,000	4,000
Total current assets	<u>1,009,018</u>	<u>806,174</u>	<u>1,815,192</u>
Noncurrent assets:			
Capital assets:			
Nondepreciable capital assets	271,421	74,002	345,423
Depreciable capital assets	14,817,970	29,877,952	44,695,922
Accumulated depreciation	<u>(3,369,678)</u>	<u>(11,038,323)</u>	<u>(14,408,001)</u>
Total noncurrent assets	<u>11,719,713</u>	<u>18,913,631</u>	<u>30,633,344</u>
Total assets	<u>12,728,731</u>	<u>19,719,805</u>	<u>32,448,536</u>
<u>Deferred outflows of resources:</u>			
Pension	<u>48,726</u>	<u>64,805</u>	<u>113,531</u>
<u>Liabilities:</u>			
Current liabilities:			
Accounts payable	9,076	32,377	41,453
Contracts payable	238	862	1,100
Accrued wages and benefits	3,743	5,171	8,914
Accrued pension	524	724	1,248
Due to other governments	2,382	3,066	5,448
Compensated absences payable	10,760	25,635	36,395
OWDA loans payable	<u>280,655</u>	<u>915,035</u>	<u>1,195,690</u>
Total current liabilities	<u>307,378</u>	<u>982,870</u>	<u>1,290,248</u>
Long-term liabilities:			
Compensated absences payable	44,602	39,667	84,269
OWDA loans payable, net of current portion	3,662,924	6,088,492	9,751,416
Net pension liability	<u>309,284</u>	<u>411,347</u>	<u>720,631</u>
Total long-term liabilities	<u>4,016,810</u>	<u>6,539,506</u>	<u>10,556,316</u>
Total liabilities	<u>4,324,188</u>	<u>7,522,376</u>	<u>11,846,564</u>
<u>Deferred inflows of resources:</u>			
Pension	<u>5,434</u>	<u>7,226</u>	<u>12,660</u>
<u>Net position:</u>			
Net investment in capital assets	7,776,134	11,910,104	19,686,238
Unrestricted	<u>671,701</u>	<u>344,904</u>	<u>1,016,605</u>
Total net position	<u>\$ 8,447,835</u>	<u>\$ 12,255,008</u>	<u>\$ 20,702,843</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2015

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating revenues:</u>			
Charges for services	\$ 1,186,037	\$ 1,758,211	\$ 2,944,248
Reimbursements	17,586	31,604	49,190
Other	23,250	15,834	39,084
Total operating revenue	<u>1,226,873</u>	<u>1,805,649</u>	<u>3,032,522</u>
<u>Operating expenses:</u>			
Personal services	455,049	650,923	1,105,972
Supplies and materials	88,695	130,170	218,865
Travel and education	5,770	2,857	8,627
Contractual services	80,841	139,827	220,668
Utilities	82,586	193,562	276,148
Depreciation	247,278	449,917	697,195
Total operating expenses	<u>960,219</u>	<u>1,567,256</u>	<u>2,527,475</u>
Operating income	<u>266,654</u>	<u>238,393</u>	<u>505,047</u>
<u>Nonoperating revenues (expenses):</u>			
Interest	-	1,052	1,052
Gain on sale of capital assets	-	5,001	5,001
Interest and fiscal charges	(83,005)	(209,377)	(292,382)
Total nonoperating revenues (expenses):	<u>(83,005)</u>	<u>(203,324)</u>	<u>(286,329)</u>
Income before transfers	183,649	35,069	218,718
Transfers - in	<u>41,215</u>	<u>610,074</u>	<u>651,289</u>
Change in net position	224,864	645,143	870,007
Net position at beginning of year, restated	<u>8,222,971</u>	<u>11,609,865</u>	<u>19,832,836</u>
Net position at end of year	<u>\$ 8,447,835</u>	<u>\$ 12,255,008</u>	<u>\$ 20,702,843</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, 2015

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 1,223,319	\$ 1,799,522	\$ 3,022,841
Cash payments for personal services	(495,203)	(687,003)	(1,182,206)
Cash payments for travel and entertainment	(2,975)	(2,862)	(5,837)
Cash payments for contractual services	(88,841)	(148,056)	(236,897)
Cash payments to suppliers for goods and services	(90,117)	(125,249)	(215,366)
Cash payments for utilities	(82,498)	(193,198)	(275,696)
Net cash provided by operating activities	<u>463,685</u>	<u>643,154</u>	<u>1,106,839</u>
Cash flows from noncapital financing activities:			
Transfers from other funds	<u>41,215</u>	<u>610,074</u>	<u>651,289</u>
Cash flows from capital and related financing activities:			
OWDA loan	-	652,131	652,131
Interest paid on debt	(83,005)	(209,377)	(292,382)
Principal payment on loans	(275,125)	(862,045)	(1,137,170)
Sale of capital assets	-	17,750	17,750
Acquisition of capital assets	<u>(323,044)</u>	<u>(841,956)</u>	<u>(1,165,000)</u>
Net cash used for capital and related financing activities	<u>(681,174)</u>	<u>(1,243,497)</u>	<u>(1,924,671)</u>
Cash flows from investing activities:			
Investment income	<u>-</u>	<u>1,052</u>	<u>1,052</u>
Net increase in cash and cash equivalents	(176,274)	10,783	(165,491)
Cash and cash equivalents at beginning of year	<u>736,840</u>	<u>486,408</u>	<u>1,223,248</u>
Cash and cash equivalents at end of year	<u>\$ 560,566</u>	<u>\$ 497,191</u>	<u>\$ 1,057,757</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 266,654	\$ 238,393	\$ 505,047
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	247,278	449,917	697,195
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(3,554)	(6,127)	(9,681)
Materials and supplies inventory	3,720	6,830	10,550
Prepaid items	-	-	-
(Increase) in deferred outflows of resources - pension	(16,733)	(22,254)	(38,987)
Increase (decrease) in liabilities:			
Accounts payable	(7,168)	(5,833)	(13,001)
Accrued pension	(1,652)	(2,338)	(3,990)
Accrued wages and benefits	(11,791)	(16,692)	(28,483)
Compensated absences	(22,398)	(11,313)	(33,711)
Due to other governments	(3,091)	(3,946)	(7,037)
Net pension liability	6,986	9,291	16,277
Increase in deferred inflows of resources - pension	<u>5,434</u>	<u>7,226</u>	<u>12,660</u>
Net cash provided by operating activities	<u>\$ 463,685</u>	<u>\$ 643,154</u>	<u>\$ 1,106,839</u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Statement of Fiduciary Net Position
December 31, 2015

	Private Purpose Trust Cemetery	Agency
	<hr/>	<hr/>
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ -	\$ 160,306
Cash and cash equivalents in segregated accounts	17,456	108,977
	<hr/>	<hr/>
Total assets	<u>\$ 17,456</u>	<u>\$ 269,283</u>
<u>Liabilities:</u>		
Intergovernmental payable	\$ -	\$ 110,051
Undistributed monies	-	18,010
Deposits held and due to others	-	141,222
	<hr/>	<hr/>
Total liabilities	<u>-</u>	<u>\$ 269,283</u>
<u>Net position:</u>		
Held in trust for cemetery	17,456	
	<hr/>	
Total net position	<u>\$ 17,456</u>	

See accompanying notes to the basic financial statements.

City of Chardon, Ohio

Statement of Changes in Fiduciary Net Position

For the Year Ending December 31, 2015

	Private Purpose Trust Cemetery
Additions:	
Interest	<u>\$ 2</u>
Deductions:	
Supplies and materials	<u>80</u>
Change in net position	(78)
Net position at beginning of year	<u>17,534</u>
Net position at end of year	<u><u>\$ 17,456</u></u>

See accompanying notes to the basic financial statements.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Chardon have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

A. Reporting Entity

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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Chardon, this includes police protection, parks and recreation, planning, zoning, street maintenance and repair, water and sewer utilities, municipal court and general administrative services. The City's departments include Police, Public Service, Manager, Finance, Legal, Planning and Zoning, Recreation and Municipal Court. Included within the Department of Public Service are the Division of Streets and Cemetery, Lands and Buildings and Water and Sewer. The City contracts with the Chardon Volunteer Fire Department, Inc. to provide fire service and ambulance services. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The Chardon Municipal Court

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

B. Basis of Presentation

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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.

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

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have an internal service fund.

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.

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

Fiduciary Funds

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

D. Measurement Focus

Government-wide Financial Statements

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Fund Financial Statements

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

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, shared revenues and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenues. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance year 2016 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the government wide statement of net position and the governmental funds balance sheet, and represents receivables/revenues which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Equity in Pooled Cash and Cash Equivalents

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

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

During 2015, investments were limited to certificates of deposits and government-sponsored enterprise investments. The government-sponsored enterprise (GSE) investments, which are not backed by the full faith and credit of the federal government, were held as investments at year-end by the City. The GSE investments held were issued from Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) 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.

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

G. Inventory

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

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

Inventory consists of expendable supplies held for consumption.

H. Interfund Balances

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2015 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure or expense is reported in the year in which services are consumed.

J. Capitalization of Interest

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

K. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City reports all land parcels and maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expended. For proprietary funds and business-type activities, any material amount of interest incurred during the construction of capital assets is also capitalized.

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

<u>Asset</u> <u>Class</u>	<u>Estimated Useful</u> <u>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. Net pension liability and pension expense

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

The current accounting standard requires Cities to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. Under the new standards, the net pension liability equals the City's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

portion of this benefit of exchange is a liability of the City. However, the City is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The City has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

M. 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, when applicable, 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.

N. 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

O. 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. 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. In addition, the Director of Finance is authorized to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

P. Net Position

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

Net position restricted for other purposes include cemetery operations, police and computer and special project programs. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. None of the restricted net position for the City was restricted by enabling legislation.

Q. 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.

R. 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.

S. 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.

T. 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

U. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. With authorization by the Finance Director or City Manager, line item budgets may be transferred within the appropriation accounts approved by Council. 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 second amended official certificate of estimated resources issued during 2015. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2015.

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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

	<u>Governmental</u> <u>Activities</u>	<u>Business -Type</u> <u>Activities</u>	<u>Total</u>
Net position December 31, 2014	\$ 44,470,564	\$ 20,462,646	\$ 64,933,210
Adjustments:			
Net pension liability	(4,300,723)	(704,354)	(5,005,077)
Deferred outflow - payments subsequent to measurement date	<u>409,600</u>	<u>74,544</u>	<u>484,144</u>
Restated net position January 1, 2015	<u>\$ 40,579,441</u>	<u>\$ 19,832,836</u>	<u>\$ 60,412,277</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise</u>
Net position December 31, 2014	\$ 8,493,276	\$ 11,969,370	\$ 20,462,646
Adjustments:			
Net pension liability	(302,298)	(402,056)	(704,354)
Deferred outflow - payments Subsequent to measurement date	<u>31,993</u>	<u>42,551</u>	<u>74,544</u>
Restated net position January 1, 2015	<u>\$ 8,222,971</u>	<u>\$ 11,609,865</u>	<u>\$ 19,832,836</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund is 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

- g. Cash held in the municipal court agency fund that is to be disbursed to the general fund are not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.
- h. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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

Net Change in Fund Balance

		<u>General</u>
GAAP basis	\$	957,749
Revenue accruals		343,996
Expenditure accruals		(232,532)
Perspective differences from funds budgeted as special revenue funds:		
Revenues		(410,717)
Encumbrances (budget basis) outstanding at year end		<u>(267,989)</u>
Budget basis	\$	<u><u>390,507</u></u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 4 – 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>	General Obligation <u>Debt Service</u>	General Capital <u>Improvement</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Nonspendable</u>					
Materials and supplies inventory	\$ 152,918	\$ -	\$ -	\$ 253,221	\$ 406,139
Prepays	<u>10,496</u>	<u>-</u>	<u>-</u>	<u>2,228</u>	<u>12,724</u>
Total nonspendable	<u>163,414</u>	<u>-</u>	<u>-</u>	<u>255,449</u>	<u>418,863</u>
<u>Restricted for</u>					
Streets and highways	-	-	-	1,167,712	1,167,712
Streets lighting	-	-	-	1,375	1,375
Sidewalks	-	-	-	101,761	101,761
Fire and EMS services	-	-	-	682,450	682,450
Capital improvements	-	-	222,314	140,555	362,869
Court activities	-	-	-	344,286	344,286
Shade tree	-	-	-	36,083	36,083
Police services	-	-	-	68,487	68,487
Cemetery	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,646</u>	<u>30,646</u>
Total restricted	<u>-</u>	<u>-</u>	<u>222,314</u>	<u>2,573,355</u>	<u>2,795,669</u>
<u>Committed</u>					
Recreation	-	-	-	96,223	96,223
Fire and EMS services	-	-	-	65,340	65,340
Capital improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,572</u>	<u>13,572</u>
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>175,135</u>	<u>175,135</u>
<u>Assigned</u>					
Encumbrances	209,876	-	-	-	209,876
Next year's budget	826,559	-	-	-	826,559
Debt service	<u>-</u>	<u>264,948</u>	<u>-</u>	<u>-</u>	<u>264,948</u>
Total assigned	<u>1,036,435</u>	<u>264,948</u>	<u>-</u>	<u>-</u>	<u>1,301,383</u>
Unassigned	<u>3,708,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,708,564</u>
Total fund balances	<u>\$ 4,908,413</u>	<u>\$ 264,948</u>	<u>\$ 222,314</u>	<u>\$ 3,003,939</u>	<u>\$ 8,399,614</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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-sponsored enterprise, agency or instrumentality, including but not limited to, the Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), and Student Loan Marketing Association (SLMA). All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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

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

Deposits: At year-end, the carrying amount of the City's deposits was \$2,973,615 and the bank balance was \$3,388,185. The City's deposits were not exposed to custodial credit risk as they were either insured or secured by a collateral pool of eligible securities held at the Federal Reserve in a pledge account.

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

Investment Type	Fair Value	Investment Maturities (in Years)			Percentage of Investments
		< 1 year	< 2 years	3-5 years	
Government Sponsored Enterprise Bonds:					
Federal Home Loan Mortgage Corporation	\$ 501,000	\$ -	\$ -	\$ 501,000	8.76%
Federal Home Loan Bank	1,000,860	-	-	1,000,860	17.49%
Federal Farm Credit Bank	1,500,629	1,000,619	-	500,010	26.23%
Total Government Sponsored Enterprise Bonds	3,002,489	1,000,619	-	2,001,870	
Negotiable certificates of deposits:					
Ally Bank	248,309	248,309	-	-	4.34%
First Bank Puerto Rico	249,219	249,219	-	-	4.35%
Discover Bank	247,195	-	247,195	-	4.32%
Capital One Bank	246,421	-	246,421	-	4.31%
Enerbank	248,392	-	248,392	-	4.34%
Barclays Bank	247,313	-	-	247,313	4.32%
Comenity Capital Bank	248,410	-	-	248,410	4.34%
Goldman Sachs Bank	245,989	-	-	245,989	4.30%
BMW Bank of NA	245,975	-	-	245,975	4.30%
American Express	246,054	-	-	246,054	4.30%
Capital One NA	246,054	-	-	246,054	4.30%
Total negotiable certificates of deposits	2,719,331	497,528	742,008	1,479,795	
Total investments	\$5,721,820	\$ 1,498,147	\$ 742,008	\$ 3,481,665	

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above tables identify the City's recurring fair value measurement as of December 31, 2015. All investments of the City are valued using quoted market prices (Level 1 inputs).

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 2015 amounted to \$23,796, which includes \$56,191 assigned from other funds.

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

Custodial Credit 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. The investments in the Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bank (FFCB) are held by the counterparty's trust department or agent and not in the City's name. All of the City's negotiable certificates of deposit are registered securities.

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 AA+ by Standard & Poor's.

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, FHLMC and FHLB. The City's investment policy requires diversification of the portfolio and indicates that investments shall be diversified to eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, a specific issuer, or a specific class of security. The policy includes certificates of deposit and money market accounts as investments even when they are not considered an investment for financial reporting purposes. The policy requires: a) the total par amount invested in a combination of commercial paper and banker's acceptances may not exceed 25% of the total invested funds at the time of purchase; and b) no more than 50% of the portfolio shall be invested in securities with maturities that exceed two years.

NOTE 6 – RECEIVABLES

Receivables at December 31, 2015, 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2015 for real and public utility property taxes represents collections of 2014 taxes.

2015 real property taxes were levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

Real property taxes are payable annually or semi-annually. If paid annually, 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.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2015 public utility property taxes which became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2015, was \$12.0 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2015 property tax receipts were based are as follows:

Property Category	Assessed Value	Percent
<u>Real Property</u>		
Residential and agricultural	\$ 95,587,310	60.15 %
Commercial and industrial	59,495,330	37.44
Public utilities	<u>3,829,470</u>	<u>2.41</u>
Total	<u>\$ 158,912,110</u>	<u>100.00 %</u>

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, 2015, and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred inflow of resources since the current taxes were not levied to finance 2015 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 2015, all income tax proceeds were allocated to the general fund, general operating reserve and payroll stabilization special revenue funds and general capital improvement reserve capital projects fund. On the GAAP basis of reporting the general operating reserve and payroll stabilization special revenue funds are included within the general fund; however, on the cash basis they are budgeted separately.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Local government and local government	
Revenue assistance	\$ 26,375
Homestead and rollback	63,703
Gasoline and excise tax	431,122
Motor vehicle license fees	121,215
Other intergovernmental	74,467
State shared revenue and grants	<u>15,714</u>
Total	<u>\$ 732,596</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, was as follows:

	Balance <u>12/31/2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2015</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,892,298	\$ -	\$ -	\$ 2,892,298
Land use rights	91,572	117,800	-	209,372
Construction in progress	<u>376,496</u>	<u>2,428,836</u>	<u>(778,610)</u>	<u>2,026,722</u>
Total capital assets, not being depreciated	<u>3,360,366</u>	<u>2,546,636</u>	<u>(778,610)</u>	<u>5,128,392</u>
Capital assets, being depreciated				
Land improvements	1,457,492	-	-	1,457,492
Buildings	14,443,362	629,845	(35,826)	15,037,381
Machinery and equipment	817,517	109,136	-	926,653
Vehicles	1,621,189	69,754	(57,800)	1,633,143
Infrastructure:				
Traffic lights	1,961,016	-	-	1,961,016
Storm sewers, bridges and culverts	14,606,241	-	-	14,606,241
Streets and sidewalks	<u>22,576,696</u>	<u>21,178</u>	<u>-</u>	<u>22,597,874</u>
Total capital assets, being depreciated	<u>57,483,513</u>	<u>829,913</u>	<u>(93,626)</u>	<u>58,219,800</u>
Less: accumulated depreciation				
Land improvements	(619,655)	(63,596)	-	(683,251)
Buildings	(2,965,961)	(291,103)	28,899	(3,228,165)
Machinery and equipment	(367,878)	(68,488)	-	(436,366)
Vehicles	(1,007,788)	(144,036)	54,324	(1,097,500)
Infrastructure:				
Traffic lights	(545,958)	(65,217)	-	(611,175)
Storm sewers, bridges and culverts	(3,565,389)	(159,772)	-	(3,725,161)
Streets and sidewalks	<u>(8,850,435)</u>	<u>(622,064)</u>	<u>-</u>	<u>(9,472,499)</u>
Total accumulated depreciation	<u>(17,923,064)</u>	<u>(1,414,276)</u>	<u>83,223</u>	<u>(19,254,117)</u>
Total capital assets, being depreciated, net	<u>39,560,449</u>	<u>(584,363)</u>	<u>(10,403)</u>	<u>38,965,683</u>
Governmental activities capital assets, net	<u>\$ 42,920,815</u>	<u>\$ 1,962,273</u>	<u>\$ (789,013)</u>	<u>\$ 44,094,075</u>

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Depreciation expense was charged to governmental functions as follows:

General government	\$ 323,137
Security of persons and property	71,194
Public health services	14,487
Transportation	940,580
Community environment	844
Leisure time activities	<u>48,138</u>
Total depreciation expense	<u>\$ 1,398,380</u>

During the year, a vehicle in the amount of \$22,983 with accumulated depreciation of \$15,896 was transferred in from the sewer fund to governmental funds. The \$15,896 is not included in the current year depreciation expense.

	Balance <u>12/31/2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2015</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 320,748	\$ -	\$ -	\$ 320,748
Construction in progress	<u>148,030</u>	<u>844,376</u>	<u>(967,731)</u>	<u>24,675</u>
Total capital assets, not being depreciated	<u>468,778</u>	<u>844,376</u>	<u>(967,731)</u>	<u>345,423</u>
Capital assets, being depreciated				
Land improvements	242,678	-	-	242,678
Buildings	20,888,823	-	-	20,888,823
Machinery and equipment	4,083,264	125,775	(75,728)	4,133,311
Vehicles	317,033	66,343	(44,110)	339,266
Infrastructure:				
Water lines	6,690,665	196,032	-	6,886,697
Sewer lines	<u>11,433,449</u>	<u>771,698</u>	<u>-</u>	<u>12,205,147</u>
Total capital assets, being depreciated	<u>43,655,912</u>	<u>1,159,848</u>	<u>(119,838)</u>	<u>44,695,922</u>
Less: accumulated depreciation				
Land improvements	(141,302)	(10,578)	-	(151,880)
Buildings	(5,547,732)	(417,777)	-	(5,965,509)
Machinery and equipment	(3,700,506)	(62,538)	74,115	(3,688,929)
Vehicles	(218,874)	(22,010)	32,974	(207,910)
Infrastructure:				
Water lines	(1,696,799)	(67,554)	-	(1,764,353)
Sewer lines	<u>(2,512,682)</u>	<u>(116,738)</u>	<u>-</u>	<u>(2,629,420)</u>
Total accumulated depreciation	<u>(13,817,895)</u>	<u>(697,195)</u>	<u>107,089</u>	<u>(14,408,001)</u>
Total capital assets, being depreciated, net	<u>29,838,017</u>	<u>462,653</u>	<u>(12,749)</u>	<u>30,287,921</u>
Business-type activities capital assets, net	<u>\$ 30,306,795</u>	<u>\$ 1,307,029</u>	<u>\$ (980,480)</u>	<u>\$ 30,633,344</u>

City of Chardon, Ohio
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For the Year Ended December 31, 2015

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

Water	\$ 247,278
Sewer	<u>449,917</u>
Total depreciation expense	<u>\$ 697,195</u>

NOTE 8 - RISK MANAGEMENT

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

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

NOTE 9 - COMPENSATED ABSENCES

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

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

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

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

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 10 - LONG-TERM DEBT

A schedule of changes in bonds and other long-term obligations of the City during 2015 follows:

	Restated Balance <u>12/31/14</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/15</u>	Due in One <u>Year</u>
Governmental activities:					
<u>General obligation bonds:</u>					
2012 Municipal service					
facilities, 2.0 - 4.0%, maturing 2032	\$ 4,935,000	\$ -	\$ (5,000)	\$ 4,930,000	\$ 5,000
Premium	40,042	-	(3,470)	36,572	-
2005 Municipal building					
improvements, 4.10%, maturing 2015	<u>200,000</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>
	<u>5,175,042</u>	<u>-</u>	<u>(208,470)</u>	<u>4,966,572</u>	<u>5,000</u>
<u>Other long-term obligations:</u>					
Ohio Public Works Commission 0%					
Park Avenue reconstruction	187,500	-	(25,000)	162,500	25,000
Fifth Avenue improvement project	304,115	-	(23,394)	280,721	23,394
North Street improvement project	232,834	-	(17,910)	214,924	17,910
Downing Drive storm and sanitary sewer project	232,979	-	(13,313)	219,666	13,313
Repair Court Street, Karen Drive and Lost Pond Parkway	549,419	-	(29,698)	519,721	29,698
Multi road improvements	<u>-</u>	<u>291,267</u>	<u>-</u>	<u>291,267</u>	<u>-</u>
Total Ohio Public Works Commission	<u>1,506,847</u>	<u>291,267</u>	<u>(109,315)</u>	<u>1,688,799</u>	<u>109,315</u>
Net pension liability:					
OPERS	2,318,622	53,579	-	2,372,201	-
OP&F	1,982,101	126,204	-	2,108,305	-
Compensated absences	<u>466,668</u>	<u>205,015</u>	<u>(197,521)</u>	<u>474,162</u>	<u>208,969</u>
Total other long-term obligations	<u>6,274,238</u>	<u>676,065</u>	<u>(306,836)</u>	<u>6,643,467</u>	<u>318,284</u>
Total governmental long-term liabilities	<u>\$ 11,449,280</u>	<u>\$ 676,065</u>	<u>\$ (515,306)</u>	<u>\$ 11,610,039</u>	<u>\$ 323,284</u>

City of Chardon, Ohio
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For the Year Ended December 31, 2015

	Restated Balance <u>12/31/14</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/15</u>	Due in One <u>Year</u>
Business-type activities:					
<u>Ohio Water Development Authority loans:</u>					
0.0% Wilson Mills Road					
Sanitary Sewer - 2009	\$ 88,812	\$ -	\$ (7,105)	\$ 81,707	\$ 7,105
2.0% Water treatment plant					
improvements - 2007	4,218,704	-	(275,125)	3,943,579	280,655
3.25% Eastside sanitary trunk sewer					
improvements - 2006	2,019,105	-	(140,051)	1,879,054	144,639
2.975% Waste water treatment plant					
improvements - 2002	5,047,450	-	(714,889)	4,332,561	736,316
2.78% SW Sanitary sewer trunk					
Meadowlands Drive - 2014	<u>58,074</u>	<u>652,131</u>	<u>-</u>	<u>710,205</u>	<u>26,975</u>
Total Ohio Water Development Authority loans	<u>11,432,145</u>	<u>652,131</u>	<u>(1,137,170)</u>	<u>10,947,106</u>	<u>1,195,690</u>
<u>Other long-term obligations:</u>					
Net pension liability:					
Water fund - OPERS	302,298	6,986	-	309,284	-
Sewer fund - OPERS	402,056	9,291	-	411,347	-
Land purchase agreement	122,714	-	(122,714)	-	-
Compensated absences	<u>154,375</u>	<u>38,556</u>	<u>(72,267)</u>	<u>120,664</u>	<u>36,395</u>
Total other long-term obligations	<u>981,443</u>	<u>54,833</u>	<u>(194,981)</u>	<u>841,295</u>	<u>36,395</u>
Total business-type long-term obligations	<u>\$ 12,413,588</u>	<u>\$ 706,964</u>	<u>\$ (1,332,151)</u>	<u>\$ 11,788,401</u>	<u>\$ 1,232,085</u>

The Ohio Public Works Commission (“OPWC”) 2002 Park Avenue reconstruction loan relates to construction on City streets. The loan will be repaid in annual installments of \$25,000, maturing in 2022. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2005 North Street improvement loan relates to construction on City streets. The loan will be repaid in annual installments of \$17,910, maturing in 2027. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2006 Fifth Avenue improvement loan relates to construction on City streets. The loan will be repaid in annual installments of approximately \$23,394, maturing in 2027. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2011 Downing Drive storm and sanitary sewer improvement loan relates to construction on City streets, water lines, storm and sanitary sewers. The loan will be repaid in annual installments of approximately \$13,313, maturing in 2032. Principal is paid out of the street construction, maintenance and repair fund and a portion was paid by the general fund.

City of Chardon, Ohio
Notes to the Basic Financial Statements
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The OPWC 2012 Repair Court Street, Karen Drive and Lost Pond Parkway loan relates to repairs on City streets. The loan will be repaid in annual installments of approximately \$29,698, maturing in 2033. Principal is paid out of the street construction, maintenance and repair fund.

The OPWC 2015 Multi road improvements loan relates to repairs on City streets. This loan has not yet been finalized. Current operations are expected to provide cash flows for the repayment of this loan. Until a loan is fully disbursed or closed with the OPWC Chief Engineer, a final amortization is not available for the loan.

The 2002 Ohio Water Development Authority (“OWDA”) loan relates to a wastewater treatment plant expansion and upgrade project, maturing in 2021. The upgrade portion of the project was mandated by the Ohio Environmental Protection Agency. For this 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. During the year a principal payment in the amount of \$714,889 was made on the loan. Principal and interest is paid out of the sewer fund.

The 2006 OWDA loan is for the Eastside sanitary trunk sewer improvements, maturing in 2026. During the year a principal payment in the amount of \$140,051 was made on the loan. Principal and interest is paid out of the sewer fund.

The 2009 OWDA loan is for the Wilson Mills sanitary sewer line project, maturing in 2027. During the year a principal payment in the amount of \$7,105 was made on the loan. Principal is paid out of the sewer fund.

The 2007 OWDA loan is for the water treatment plant, maturing in 2028. During the year a principal payment in the amount of \$275,125 was made on the loan. Principal and interest is paid out of the water fund.

The 2014 OWDA loan is for the Meadowland Drive SW sanitary trunk sewer improvements, maturing in 2035. The first principal payment of \$26,975 is expected to be paid from the sewer fund in 2016.

The City has agreed to set utility rates and fees sufficient to cover OWDA debt service requirements.

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.

The City issued bonds in September 2012 in the principal amount of \$4,945,000, for construction of the Municipal Service Facilities. The bonds were issued at a premium and have an interest rate from 2.0% to 4.0% and mature in 2032. Principal and interest payments are paid out of the general obligation debt service fund.

Principal and interest requirements to retire the City’s long-term obligations outstanding at December 31, 2015, are as follows:

City of Chardon, Ohio
Notes to the Basic Financial Statements
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<u>Year</u>	<u>Governmental Activities</u>				
	<u>General Obligation Bonds</u>		<u>OPWC Loans</u>	<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 5,000	\$ 116,810	\$ 109,315	\$ 114,315	\$ 116,810
2017	5,000	116,710	109,315	114,315	116,710
2018	270,000	116,610	109,315	379,315	116,610
2019	275,000	105,810	109,315	384,315	105,810
2020	280,000	100,310	109,315	389,315	100,310
2021-2025	1,515,000	414,262	459,076	1,974,076	414,262
2026-2030	1,775,000	236,250	297,665	2,072,665	236,250
2031-2033	805,000	31,195	94,216	899,216	31,195
	<u>\$ 4,930,000</u>	<u>\$ 1,237,957</u>	<u>\$ 1,397,532</u>	<u>\$ 6,327,532</u>	<u>\$ 1,237,957</u>

<u>Year</u>	<u>OWDA Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,195,690	\$ 280,394
2017	1,228,893	247,191
2018	1,263,048	213,036
2019	1,298,182	177,902
2020	1,334,323	141,761
2021-2025	3,143,757	367,681
2026-2030	1,267,393	75,793
2026-2030	215,820	16,841
	<u>\$ 10,947,106</u>	<u>\$ 1,520,599</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net pension liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

City of Chardon, Ohio
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GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Ohio Public Employees Retirement System

Plan Description – The City employees, other than full-time police and firefighters, 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 plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

City of Chardon, Ohio
Notes to the Basic Financial Statements
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Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after <u>January 7, 2013</u>	20 years of service credit prior to January 7, 2013 or eligible to retire after <u>ten years after January 7, 2013</u>	Members not in other Groups and members hired on or after <u>January 7, 2013</u>
State and Local	State and Local	State and Local
Age and service requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and service requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and service requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2015 Statutory maximum contribution rates	
Employer	14.00 %
Employee	10.00 %
2015 Actual contribution rates	
Employer:	
Pension	12.00 %
Post-employment health care benefits	<u>2.00</u>
Total employer	<u>14.00 %</u>
Employee	<u>10.00 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$322,234 for 2015. Of this amount, \$5,073 is reported as an intergovernmental payable.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Ohio Police and Fire Pension Fund

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

	<u>Police</u>	<u>Firefighters</u>
2015 Statutory maximum contribution rates		
Employer	19.50%	24.00%
Employee:		
January 1, 2015 through July 1, 2015	11.50%	11.50%
July 2, 2015 through December 31, 2015	12.25%	12.25%
2015 Actual contribution rates		
Employer:		
Pension	19.00%	23.50%
Post-employment health care benefits	<u>0.50%</u>	<u>0.50%</u>
Total employer	<u>19.50%</u>	<u>24.00%</u>
Employee:		
January 1, 2015 through July 1, 2015	11.50%	11.50%
July 2, 2015 through December 31, 2015	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$167,865 for 2015. Of this amount \$7,465 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate share of the net pension liability	\$3,092,832	\$2,108,305	\$5,201,137
Proportion of the net pension liability	0.025643%	0.040698%	
Pension expense	\$279,096	\$199,553	\$478,649

City of Chardon, Ohio
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At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 165,024	\$ 90,866	\$ 255,890
City contributions subsequent to the measurement date	<u>322,234</u>	<u>167,865</u>	<u>490,099</u>
Total deferred outflows of resources	<u>\$ 487,258</u>	<u>\$ 258,731</u>	<u>\$ 745,989</u>
Deferred inflows of resources			
Differences between expected and actual experience	<u>\$ 54,335</u>	<u>\$ -</u>	<u>\$ 54,335</u>

\$490,099 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year ending December 31:			
2016	\$ 16,186	\$ 22,717	\$ 38,903
2017	16,186	22,717	38,903
2018	37,062	22,717	59,779
2019	<u>41,255</u>	<u>22,715</u>	<u>63,970</u>
Total	<u>\$ 110,689</u>	<u>\$ 90,866</u>	<u>\$ 201,555</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.75 percent
Future salary increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment rate of return	8 percent
Actuarial cost method	Individual entry age

City of Chardon, Ohio
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Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset class</u>	<u>Target allocation</u>	<u>Weighted average long-term expected real rate of return (arithmetic)</u>
Fixed income	23.00%	2.31%
Domestic equities	19.90%	5.84%
Real estate	10.00%	4.25%
Private equity	10.00%	9.25%
International equities	19.10%	7.40%
Other investments	<u>18.00%</u>	<u>4.59%</u>
Total	<u>100.00%</u>	<u>5.28%</u>

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current discount rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
City's proportionate share of the net pension liability	\$ 5,689,925	\$ 3,092,832	\$ 905,454

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2014 are summarized below:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Cash and cash equivalents	- %	(0.25) %
Domestic equity	16.00	4.47
Non-US equity	16.00	4.47
Core fixed income *	20.00	1.62
Global inflation protected *	20.00	1.33
High yield	15.00	3.39
Real estate	12.00	3.93
Private markets	8.00	6.98
Timber	5.00	4.92
Master limited partnerships	<u>8.00</u>	7.03
Total	<u>120.00</u> %	

* levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

	1% Decrease (7.25%)	Current discount rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 2,916,105	\$ 2,108,305	\$ 1,424,344

NOTE 12 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to OPEB (other postemployment benefits). OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CP), all of which are described in Note 13.

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit 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 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 2015, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2015, 2014 and 2013 were \$66,303, \$65,829 and \$33,616 respectively; 98.7% has been contributed for 2015 and 100% for 2014 and 2013. \$846 representing the unpaid contribution for fiscal year 2015 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

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 postretirement health care coverage to 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 are codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

The Ohio Revised Code provides for contribution requirements of the participating employers and of 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 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 administrated 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. The portion of employer contributions allocated to healthcare was 0.5% of covered payroll from January 1, 2015 through December 31, 2015. 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 115 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, 2015, 2014 and 2013 were \$4,418, \$4,321 and \$27,692, respectively, 95.6% has been contributed, for 2015 with the remainder being reported as a liability. \$196 representing the unpaid contribution for fiscal year 2015 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, 2015, 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.

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 14 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2015, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u> General fund
General obligation debt service fund	\$ 208,000
Nonmajor governmental funds	292,000
Enterprise funds:	
Water fund	41,215
Sewer fund	610,074
Total transfers from general fund	<u>\$ 1,151,289</u>

In addition to the transfers above, the sewer fund transferred a capital asset with a book value of \$7,087 to governmental activities.

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

NOTE 15 – ENCUMBRANCES

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

	<u>Encumbrances</u>
General fund:	
General government	\$ 42,402
Security of persons and property	42,892
Community and economic development	4,979
Transportation	119,603
Total general fund	<u>\$ 209,876</u>
General capital improvement fund	172,908
Nonmajor governmental funds	396,869

City of Chardon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2015. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

Valley Enforcement Regional Council of Governments

The City is a member of Valley Enforcement Regional Council of Governments (VERCOG), a regional council of governments formed under Chapter 167 of the Ohio Revised Code. VERCOG was formed to continue to foster cooperation among political subdivisions through sharing of facilities for their common benefit. It includes the supervision and control of the Valley Enforcement Group (“VEG”), which has been a mutual aid organization providing the mutual interchange and sharing of police personnel and police equipment. VERCOG is currently comprised of fifteen communities located within the Chagrin Valley which exercise law enforcement authority under Ohio law and whose law enforcement agency consists of four (4) or more full-time, sworn law enforcement officers. VERCOG is authorized to acquire and own police equipment and other property, to be used by all participating members, and may do any other thing permitted by law to accomplish its general purposes. The City contributed \$7,000 to VERCOG in 2015. Financial information can be obtained by contacting the City of Pepper Pike, 28000 Shaker Blvd., Pepper Pike, Ohio 44124.

Required Supplementary Information

City of Chardon, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Last Two Years (1)

	<u>2014</u>	<u>2013</u>
Ohio Public Employees Retirement System - Traditional Plan		
City's proportion of the net pension liability	0.025643%	0.025643%
City's proportionate share of the net pension liability	\$ 3,092,832	\$ 3,022,976
City's covered employee payroll	\$ 2,666,075	\$ 2,722,900
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	116.01%	111.02%
Plan fiduciary net position as a percentage of total pension liability	86.45%	86.36%
	<u>2014</u>	<u>2013</u>
Ohio Police and Fire Pension Fund		
City's proportion of the net pension liability	0.040698%	0.040698%
City's proportionate share of the net pension liability	\$ 2,108,305	\$ 1,982,101
City's covered employee payroll	\$ 806,557	\$ 809,900
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	261.40%	244.73%
Plan fiduciary net position as a percentage of total pension liability	72.20%	73.00%

(1) Information prior to 2013 is not available and the amounts presented are as of the City's measurement date which is the prior fiscal year end.

City of Chardon, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Last Three Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Public Employees Retirement System - Traditional Plan			
Contractually required contribution	\$ 322,234	\$ 319,929	\$ 353,977
Contributions in relation to contractually required contribution	<u>(322,234)</u>	<u>(319,929)</u>	<u>(353,977)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 2,685,283	\$ 2,666,075	\$ 2,722,900
Contributions as a percentage of covered employee payroll	12.00%	12.00%	13.00%

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Police and Fire Pension Fund			
Contractually required contribution	\$ 167,865	\$ 164,215	\$ 138,331
Contributions in relation to contractually required contribution	<u>(167,865)</u>	<u>(164,215)</u>	<u>(138,331)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 835,565	\$ 806,557	\$ 809,900
Contributions as a percentage of covered employee payroll	20.09%	20.36%	17.08%

(1) Information prior to 2013 is not available.

City of Chardon, Ohio
Notes to Required Supplementary Information
For the Year Ended December 31, 2015

Ohio Public Employees Retirement System - Traditional Plan

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

Ohio Police and Fire Pension Fund

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Chardon
Geauga County
111 Water Street
Chardon, Ohio 44024

To the members of City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, Geauga County, (the City) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 1, 2018, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

August 1, 2018



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, 14 2018**