



**Auditor of State
Betty Montgomery**

**CITY OF KIRTLAND
LAKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Kirtland
Lake County
9301 Chillicothe Road
Kirtland, Ohio 44094

We have audited the accompanying general-purpose financial statements of the City of Kirtland, Lake County, Ohio, (the City) as of and for the years ended December 31, 2003 and December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Kirtland, Lake County, Ohio, as of December 31, 2003 and December 31, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 3, 2004

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The City of Kirtland
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 2003

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		Totals (Memorandum Only) 2003
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Trust & Agency Funds	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS									
Assets:									
Cash and Cash Equivalents	\$ 484,368	\$ 96,645	\$ -	\$ 667,797	\$ 96,850	\$ 303,185	\$ -	\$ -	\$ 1,648,845
Receivables (net of allowance for doubtful accounts)									
Taxes	1,128,045	925,456	-	-	-	-	-	-	2,053,501
Intergovernmental	59,620	88,127	-	-	-	-	-	-	147,747
Accounts	25,254	-	-	-	-	-	-	-	25,254
Due from Other Governments	38,412	11,331	-	-	-	-	-	-	49,743
Inventory of Supplies at Cos	28,050	-	-	-	-	-	-	-	28,050
Prepaid Items	380	-	-	-	-	-	-	-	380
Fixed Assets, (Net where applicable of Accumulated Depreciation)	-	-	-	-	344,823	-	9,600,963	-	9,945,786
Other Assets:									
Amount to be Provided for General Long-term Obligations:	-	-	-	-	-	-	-	4,066,533	4,066,533
Total Assets and Other Debits	\$ 1,764,129	\$ 1,121,559	\$ -	\$ 667,797	\$ 441,673	\$ 303,185	\$ 9,600,963	\$ 4,066,533	\$ 17,965,839
LIABILITIES, EQUITY AND OTHER CREDITS									
Liabilities:									
Accounts Payable	\$ 22,693	\$ 2,203	\$ -	\$ -	\$ 783	\$ -	\$ -	\$ -	\$ 25,679
Accrued Wages and Benefits	231,437	-	-	-	859	-	-	-	232,296
Accrued Interest Payable	-	-	-	-	513	-	-	-	513
Due to Others	-	-	-	-	-	300,799	-	-	300,799
Deferred Revenue	1,207,075	839,955	-	-	-	-	-	-	2,047,030
Bond Anticipation Notes Payabl	-	-	-	300,000	-	-	-	1,428,000	1,728,000
Capital Lease Payable	-	-	-	-	-	-	-	2,681	2,681
Compensated Absences Payable	-	-	-	-	-	-	-	75,687	75,687
General Obligation Bonds Payabl	-	-	-	-	99,342	-	-	2,246,750	2,346,092
OPWC Loans	-	-	-	-	-	-	-	313,415	313,415
Total Liabilities:	1,461,205	842,158	-	300,000	101,497	300,799	-	4,066,533	7,072,192
Equity and Other Credits									
Investment in General Fixed Assets:	-	-	-	-	-	-	9,600,963	-	9,600,963
Retained Earnings	-	-	-	-	340,176	-	-	-	340,176
Fund Balance:									
Reserve for Inventory	28,050	-	-	-	-	-	-	-	28,050
Reserve for Encumbrances	58,657	-	-	-	-	-	-	-	58,657
Reserve for Prepaid Items	380	-	-	-	-	-	-	-	380
Unreserved:									
Undesignated	215,837	279,401	-	367,797	-	2,386	-	-	865,421
Total Fund Equity	302,924	279,401	-	367,797	340,176	2,386	9,600,963	-	10,893,647
Total Liabilities, Equity and Other Credits	\$ 1,764,129	\$ 1,121,559	\$ -	\$ 667,797	\$ 441,673	\$ 303,185	\$ 9,600,963	\$ 4,066,533	\$ 17,965,839

The notes to the general purpose financial statements are an integral part of this statement.

The City of Kirtland
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		Totals (Memorandum Only) 2002
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Trust & Agency Funds	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS									
Assets:									
Cash and Cash Equivalents	\$ 734,411	\$ 191,310	\$ -	\$ 1,487,866	\$ 126,465	\$ 359,938	\$ -	\$ -	\$ 2,899,990
Receivables (net of allowance for doubtful accounts):									
Taxes	1,336,975	854,127	-	-	-	-	-	-	2,191,102
Intergovernmental Accounts	57,354	85,504	-	-	-	-	-	-	142,858
Due from Other Governments	15,436	-	-	-	-	-	-	-	15,436
Inventory of Supplies at Cost	41,120	18,307	-	-	-	-	-	-	59,427
Prepaid Items	64,200	-	-	-	-	-	-	-	64,200
Fixed Assets, (Net where applicable of Accumulated Depreciation)	372	-	-	-	-	-	-	-	372
Other Assets:									
Amount to be Provided for General Long-term Obligations	-	-	-	-	336,340	-	9,222,501	-	9,558,841
Total Assets and Other Debits	\$ 2,249,868	\$ 1,149,248	\$ -	\$ 1,487,866	\$ 462,805	\$ 359,938	\$ 9,222,501	\$ 4,581,790	\$ 19,514,016
LIABILITIES, EQUITY AND OTHER CREDITS									
Liabilities:									
Accounts Payable	\$ 32,480	\$ 1,044	\$ -	\$ -	\$ 1,922	\$ -	\$ -	\$ -	\$ 35,446
Accrued Wages and Benefits	219,525	-	-	-	1,110	-	-	-	220,635
Accrued Interest Payable	-	-	-	-	540	-	-	-	540
Due to Others	-	-	-	-	-	357,552	-	-	357,552
Deferred Revenue	995,507	854,127	-	-	-	-	-	-	1,849,634
Bond Anticipation Notes Payable	-	-	-	300,000	-	-	-	1,754,000	2,054,000
Capital Lease Payable	-	-	-	-	-	-	-	13,547	13,547
Compensated Absences Payable	-	-	-	-	-	-	-	71,299	71,299
General Obligation Bonds Payable	-	-	-	-	104,763	-	-	2,383,920	2,488,683
OPWC Loans	-	-	-	-	-	-	-	359,024	359,024
Total Liabilities	1,247,512	855,171	-	300,000	108,335	357,552	-	4,581,790	7,450,360
Equity and Other Credits:									
Investment in General Fixed Assets	-	-	-	-	-	-	9,222,501	-	9,222,501
Retained Earnings	-	-	-	-	354,470	-	-	-	354,470
Fund Balance:									
Reserve for Inventory	64,200	-	-	-	-	-	-	-	64,200
Reserve for Encumbrances	18,984	800	-	277,583	-	-	-	-	297,367
Reserve for Prepaid Items	372	-	-	-	-	-	-	-	372
Unreserved:									
Undesignated	918,800	293,277	-	910,283	-	2,386	-	-	2,124,746
Total Fund Equity	1,002,356	294,077	-	1,187,866	354,470	2,386	9,222,501	-	12,063,656
Total Liabilities, Equity and Other Credits	\$ 2,249,868	\$ 1,149,248	\$ -	\$ 1,487,866	\$ 462,805	\$ 359,938	\$ 9,222,501	\$ 4,581,790	\$ 19,514,016

The notes to the general purpose financial statements are an integral part of this statement.

The City of Kirtland
 Combined Statement of Revenues,
 Expenditures, and Changes in Fund Balances
 For the Year Ended December 31, 2003

REVENUES	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	Totals (Memorandum Only) 2003
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Expendable Trust	
Property Taxes	\$ 478,102	\$ 751,168	\$ -	\$ -	\$ -	\$ 1,229,270
Municipal Income Taxes	2,124,995	-	-	-	-	2,124,995
Other Local Taxes	-	-	-	-	-	-
Intergovernmental	666,923	412,657	-	56,537	-	1,136,117
Charges for Services	143,432	-	-	-	-	143,432
Fines, Licenses & Permits	59,445	1,451	-	-	-	60,896
Investment Earnings	22,429	-	-	-	-	22,429
Donations	-	-	-	-	-	-
All Other Revenues	330,332	12,946	-	-	-	343,278
Total Revenues	3,825,658	1,178,222	-	56,537	-	5,060,417
EXPENDITURES						
Programs:						
Security of Persons and Property	1,183,832	745,000	-	-	-	1,928,832
Leisure Time Activities	68,147	174,417	-	-	-	242,564
Community Environment	54,748	2,054	-	-	-	56,802
Transportation	986,296	249,986	-	-	-	1,236,282
General Government	1,422,743	-	-	-	-	1,422,743
Public Health	53,940	-	-	-	-	53,940
Capital Outlay	86,324	21,441	-	884,081	-	991,846
Debt Service:						
Principal Retirement	-	-	1,944,253	-	-	1,944,253
Interest and Fiscal Charges	-	-	152,807	-	-	152,807
Total Expenditures	3,856,030	1,192,898	2,097,060	884,081	-	8,030,069
Excess of Revenues Over (Under) Expenditures	(30,372)	(14,676)	(2,097,060)	(827,544)	-	(2,969,652)
OTHER FINANCING SOURCES (USES)						
OPWC Loan Issued	-	-	-	7,475	-	7,475
Proceeds of Notes	-	-	1,428,000	-	-	1,428,000
Operating Transfers - In	-	-	669,060	-	-	669,060
Operating Transfers - Out	(669,060)	-	-	-	-	(669,060)
Total Other Financing Sources (Uses)	(669,060)	-	2,097,060	7,475	-	1,435,475
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(699,432)	(14,676)	-	(820,069)	-	(1,534,177)
Fund Balances (Deficits) at Beginning of Year	1,002,356	294,077	-	1,187,866	2,386	2,486,685
Fund Balances (Deficits) at End of Year	\$ 302,924	\$ 279,401	\$ -	\$ 367,797	\$ 2,386	\$ 952,508

The notes to the general purpose financial statements are an integral part of this statement

The City of Kirtland
 Combined Statement of Revenues,
 Expenditures, and Changes in Fund Balances
 For the Year Ended December 31, 2002

REVENUES	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	Totals (Memorandum Only) 2002
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Expendable Trust	
Property Taxes	\$ 463,125	\$ 735,952	\$ -	\$ -	\$ -	\$ 1,199,077
Municipal Income Taxes	2,650,517	-	-	-	-	2,650,517
Other Local Taxes	-	-	-	-	-	-
Intergovernmental	840,474	393,802	-	372,455	-	1,606,731
Charges for Services	126,155	-	-	-	-	126,155
Fines, Licenses & Permits	54,495	1,063	-	-	-	55,558
Investment Earnings	48,023	-	-	-	-	48,023
Donations	-	-	-	-	-	-
All Other Revenues	286,639	21,631	-	-	-	308,270
Total Revenues	4,469,428	1,152,448	-	372,455	-	5,994,331
EXPENDITURES						
Programs:						
Security of Persons and Property	1,191,823	665,000	-	-	-	1,856,823
Leisure Time Activities	97,029	120,478	-	-	-	217,507
Community Environment	69,704	-	-	-	-	69,704
Transportation	940,064	238,520	-	-	-	1,178,584
General Government	1,255,434	-	-	-	-	1,255,434
Public Health	48,407	-	-	-	-	48,407
Capital Outlay	204,738	12,401	-	981,774	-	1,198,913
Debt Service:						
Principal Retirement	-	-	1,686,463	-	-	1,686,463
Interest and Fiscal Charges	-	-	162,626	-	-	162,626
Total Expenditures	3,807,199	1,036,399	1,849,089	981,774	-	7,674,461
Excess of Revenues Over (Under) Expenditures	662,229	116,049	(1,849,089)	(609,319)	-	(1,680,130)
OTHER FINANCING SOURCES (USES)						
OPWC Loan Issued	-	-	-	305,940	-	305,940
Proceeds of Notes	-	-	1,754,000	-	-	1,754,000
Operating Transfers - In	-	-	395,089	300,000	-	695,089
Operating Transfers - Out	(395,089)	-	(300,000)	-	-	(695,089)
Total Other Financing Sources (Uses)	(395,089)	-	1,849,089	605,940	-	2,059,940
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	267,140	116,049	-	(3,379)	-	379,810
Fund Balances (Deficits) at Beginning of Year	735,216	178,028	-	1,191,245	2,386	2,106,875
Fund Balances (Deficits) at End of Year	\$ 1,002,356	\$ 294,077	\$ -	\$ 1,187,866	\$ 2,386	\$ 2,486,685

The notes to the general purpose financial statements are an integral part of this statement

The City of Kirtland
 Combined Statement of Revenues,
 Expenditures and Changes in Fund Balances
 Budget and Actual (Non-GAAP Basis)
 All Governmental Fund Types
 For the Year Ended December 31, 2003

REVENUES:	GENERAL FUND				SPECIAL REVENUE FUNDS				DEBT SERVICE FUND				CAPITAL PROJECTS FUNDS				TOTALS - 2003 (MEMORANDUM ONLY)			
	Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)	
Property Taxes	\$ 562,140	\$ 536,094	\$ (26,046)		\$ 836,671	\$ 839,433	\$ 2,762		\$ -	\$ -	\$ -		\$ -	\$ -	\$ -		\$ 1,398,811	\$ 1,375,527	\$ (23,284)	
Municipal Income Taxes:	2,635,000	2,455,102	(179,898)		-	-	-		-	-	-		-	-	-		2,635,000	2,455,102	(179,898)	
Other Local Taxes	-	1,196	1,196		-	-	-		-	-	-		-	-	-		-	1,196	1,196	
Inter-governmental Taxes:	586,000	583,934	(2,066)		292,550	331,325	38,775		-	-	-		-	-	-		2,636,550	971,796	(1,664,754)	
Charges for Services	136,000	133,615	(2,385)		-	-	-		-	-	-		-	-	-		136,000	133,615	(2,385)	
Fines, Licenses & Permits	55,500	60,625	5,125		1,000	1,634	634		-	-	-		-	-	-		56,500	62,259	5,759	
Investment Earnings	32,750	22,429	(10,321)		-	-	-		-	-	-		-	-	-		32,750	22,429	(10,321)	
All Other Revenues	341,250	355,522	14,272		11,000	12,946	1,946		-	-	-		-	-	-		352,250	368,468	16,218	
Total Revenues	4,348,640	4,148,517	(200,123)		1,141,221	1,185,338	44,117		-	-	-		-	-	-		1,758,000	56,537	(1,701,463)	
EXPENDITURES:																				
Programs:																				
Security of Persons and Property	1,219,488	1,165,465	54,023		745,000	745,000			-	-	-		-	-	-		1,964,488	1,910,465	54,023	
Leisure Time Activities:	98,427	68,729	29,698		207,030	175,217	31,813		-	-	-		-	-	-		305,457	243,946	61,511	
Community Environment	53,434	52,933	501		2,000	2,054	(54)		-	-	-		-	-	-		55,434	54,987	447	
Transportation	1,081,173	976,792	104,381		250,244	250,230	14		-	-	-		-	-	-		1,331,417	1,227,022	104,395	
General Government	1,537,911	1,441,426	96,485		-	-	-		-	-	-		-	-	-		1,537,911	1,441,426	96,485	
Public Health	54,000	53,940	60		106,900	21,441	85,459		-	-	-		-	-	-		54,000	53,940	60	
Capital Outlay	177,013	139,830	37,183		-	-	-		-	-	-		-	-	-		3,241,082	876,606	2,364,476	
Debt Service:																				
Principal Retirement	-	-	-		-	-	-		2,258,507	2,252,083	6,424		-	-	-		2,258,507	2,252,083	6,424	
Interest and Fiscal Charges	-	-	-		-	-	-		162,493	159,282	3,211		-	-	-		162,493	159,282	3,211	
Total Expenditures	4,221,446	3,899,115	322,331		1,311,174	1,193,942	117,232		2,421,000	2,411,365	9,635		3,241,082	876,606	2,364,476		11,194,702	8,381,028	2,813,674	
Excess of Revenues Over (Under) Expenditures	127,194	249,402	122,208		(169,953)	(8,604)	161,349		(2,421,000)	(2,411,365)	9,635		(1,483,082)	(820,069)	663,013		(3,946,841)	(2,990,636)	956,205	
OTHER FINANCING SOURCES (USES):																				
Proceeds of Debt	-	-	-		-	-	-		1,450,000	1,728,000	278,000		-	-	-		1,450,000	1,728,000	278,000	
Operating Transfers - In	(682,000)	(668,365)	13,635		-	-	-		-	683,365	683,365		-	-	-		-	683,365	683,365	
Operating Transfers - Out	-	-	-		-	-	-		-	-	-		-	-	-		(682,000)	(668,365)	13,635	
Total Other Financing Sources (Uses)	(682,000)	(668,365)	13,635		-	-	-		1,450,000	2,411,365	961,365		-	-	-		768,000	1,743,000	975,000	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(554,806)	(418,963)	135,843		(169,953)	(8,604)	161,349		(971,000)	-	971,000		(1,483,082)	(820,069)	663,013		(3,178,841)	(1,247,636)	1,931,205	
Fund Balances (Deficits) at Beginning of Year	579,316	579,316	-		275,771	275,771	-		-	-	-		910,283	910,283	-		1,765,370	1,765,370	-	
Prior Year Encumbrances	52,486	52,486	-		1,044	1,044	-		-	-	-		577,583	577,583	-		631,113	631,113	-	
Fund Balances (Deficits) at End of Year	\$ 76,996	\$ 212,839	\$ 135,843		\$ 106,862	\$ 268,211	\$ 161,349		\$ (971,000)	\$ -	\$ 971,000		\$ 4,784	\$ 667,797	\$ 663,013		\$ 1,148,847	\$ 1,931,205	\$ 1,931,205	

The notes to the general purpose financial statements are an integral part of this statement

The City of Kirtland
 Combined Statement of Revenues,
 Expenditures and Changes in Fund Balances
 Budget and Actual (Non-GAAP Basis)
 All Governmental Fund Types
 For the Year Ended December 31, 2002

REVENUES:	GENERAL FUND			SPECIAL REVENUE FUNDS			DEBT SERVICE FUND			CAPITAL PROJECTS FUNDS			TOTALS - 2002 (MEMORANDUM ONLY)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Property Taxes	\$ 506,433	\$ 463,125	\$ (43,308)	\$ 798,147	\$ 735,952	\$ (62,195)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,304,580	\$ 1,199,077	\$ (105,503)
Municipal Income Taxes:	2,560,000	2,543,525	(16,475)	-	-	-	-	-	-	-	-	-	2,560,000	2,543,525	(16,475)
Other Local Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental Taxes:	635,000	847,907	212,907	321,500	393,612	72,112	-	-	-	-	-	-	2,529,673	1,613,974	(915,699)
Charges for Services	144,000	133,557	(10,443)	-	-	-	-	-	-	-	-	-	144,000	133,557	(10,443)
Fines, Licenses & Permits	45,300	55,838	10,538	1,000	880	(120)	-	-	-	-	-	-	46,300	56,718	10,418
Investment Earnings	46,800	48,023	1,223	-	-	-	-	-	-	-	-	-	46,800	48,023	1,223
All Other Revenues	554,700	286,639	(268,061)	20,000	21,631	1,631	-	-	-	-	-	-	574,700	308,270	(266,430)
Total Revenues	4,492,233	4,378,614	(113,619)	1,140,647	1,152,075	11,428	-	-	-	-	-	-	1,573,173	372,455	(1,200,718)
EXPENDITURES:															
Programs:															
Security of Persons and Property	1,243,974	1,170,031	73,943	665,000	665,000	-	-	-	-	-	-	-	1,908,974	1,835,031	73,943
Leisure Time Activities:	179,000	95,398	83,602	168,673	122,913	45,760	-	-	-	-	-	-	347,673	218,311	129,362
Community Environment	62,900	70,307	(7,407)	-	-	-	-	-	-	-	-	-	62,900	70,307	(7,407)
Transportation	1,102,184	908,832	193,352	240,000	238,520	1,480	-	-	-	-	-	-	1,342,184	1,147,352	194,832
General Government	1,349,846	1,265,981	83,865	-	-	-	-	-	-	-	-	-	1,349,846	1,265,981	83,865
Public Health	50,000	48,408	1,592	-	-	-	-	-	-	-	-	-	50,000	48,408	1,592
Capital Outlay	446,633	224,096	222,537	93,201	12,401	80,800	-	-	-	-	-	-	3,358,259	1,577,039	1,781,220
Debt Service:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal Retirement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	4,434,537	3,783,053	651,484	1,166,874	1,038,834	128,040	1,865,000	1,863,442	1,558	1,558	1,558	1,781,220	10,824,670	8,262,368	2,562,302
Excess of Revenues Over (Under) Expenditures	57,696	595,561	537,865	(26,227)	113,241	139,468	(1,865,000)	(1,863,442)	1,558	(1,785,086)	(1,204,584)	580,502	(3,618,617)	(2,359,224)	1,259,393
OTHER FINANCING SOURCES (USES):															
OPWC Loan Issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds of Notes	-	-	-	-	-	-	1,011,000	2,054,000	1,043,000	-	-	-	1,011,000	2,054,000	305,940
Operating Transfers - In	-	-	-	-	-	-	-	409,442	409,442	600,000	600,000	-	600,000	1,009,442	1,043,000
Operating Transfers - Out	(396,000)	(395,089)	911	-	-	-	(600,000)	(600,000)	-	-	-	-	(996,000)	(995,089)	409,442
Total Other Financing Sources (Uses)	(396,000)	(395,089)	911	-	-	-	411,000	1,863,442	1,452,442	600,000	905,940	305,940	615,000	2,374,293	1,759,293
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(338,304)	200,472	538,776	(26,227)	113,241	139,468	(1,454,000)	-	1,454,000	(1,185,086)	(298,644)	886,442	(3,003,617)	15,069	3,018,686
Fund Balances (Deficits) at Beginning of Year	334,897	334,897	-	147,376	147,376	-	-	-	-	1,191,245	1,191,245	-	1,673,518	1,673,518	-
Prior Year Encumbrances	43,947	43,947	-	15,154	15,154	-	-	-	-	17,682	17,682	-	76,783	76,783	-
Fund Balances (Deficits) at End of Year	\$ 40,540	\$ 579,316	\$ 538,776	\$ 136,303	\$ 275,771	\$ 139,468	\$ (1,454,000)	\$ -	\$ 1,454,000	\$ 23,841	\$ 910,283	\$ 886,442	\$ (1,253,316)	\$ 1,765,370	\$ 3,018,686

The notes to the general purpose financial statements are an integral part of this statement

The City of Kirtland
Statement of Revenues, Expenses,
and Changes in Retained Earnings
Proprietary Fund Type
For the Year Ended December 31, 2003

OPERATING REVENUES:	Enterprise Fund
Charges for Services	\$ 77,173
Total Operating Revenues	77,173
OPERATING EXPENSES:	
Personal Services	15,175
Materials and Supplies	49,621
Depreciation	12,502
Capital Expenses	5,315
Total Operating Expenses	82,613
Operating Income (Loss)	(5,440)
NON-OPERATING EXPENSES:	
Interest and Fiscal Charges	(8,854)
Total Non-operating Expenses	(8,854)
NET INCOME (LOSS)	(14,294)
Retained Earnings at Beginning of Year	354,470
Retained Earnings at End of Year	\$ 340,176

The notes to the general purpose financial statements are an integral part of this statement.

The City of Kirtland
Statement of Revenues, Expenses,
and Changes in Retained Earnings
Proprietary Fund Type
For the Year Ended December 31, 2002

OPERATING REVENUES:	Enterprise Fund
Charges for Services	\$ 73,119
Total Operating Revenues	73,119
OPERATING EXPENSES:	
Personal Services	14,159
Materials and Supplies	46,505
Depreciation	12,152
Capital Expenses	9,979
Total Operating Expenses	82,795
Operating Income (Loss)	(9,676)
NON-OPERATING EXPENSES:	
Interest and Fiscal Charges	(9,170)
Total Non-operating Expenses	(9,170)
NET INCOME (LOSS)	(18,846)
Retained Earnings at Beginning of Year	373,316
Retained Earnings at End of Year	\$ 354,470

The notes to the general purpose financial statements are an integral part of this statement.

The City of Kirtland
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2003

	Enterprise Fund
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 77,173
Cash Payments to Employees	(15,426)
Cash Payments for Materials and Supplies	(56,075)
Net Cash Provided (Used) by Operating Activities	5,672
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(20,982)
Principal Paid on Bonds	(7,830)
Interest Paid on Bonds	(6,475)
Net Cash Used for Capital and Related Financing Activities	(35,287)
Net Increase (Decrease) in Cash and Cash Equivalents	(29,615)
Cash and Cash Equivalents at Beginning of Year	126,465
Cash and Cash Equivalents at End of Year	\$ 96,850
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating Income (Loss)	\$ (5,440)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation Expense	12,502
(Increase) Decrease in Accounts Receivable	-
Increase (Decrease) in Accounts Payable	(1,139)
Increase (Decrease) in Accrued Wages	(251)
Total Adjustments	11,112
Net Cash Provided (Used) by Operating Activities	\$ 5,672

The notes to the general purpose financial statements are an integral part of this statement.

The City of Kirtland
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2002

	Enterprise Fund
<u>Cash Flows from Operating Activities</u>	
Cash Received from Customers	\$ 75,157
Cash Payments to Employees	(13,707)
Cash Payments for Materials and Supplies	(54,562)
Net Cash Provided (Used) by Operating Activities	6,888
<u>Cash Flows from Capital and Related Financing Activities</u>	
Principal Paid on Bonds	(7,560)
Interest Paid on Bonds	(6,791)
Net Cash Used for Capital and Related Financing Activities	(14,351)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,463)
Cash and Cash Equivalents at Beginning of Year	133,928
Cash and Cash Equivalents at End of Year	\$ 126,465
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>	
Operating Income (Loss)	\$ (9,676)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation Expense	12,152
(Increase) Decrease in Accounts Receivable	2,038
Increase (Decrease) in Accounts Payable	1,922
Increase (Decrease) in Accrued Wages	452
Total Adjustments	16,564
Net Cash Provided (Used) by Operating Activities	\$ 6,888

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 1 - Summary of Significant Accounting Policies

A. Description of Reporting Entity and Summary of Significant Policies

The City of Kirtland, Ohio (the City) was incorporated under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Mayor form of government, was adopted in 1971. Legislative authority is vested in a seven-member Council. Council members are elected for a four year term. The Mayor is the chief executive and administrative officer who is elected for a four year term.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, in that the financial statements include all organizations, activities and functions for which the City (the reporting entity) is financially accountable. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and 1) the City is able to significantly influence the programs or services performed or provided by the organization; or 2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. Based on the foregoing, the reporting entity of the City includes the following services: public safety, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. In addition the City owns a wastewater collection system which is reported as an enterprise fund. However, the City has no component units.

The City is associated with the Northeast Ohio Public Energy Council (NOPEC), which is a jointly governed organization. The organization is presented in Note 13 to the general purpose financial statements.

Based on the foregoing criteria, the following organization is not part of the City of Kirtland reporting entity and are excluded from the City's financial statements:

Kirtland City School District - The Kirtland City School District encompasses the City of Kirtland as well as the surrounding communities of Kirtland Hills and Waite Hill. The voters within the District elect the members of the Board of Education of the School District (Board). The Board is a body politic and corporate, capable of suing, contracting, possessing, acquiring and disposing of real property and issuing its own debt. The Board controls its own operations and budget.

B. Basis of Presentation - Fund Accounting

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

With respect to proprietary activities, the City has adopted GASB 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units that Use Proprietary Fund Accounting. The City of Kirtland has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principals Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The City uses the following fund types and account groups:

Governmental Funds

All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

the City's governmental fund types:

General Fund – This fund is used to account for all financial resources except those 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 general laws of Ohio, and the limitations of the City Charter.

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund – This fund is used for the accumulation of financial resources for, and the payment of, general long-term obligation and special assessment long-term debt principal and interest other than that accounted for in the proprietary fund.

Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary fund).

Proprietary Fund

This fund is used to account for the City's ongoing activities that are similar to those found in the private sector. The following is the City's proprietary fund:

Enterprise Fund – This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise fund is accounted for on a "flow of economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e. net assets) is segregated into contributed capital and retained earnings components. The enterprise fund operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

Fiduciary Funds – These funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement. The following are the City's fiduciary funds:

Expendable Trust Fund – This fund is used to essentially in the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

Agency Funds – These funds are custodial in nature and does not present result of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group of accounts is established to account for fixed assets of the City, other than those accounted for in the proprietary fund. The cost of these assets is reflected as an expenditure in the fund paying for the expenditure and capitalized at cost in the General Fixed Assets Account Group.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the City, except those accounted for in the proprietary fund.

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements and relates to the timing of the measurements made. The

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

accounting and reporting treatment applied to a fund is determined by its measurement focus.

The governmental funds and expendable trust and agency funds follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is considered to be 60 days after year-end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Revenue considered susceptible to accrual at year-end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services and miscellaneous revenues, is recorded as revenue when received in cash, because it is generally not measurable until actually received.

Special assessment installments, including related accrued interest, which are measurable but not available at December 31 are recorded as deferred revenue. Property taxes measurable as of December 31, 2002 and December 31, 2003, but which are not intended to finance 2002 and 2003 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

All proprietary funds are accounted on the flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Property fund-type operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

D. Budgetary Process

The budgetary process is prescribed by Charter and by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control for each fund is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 20, the Mayor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget 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.

2. Estimated Resources

The County Budget Commission certifies its actions to the City by September 1st of each year. As part of this certification process the City receives an official certificate of estimated resources which states the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2002 and 2003.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1st of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1st of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

fund, department and object level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. Administrative control is maintained through the establishment of more detailed line-item budgets. During the year, several supplemental appropriation measures were passed. None, however, were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year-end are reported as reservations of fund balances in the accompanying general purpose financial statements. However, encumbrances outstanding at year-end are reported as expenditures in the budgetary basis statement included in the general purpose financial statements. The City did not encumber as required by the Ohio Revised Code.

The City was in violation of Ohio Revised Code Section 5705.39 at December 31, 2003 and December 31, 2002. The City's Debt Fund had appropriations which exceeded the amended certification of estimated resources in the amount of \$697,000 and \$1,454,000, respectively.

5. Lapsing of Appropriations

At the close of each fiscal 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 forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

While the 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual for the 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 as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental funds:

Excess (Deficiency) of Revenues and Other Sources
Over (Under) Expenditures and Other Uses

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
2002				
GAAP Basis (as reported)	\$ 267,140	\$ 116,049	\$ -	\$ (3,379)
Increase (Decrease):				
Accrued revenues at December 31, 2002				
Received during 2003	(520,925)	(18,306)	-	-
Accrued revenues at December 31, 2001				
Received during 2002	430,111	17,933	-	-
Accrued expenditures at December 31, 2002				
Paid during 2003	187,430	1,044	-	300,000
Accrued expenditures at December 31, 2001				
paid during 2002	(110,798)	(2,435)	-	(17,682)
Encumbrances at end of year	<u>(52,486)</u>	<u>(1,044)</u>	<u>-</u>	<u>(577,583)</u>
Budget Basis	<u>\$ 200,472</u>	<u>\$ 113,241</u>	<u>\$ -</u>	<u>\$ (298,644)</u>

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

**Excess (Deficiency) of Revenues and Other Sources
Over (Under) Expenditures and Other Uses**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
2003				
GAAP Basis (as reported)	\$ (699,432)	\$ (14,676)	\$ -	\$ (820,069)
Increase (Decrease):				
Accrued revenues at December 31, 2003 Received during 2004	(198,066)	(11,190)	-	-
Accrued revenues at December 31, 2002 received during 2003	520,925	18,306	-	-
Accrued expenditures at December 31, 2003 paid during 2004	226,390	2,203	-	300,000
Accrued expenditures at December 31, 2002 paid during 2003	(187,430)	(1,044)	-	(300,000)
Encumbrances at end of year	(81,350)	(2,203)	-	-
Budget Basis	\$ (418,963)	\$ (8,604)	\$ -	\$ (820,069)

E. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest is presented as cash and cash equivalents: on the combined balance sheet.

During fiscal year 2002 and 2003, investments were limited to STAROhio (the State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments with the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does not operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio's share price which is the price the investment could be sold on December 31, 2002 and 2003.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are considered investments.

F. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds, and at the lower of cost (first-in, first-out) or market in the proprietary fund. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and expenses in the proprietary fund when used. Recorded inventories in the General Fund are equally offset by a fund balance reserve, which indicates that they don't constitute available resources even though they are a component of net current assets.

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

G. Prepaid Items

Prepaid items represent payments made by the City for a maintenance agreement that will benefit periods beyond December 31, 2002 and 2003. Recorded prepaids in governmental fund types are equally offset by the fund balance reserve, which indicates that they don't constitute spendable resources even though they are a component of net assets.

H. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use:

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received. The City maintains a capitalization threshold of twenty-five hundred dollars (\$2,500).

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

General fixed asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain fixed assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Asset Account Group.

2. Property, Plant and Equipment - Proprietary Fund

Property, plant and equipment acquired by the proprietary fund is stated at cost (or estimated historical cost), including interest capitalized during construction, and architectural and engineering fees where applicable. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u> (Years)
Machinery, equipment, furniture and fixtures	3 - 10
Buildings	15 - 50
Improvements other than buildings	25 - 50

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

I. Long-Term Obligations

Long-Term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds -Waste Water	Enterprise Fund
General Obligation Bonds - Other	Debt Service Fund (General Obligation Bond Retirement Fund)

J. Compensated Absences

The City has implemented the provisions of Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is possible that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absence is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remaining amount is reported in the general long-term obligations account group. In the proprietary fund, the entire amount of compensated absences is reported as a fund liability.

K. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

L. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- (1) Operating transfers are reported as other Financing Sources and Uses in the governmental funds, as "Operating transfers-in" by the recipient fund, and "Operating transfers-out" by the disbursing fund.
- (2) Residual equity transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 2002 and 2003.

Transactions that would be treated as revenues and expenditures/expenses if they involved organizations' external to the City are similarly treated when involving other funds of the City. The City also advances cash from one fund to another as necessary to meet current obligations.

M. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balance reserves have been established for inventories of supplies and materials, and prepaid items.

N. Total Columns on Combined Financial Statements - Overview

Total columns on the Combined Statements-overview are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

THE CITY OF KIRTLAND
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O. 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.

P. Revenue – Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when used 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 the modified accrual basis, revenue from non exchange transactions must also be available before it can be recognized.

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

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 2 - Accountability

The following accounts had expenditures plus encumbrances in excess of appropriations at December 31, 2002 contrary to Ohio Revised Code Section 5705.41 (B), (D):

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
General Fund			
General Government			
Boards and Commissions			
Services and Supplies	2,100	6,368	4,268
Judicial			
Services and Supplies	12,232	16,158	3,926
Legal			
Services and Supplies	9,552	24,287	14,735
Municipal Center			
Services and Supplies	62,500	63,386	886
Finance			
Services and Supplies	99,493	100,965	1,472
Public Works			
Personal Services	582,100	587,625	5,525
Parks and Recreation			
Personal Services	15,000	19,688	4,688
Capital Outlay	-	2,271	2,271
Planning and Zoning			
Services and Supplies	23,800	34,548	10,748
Special Revenue Funds			
Senior Citizens Fund			
Personal Services	15,000	23,496	8,496
Proprietary Fund			
Waste Water Treatment Plants	44,000	46,777	2,777

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The following accounts had expenditures plus encumbrances in excess of appropriations at December 31, 2003 contrary to Ohio Revised Code Section 5705.41 (B), (D):

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
General Fund			
General Government			
Legal			
Services and Supplies	14,416	17,904	3,488
Finance			
Services and Supplies	84,000	85,115	1,115
Police			
Personal Services	603,260	604,411	1,151
Public Works			
Personal Services	616,900	626,121	9,221
Planning and Zoning			
Services and Supplies	13,334	13,873	539
Special Revenue Funds			
Senior Citizens Fund			
Personal Services	15,000	19,240	4,240
Beautification Fund			
Services & Supplies	2,000	2,054	54
Proprietary Fund			
Waste Water Treatment Plants			
Services and Supplies	50,222	55,845	5,623

Ohio Revised Code Section 5705.39 provides that total appropriations made during the fiscal year for any fund must not exceed the amount contained in the certificate of estimated resources.

At December 31, 2003 and December 31, 2002, the City's Debt Fund had appropriations which exceeded the amended certification of estimated resources in the amount of \$971,000 and \$1,454,000, respectively.

Also, the City was in violation of Ohio Revised Code Section 5705.41(D).

THE CITY OF KIRTLAND
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NOTE 3 - Pooled Cash, Cash Equivalents and Investments

Cash resources of a majority of individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents".

Ohio law requires the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

Bonds, notes and other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for payment of principal and interest;

Bonds, notes, debentures or other obligations or securities issued by any federal government agency, or any Export-Import Bank of Washington;

Repurchase agreement collateralized by securities enumerated above;

Interim deposits in eligible institutions applying for interim funds;

Bonds and other obligations of the State of Ohio, and

The State Treasury Asset Reserve of Ohio (Star Ohio).

Notwithstanding the foregoing requirements, the City may invest any monies not required to be used for a period of six months in the following classes of investments:

Bonds, notes and other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for payment of principal and interest;

Discount notes of the Federal National Mortgage Association;

Bonds of the State of Ohio, and

Bonds of any municipal corporation, village, county, township or political subdivision of this State, as to which there is no default of principal, interest or coupons.

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution.

Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state or any instrumentality of such county, municipal corporation or other authority. Deposits collateralized by a collateral pool are classified as Category 3 per GASB Statement No. 3.

**THE CITY OF KIRTLAND
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The City had petty cash of \$100 in 2002 and \$200 in 2003.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized

Investments:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year-end the carrying amount of the City's deposits was \$145,446 in 2002 and \$ 21,770 in 2003 and the bank balance (including deposits in transit) was \$236,304 in 2002 and \$177,990 in 2003. Federal depository insurance covered \$100,000 of the bank balance in 2002 and \$100,000 of the bank balance in 2003, and all the remaining deposits were classified as category 3.

B. Investments

The City's investments at December 31 are as follows:

	Carrying Amount		Fair Value	
<u>Non Categorized Investments:</u>	2002	2003	2002	2003
State Treasury Asset Reserve of Ohio (STAR Ohio)	2,754,444	1,626,875	2,754,444	1,626,875
Total Investments	\$2,754,444	\$1,626,875	\$2,754,444	\$1,626,875

The investment in STAROhio is not categorized because it is not evidenced by securities that exist in physical or bookkeeping entry form. Investments in STAROhio are valued at STAROhio's share price which is the price the investments could be sold for on December 31, 2002 and December 31, 2003.

NOTE 4- Taxes

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property which is used in business, located in the City. Real property taxes (other than public utility) collected in one calendar year are levied after October 1st of the preceding year on assessed values as of January 1 of that preceding year. Assessed values for real property are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2003 and equalization adjustments were made in 2003.

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Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually. The first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Kirtland. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2002 and December 31, 2003, was \$11.05 per \$1,000 of assessed value. The assessed value upon which the 2002 levy was based was \$190,915,810 and the 2003 levy was based was \$201,923,879. The 2002 amount constitutes \$180,778,320 in real property assessed value, \$7,186,080 in public utility assessed value and \$2,851,410 in tangible personal property assessed value. The 2003 amount constitutes \$191,311,790 in real property assessed value, \$7,797,460 in public utility assessed value and \$2,814,629 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of one percent of assessed value without a vote of the people. Under current procedures, the City's share is .01105% (11.05 mills) of assessed value.

B. Income Tax

In November of 2001, the City approved a tax increase beginning January 1, 2002 of 2 percent on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 75% of the tax paid to another municipality, up to a limit of 2% of the amount assessed.

Employers within the City are required to withhold income tax on employees compensation and remit the tax to the City through its collection agency (RITA) either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. The General Fund receives all income tax proceeds.

NOTE 5 - Receivables

Receivables at December 31, 2002 and December 31, 2003, consisted of taxes, intergovernmental and accounts. All receivables are considered fully collectible except for a portion of accounts receivable, which is classified as allowance for doubtful accounts.

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 6 - Operating Transfers

The following are summaries of operating transfers in and out for all funds:

A. 2002

	Transfers In	Transfers Out
General Fund	\$ -	\$395,089
Capital Projects Fund:		
Emergency Fire Equipment	300,000	-
Debt Service Fund:		
General Bond Retirement Fund	395,089	300,000
Totals	<u>\$695,089</u>	<u>\$695,089</u>

B. 2003

	Transfers In	Transfers Out
General Fund	\$ -	\$669,060
Debt Service Fund:		
General Obligation Bond Pay.	-	-
Debt Service Fund:		
General Bond Retirement Fund	669,060	-
Totals	<u>\$669,060</u>	<u>\$669,060</u>

NOTE 7 - Fixed Assets

2002 General Fixed Assets--Summary by category of changes in general fixed assets:

<u>Category</u>	<u>December 31, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2002</u>
Land	\$ 623,690	\$ -	\$ -	\$ 623,690
Buildings, Structures and Improvements	5,060,989	-	-	5,060,989
Machinery and Equipment	3,028,696	291,258	(170,597)	3,149,357
Construction in Progress	129,589	258,876	-	388,465
Totals	<u>\$8,842,964</u>	<u>\$550,134</u>	<u>\$(170,597)</u>	<u>\$9,222,501</u>

Proprietary Fixed Assets – Summary by Category at December 31, 2002

<u>Category</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Waste Water Treatment Plants	\$717,223	\$(380,883)	\$336,340

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2003 General Fixed Assets--Summary by category of changes in general fixed assets:

<u>Category</u>	<u>December 31, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2003</u>
Land	\$ 623,690	\$ -	\$ -	\$ 623,690
Buildings, Structures And Improvements	5,060,989	-	-	5,060,989
Machinery and Equipment	3,149,357	632,569	(254,107)	3,527,819
Construction in Progress	388,465	-	-	388,465
Totals	<u>\$9,222,501</u>	<u>\$632,569</u>	<u>\$(254,107)</u>	<u>\$9,600,963</u>

Proprietary Fixed Assets – Summary by Category at December 31, 2003

<u>Category</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Waste Water Treatment Plants	\$738,205	\$(393,382)	\$344,823

NOTE 8 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003 and 2002, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$119,612, \$114,627, and \$119,081 respectively; the full amount has been contributed for 2003, 2002 and 2001. Contributions to the member-directed plan for 2003 were \$0 made by the City and \$0 made by the plan members.

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$55,373 and \$79,322 for the year ended December 31, 2003, \$52,300 and \$76,785 for the year ended December 31, 2002, and \$51,680 and \$90,790 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. Fourth quarter contributions for 2003 were paid in the first quarter of 2004.

NOTE 9 - Postemployment Benefits

A. Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 and 2002 which were used to fund postemployment benefits were \$69,948 and \$74,933. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

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B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides 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. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 and 2002 that were used to fund postemployment benefits were \$36,523 and \$34,496 for police and \$37,830 and \$36,621 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 10 - Other Employee Benefits

Compensated Absences

The City provides a liability for accumulated unpaid vacation, holiday's, and sick leave when earned by employees. Accrued employee benefits for Governmental Funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount increased from a beginning balance of \$61,138 to the year-end balance of \$71,299 in 2002 while the amount increased from a beginning balance of \$71,299 to the year end balance of \$75,687 in 2003. Upon retirement, a City employee is paid 33.3 percent of sick time available up to 320 hours.

NOTE 11 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2002 and 2003 the City has contracted with various private carriers for the provision of property damage, general liability, automotive damage, public official's liability, police liability, boiler and machinery damage/loss, and crime and employee dishonesty.

Deductible levels for the various policies have been selected so as to not expose the City to excessive "first dollars" loss in case of a claim. Deductibles range between \$0 and \$1,000 per loss for property damage. In the professional liability areas, no deductible exceeds \$10,000.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years.

THE CITY OF KIRTLAND
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NOTE 12 – Short-Term Notes & Long-Term Obligations

Changes in the long-term obligations of the City during the year ended December 31, 2002, were as follows:

	<u>Balance</u> <u>Dec. 31, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Dec. 31, 2002</u>
Enterprise Debt				
General Obligation Bonds				
1998 4.5% to 5% Waste Water Refunding	\$143,640	\$ -	\$7,560	\$136,080
Total Enterprise Debt	<u>\$143,640</u>	<u>\$ -</u>	<u>\$7,560</u>	<u>\$136,080</u>
General Long-term Obligations Account Group				
General Obligation Bonds				
1998 4.5% to 5% Fire and Civic Center	2,516,360	-	132,440	2,383,920
Total General Obligation Bonds	<u>2,516,360</u>	<u>-</u>	<u>132,440</u>	<u>2,383,920</u>
OPWC Issue II Loans				
GC19B –Templeview	-	305,940	-	305,940
GC419 -Road Safety Upgrade	20,940	-	20,940	-
GC515 -Road Safety Upgrade	46,880	-	23,440	23,440
GC701 -Road Safety Upgrade	59,287	-	29,643	29,644
Total OPWC Issue II Loans	<u>127,107</u>	<u>305,940</u>	<u>74,023</u>	<u>359,024</u>
Other Long-term Obligations				
Anticipation Notes – Various Purpose	1,480,000	1,754,000	1,480,000	1,754,000
Compensated Absences	61,138	10,161	-	71,299
Capital Leases	23,902	-	10,355	13,547
Total Other Long-term Obligations	<u>1,565,040</u>	<u>1,764,161</u>	<u>1,490,355</u>	<u>1,838,846</u>
Total General Long-term Obligations Account Group	<u>\$4,208,507</u>	<u>\$2,070,101</u>	<u>\$1,696,818</u>	<u>\$4,581,790</u>

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Changes in the long-term obligations of the City during the year ended December 31, 2003 were as follows:

	<u>Balance Dec. 31, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2003</u>
Enterprise Debt				
General Obligation Bonds				
1998 4.5% to 5% Waste Water Refunding	\$136,080	\$ -	\$7,830	\$128,250
Total Enterprise Debt	<u>\$136,080</u>	<u>\$ -</u>	<u>\$7,830</u>	<u>\$128,250</u>
General Long-term Obligations Account Group				
General Obligation Bonds				
1998 4.5% to 5% Fire and Civic Center	2,383,920	-	137,170	2,246,750
Total General Obligation Bonds	<u>2,383,920</u>	<u>-</u>	<u>137,170</u>	<u>2,246,750</u>
OPWC Issue II Loans				
GC19B -Templeview	305,940	7,475	-	313,415
GC515 -Road Safety Upgrade	23,440	-	23,440	-
GC701 -Road Safety Upgrade	29,644	-	29,644	-
Total OPWC Issue II Loans	<u>359,024</u>	<u>7,475</u>	<u>53,084</u>	<u>313,415</u>
Other Long-term Obligations				
Anticipation Notes – Various Purpose	1,754,000	1,428,000	1,754,000	1,428,000
Compensated Absences	71,299	4,388	-	75,687
Capital Leases	13,547	-	10,866	2,681
Total Other Long-term Obligations	<u>1,838,846</u>	<u>1,432,388</u>	<u>1,764,866</u>	<u>1,506,368</u>
Total General Long-term Obligations Account Group	<u>\$4,581,790</u>	<u>\$1,439,863</u>	<u>\$1,955,120</u>	<u>\$4,066,533</u>

Principal and interest requirements to retire long-term obligations at December 31, 2003 are as follows:

Years	General Obligation Bonds 1998		General Obligation Bonds 1998		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 141,900	\$ 107,536	\$ 8,100	\$ 6,138	\$ 150,000	\$ 113,674
2005	151,360	101,364	8,640	5,786	160,000	107,150
2006	151,360	94,629	8,640	5,402	160,000	100,031
2007	160,820	87,818	9,180	5,013	170,000	92,831
2008	170,280	80,500	9,720	4,595	180,000	85,095
2009-2013	856,130	284,169	48,870	16,221	905,000	300,390
2014-2016	614,900	62,673	35,100	3,578	650,000	66,251
	<u>\$2,246,750</u>	<u>\$818,689</u>	<u>\$128,250</u>	<u>\$46,733</u>	<u>\$2,375,000</u>	<u>\$865,422</u>

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

On May 28, 1998, the City issued \$2,840,000 in general obligation bonds with interest varying from 4.5 percent to 5 percent. Proceeds were used to refund the following bonds:

General Long-term Obligations Account Group	
General Obligation Bonds	2,310,000
Enterprise Debt	
General Obligation Bonds	110,000

As of December 31, 2000, \$2,420,000 of outstanding refunded General Obligation Bonds were considered defeased by assets of \$2,520,790. As of December 31, 2001, the outstanding refunded General Obligation Bonds were called and paid.

The enterprise fund portion of the advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$43,360. This difference, being reported as a deduction from the bond liability in the accompanying financial statements, is being charged to operations through the year 2016 using the straight line method.

Bonds payable in the enterprise fund is made up of the following components:

	<u>December 31, 2002</u>	<u>December 31, 2003</u>
Outstanding balance of General Obligation Bonds	\$136,080	\$128,250
Unamortized Accounting Loss	<u>(31,317)</u>	<u>(28,908)</u>
Net Bond Payable	<u>\$104,763</u>	<u>\$99,342</u>

The General Obligation Bond in the enterprise fund will be paid from collections in the enterprise fund. The General Obligation Bonds and the OPWC Loans in the General Long Term Obligation Account Group will be paid by the debt service fund. Compensated absences will be paid from the fund which the employees' salary is paid from.

On August 7, 2001, the City issued \$1,480,000 in Various Purpose Series 2001 Notes. These Notes were issued to finance various improvements. The interest rate is 3.0% and the Notes mature on August 8, 2002. On August 7, 2002, the City issued \$1,454,000 in Various Purpose Series 2002 Notes to pay the Series 2001 Notes. The interest rate is 1.8% and the Notes mature on August 8, 2003. On July 29, 2003, the City issued \$1,428,000 in Various Purpose Series 2003 Notes to pay the Series 2002 Notes. The interest rate is 1.35% and the Notes mature on July 29, 2004.

On April 2, 2002, the City issued \$600,000 in Fire Truck Acquisition Series 2002 Notes to finance the purchase of a fire truck. The interest rate is 2.20% and the Notes mature on April 1, 2003. In April 2003, the City paid \$300,000 in principal on this note. On March 26, 2003, the City issued \$300,000 in Fire Truck Acquisition Series 2003 Notes to finance the balance due on the purchase of a fire truck. The interest rate is 1.35% and the Notes mature on March 25, 2004.

The City entered into a contractual agreement for a construction loan from OPWC for the Templeview Project in the amount of \$525,000 to be paid from Issue II capital project funds. As of December 31, 2003 the City has received \$313,415 of this loan. Under the terms of the agreement, OPWC will reimburse, advance, or directly pay the construction cost of the approved project. OPWC will capitalize administration costs and construction interest and add them to the total amount of the final loan. Since the loan has yet to be finalized, repayment schedules are not included in the debt service requirements.

NOTE 13 – Jointly Governed Organizations

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 92 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

THE CITY OF KIRTLAND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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 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 of Kirtland did not contribute to NOPEC during 2002 and 2003. Financial information can be obtained by contacting NOPEC at 1615 Clark Avenue, Cleveland, OH 44109.

NOTE 14 - Contingencies

A. Litigation

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

B. Grant

The City received financial assistance from a State agency in the form of a grant. The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2002 and 2003.

NOTE 15 – Capital Leases

In 2001, the City entered into capitalized leases for a copier and a skid steer. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

General fixed assets consisting of equipment has been capitalized in the general fixed assets account group in the amount of \$32,152. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long term obligations account group. Principal payments in fiscal year 2003 totaled \$10,866 and the balance as of December 31, 2003 was \$2,681.

NOTE 16 – Operating Leases

The City leases the Police department’s computer system under a noncancelable operating lease. Total cost for the lease was \$32,488 and \$49,438 for the years ended December 31, 2002 and 2003. The future minimum lease payments for this lease are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 1,412



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Kirtland
Lake County
9301 Chillicothe Road
Kirtland, Ohio 44094

We have audited the financial statements of the City of Kirtland, Lake County, Ohio, (the City), as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated December 3, 2004

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the City in a separate letter dated December 3, 2004.

City of Kirtland
Lake County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 3, 2004

**CITY OF KIRTLAND
LAKE COUNTY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002**

SCHEDULE OF FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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The comments with an asterisk (*) denote comments which were previously brought to management's attention for the years ended December 31, 2001 and 2000, in which no corrective action has been taken.

Finding Number	2003-001
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CERTIFICATION OF AVAILABILITY OF APPROPRIATIONS

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Thirty two percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**CITY OF KIRTLAND
LAKE COUNTY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002**

**SCHEDULE OF FINDINGS
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-001
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Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the Clerk-Treasurer certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) required to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Finding Number	2003-002
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FILING OF ANNUAL REPORT *

Ohio Revised Code Section 117.38 requires that the financial statements prepared in conformity with generally accepted accounting principles be compiled and filed within 150 days of year end. Management needs timely accounting information for planning purposes, and to ensure and demonstrate compliance with legal restrictions.

The City did not compile and file its financial statements within the above time frame for 2003 and 2002. The State of Ohio may fine an entity \$25 a day, up to \$750.

We recommend the City prepare and file its financial statements in a timely manner.

Finding Number	2003-003
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APPROPRIATIONS EXCEEDING ESTIMATED RESOURCES

Ohio Revised Code Section 5705.39 provides that total appropriations made during the fiscal year for any fund must not exceed the amount contained in the certificate of estimated resources. Ohio Revised Code 5705.36(A)(5) provides that the amended certificate of estimated resources certified prior to making the appropriation from each fund, should not exceed the total estimated revenue.

At December 31, 2003 and December 31, 2002, the City's Debt Fund had appropriations which exceeded the amended certification of estimated resources in the amount of \$971,000 and \$1,454,000, respectively.

The City needs to present note rollover as an expenditure and a receipt of funds. We recommend the City monitor appropriations and amend the certificate of estimated resources to ensure that appropriations do not exceed estimated resources.

**CITY OF KIRTLAND
LAKE COUNTY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20843-001	ORC 5705.41(D) Purchase Order Certification	Not Corrected	Comment reissued as 2003-001
2001-20843-002	ORC 117.38 Filing of Annual Report	Not Corrected	Comment reissued as 2003-002
2001-20843-003	ORC 5705.41 (B), (D) Expenditures exceeding Appropriations.	Not Corrected	Partially corrected comment reissued in the management letter.



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CITY OF KIRTLAND

LAKE 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
FEBRUARY 10, 2005**