



Dave Yost • Auditor of State



**CITY OF KIRTLAND  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and the Fire Emergency Levy funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Dave Yost**  
Auditor of State

November 5, 2012

**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

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The discussion and analysis of the City of Kirtland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2011 are:

- This is the eighth year that the City has reported based on the GASB Statement No. 34 Reporting Model.
- In total, the City's net assets increased from 2010. The increase in net assets resulted mainly from an increase in income tax collections and an increase in grant monies for the Templeview sewer project as well as from a reduction in notes payable and long-term debt obligations.
- In 2011, the City made building improvements and purchased police and fire equipment and vehicles. The City also made street and highway improvements to Tibbetts Road, Route 6 and Sperry Road and is currently in the process of constructing the Templeview waste water treatment plant.
- The general fund had an increase in fund balance due to an increase in rental income and income tax revenues.
- Outstanding general obligation bonded debt decreased during 2011 due to annual debt payments being made and no additional bonds being issued.

**Using This Annual Basic Financial Statement Report (BFS)**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements look at the City's most significant funds with all other non-major funds presented in total in one column.

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## **The City of Kirtland as a Whole**

### **Statement of Net Assets and Statement of Activities**

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2011?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and the changes in those assets. The changes in assets are important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

In the *Statement of Net Assets* and the *Statement of Activities*, the City is divided into two major activities:

***Governmental Activities*** – Most of the City's programs and services are reported here including legislative and administrative duties, boards and commissions, judicial and legal services, finance, engineering, employee benefits and insurance, police and fire safety, public health, streets and drainage, planning and zoning and parks and recreation.

***Business-type Activities*** – These services are provided on a fee basis to recover all of the expenses of the services provided to the citizens of the City. The City's only business-type activity is the waste water treatment facility.

## **Reporting the City of Kirtland's Most Significant Funds**

### ***Fund Financial Statements***

The presentation of the City's funds begins on page 16. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Kirtland, the major funds are the general fund, the fire emergency levy special revenue fund, the State Route 306 and State Route 6 capital projects fund and the waste water enterprise fund.

### ***Government Funds***

Most of the City's activities are reported in the governmental funds that focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. Governmental funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.



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***Proprietary Funds***

The waste water enterprise fund uses the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the City as a whole.

**The City of Kirtland as a Whole**

The *Statement of Net Assets* looks at the City as a whole. Table I provides a summary of the City's net assets for 2011 compared to 2010.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$4,860,955	\$4,916,263	\$847,038	\$545,908	\$5,707,993	\$5,462,171
Capital Assets, Net	18,129,991	18,395,361	1,945,220	1,624,948	20,075,211	20,020,309
<i>Total Assets</i>	22,990,946	23,311,624	2,792,258	2,170,856	25,783,204	25,482,480
Current and Other Liabilities	2,294,489	2,122,752	747,325	29,199	3,041,814	2,151,951
Long-Term Liabilities:						
Due Within One Year	276,407	247,954	28,255	27,616	304,662	275,570
Due In More Than One Year	3,996,329	4,473,615	537,136	1,297,982	4,533,465	5,771,597
<i>Total Liabilities</i>	6,567,225	6,844,321	1,312,716	1,354,797	7,879,941	8,199,118
Invested in Capital Assets, Net of Related Debt	13,834,631	13,851,909	644,829	294,350	14,479,460	14,146,259
Restricted:						
Capital Projects	780,916	1,097,341	0	0	780,916	1,097,341
Other Purposes	652,123	635,056	0	0	652,123	635,056
Unrestricted	1,156,051	882,997	834,713	521,709	1,990,764	1,404,706
<i>Total Net Assets</i>	\$16,423,721	\$16,467,303	\$1,479,542	\$816,059	\$17,903,263	\$17,283,362

Total net assets for governmental activities showed a slight decrease due mainly to a decrease in net capital assets resulting from annual depreciation which was partially offset by current year additions to streets and highways and various equipment and vehicle purchases. The decrease in total net assets was partially offset by a reduction in notes payable and long-term general obligation debt resulting from annual debt payments.

Total net assets for business-type activities increased mainly due to an increase in capital grants as well as an increase in net capital assets resulting from continued construction on the Templeview waste water treatment plant. The increase in business-type net assets was also due to a reduction in long-term debt from the continued pay-down of business-type bonded debt and loans.

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Table 2 shows the changes in net assets for the years ended December 31, 2011, as compared to 2010.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$625,096	\$524,753	\$48,220	\$48,779	\$673,316	\$573,532
Operating Grants and Contributions	649,412	700,845	0	0	649,412	700,845
Capital Grants	382,110	1,290,056	661,059	267,984	1,043,169	1,558,040
<b>Total Program Revenues</b>	<b>1,656,618</b>	<b>2,515,654</b>	<b>709,279</b>	<b>316,763</b>	<b>2,365,897</b>	<b>2,832,417</b>
General Revenues						
Property Taxes	1,613,641	1,630,251	0	0	1,613,641	1,630,251
Municipal Income Taxes	3,244,018	2,738,773	0	0	3,244,018	2,738,773
Grants and Entitlements	619,339	722,575	0	0	619,339	722,575
Interest	2,043	3,023	0	0	2,043	3,023
Miscellaneous	65,706	47,788	0	0	65,706	47,788
<b>Total General Revenues</b>	<b>5,544,747</b>	<b>5,142,410</b>	<b>0</b>	<b>0</b>	<b>5,544,747</b>	<b>5,142,410</b>
<b>Total Revenues</b>	<b>7,201,365</b>	<b>7,658,064</b>	<b>709,279</b>	<b>316,763</b>	<b>7,910,644</b>	<b>7,974,827</b>
<b>Program Expenses</b>						
General Government	1,812,035	1,773,278	0	0	1,812,035	1,773,278
Security of Persons and Property	2,510,527	2,439,146	0	0	2,510,527	2,439,146
Transportation	2,223,914	2,341,940	0	0	2,223,914	2,341,940
Public Health and Welfare	74,939	78,735	0	0	74,939	78,735
Community Environment	72,907	75,954	0	0	72,907	75,954
Leisure Time Activities	343,902	341,484	0	0	343,902	341,484
Interest and Fiscal Charges	153,019	178,434	26,230	38,714	179,249	217,148
Sewer	0	0	73,270	93,430	73,270	93,430
<b>Total Program Expenses</b>	<b>7,191,243</b>	<b>7,228,971</b>	<b>99,500</b>	<b>132,144</b>	<b>7,290,743</b>	<b>7,361,115</b>
Excess of Revenues Over Expenses	10,122	429,093	609,779	184,619	619,901	613,712
Transfers	(53,704)	(63,034)	53,704	63,034	0	0
<i>Change in Net Assets</i>	<i>(43,582)</i>	<i>366,059</i>	<i>663,483</i>	<i>247,653</i>	<i>619,901</i>	<i>613,712</i>
Net Assets						
Beginning of Year	16,467,303	16,101,244	816,059	568,406	17,283,362	16,669,650
<b>Net Assets End of Year</b>	<b>\$16,423,721</b>	<b>\$16,467,303</b>	<b>\$1,479,542</b>	<b>\$816,059</b>	<b>\$17,903,263</b>	<b>\$17,283,362</b>

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The City is very dependent on property taxes and income taxes. Property tax revenues remained fairly consistent with the prior year and income tax revenues increased from the prior year. The largest taxpayers of income taxes are employees of public facilities such as school and government agencies. This allows for consistency and stability of collections of income taxes.

Governmental capital grants decreased in 2011 due to the completion of the prior's year large reimbursement grant from the Ohio Department of Transportation for road resurfacing projects.

The City remained fairly consistent in 2011 with previous years in the cost of doing business. The governmental activities of the City principally include: general government, police, fire, streets and highways, parks, recreation and public lands, community development and engineering services.

***GOVERNMENTAL ACTIVITIES***

Several revenue sources fund the City's governmental activities with City income tax being the largest contribution. The income tax rate of 1 percent was established by City Ordinance No. 71-0-11, passed December 20, 1971. On November 6, 2001, the electors approved an increase in the income tax rate to 2 percent from 1 percent and a change in the tax credit for residents having income taxable in another community. In 2011, the revenue collected from income taxes was designated for the City's general fund. General revenues from property taxes and charges for services are also significant revenue generators. The City monitors its sources of revenues very closely for any changes or fluctuations.

Overall, the City has maintained a steady collection of income taxes. This has been especially important to the City because the tax revenue has provided the City the funds to maintain streets, make infrastructure improvements and strengthen safety forces. The City of Kirtland continues to be very aggressive in collecting delinquent income tax. The City's strong economic growth and strong base of taxpayers provide the City with an income tax base that can sustain the loss of any major tax paying entity and still be able to meet the financial needs of the City.

Total revenues for governmental activities decreased in 2011 due to a reduction in capital grants. Revenue consists primarily of property taxes, income taxes and intergovernmental revenues received through operating and capital grants or contributions as well as unrestricted grants and entitlements. The remaining revenues represent charges for services, interest and miscellaneous receipts. Charges for services include non-resident ambulance billing, cemetery fees and recreation fees.

Total governmental activities program expenses decreased slightly in 2011 due to tighter spending controls. General government, security of persons and property and transportation expenses are the three main sources of expenses. These activities include police protection, fire protection, road maintenance, planning/zoning, mayoral office and finance office.

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Table 3 presents a summary for governmental activities of the total cost of services and the net cost of providing these services. The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

**Table 3**  
**Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
General Government	\$1,812,035	\$1,773,278	\$1,602,757	\$1,631,259
Security of Persons and Property	2,510,527	2,439,146	2,066,168	1,756,761
Transportation	2,223,914	2,341,940	1,359,659	795,981
Public Health and Welfare	74,939	78,735	67,810	72,216
Community Environment	72,907	75,954	66,098	69,800
Leisure Time Activities	343,902	341,484	219,114	208,866
Interest and Fiscal Charges	153,019	178,434	153,019	178,434
<i>Total</i>	<u>\$7,191,243</u>	<u>\$7,228,971</u>	<u>\$5,534,625</u>	<u>\$4,713,317</u>

The dependence on general revenues for governmental activities is apparent. The majority of governmental activities are supported through taxes and other general revenues.

***BUSINESS-TYPE ACTIVITIES***

The charges for services from waste water utility services along with capital grants received were sufficient to cover the total expenses in 2011. Currently, the City operates three waste water treatment plants and is in the process of constructing another waste water treatment plant, which are combined for reporting purposes. Services include monitoring and testing the discharge. The City closely monitors the cost of these services and will adjust the operating and/or capital improvement charges to pay for future development and related costs, as needed.

**The City's Funds**

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 16 and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, the fire emergency levy special revenue fund and the State Route 306 and State Route 6 capital projects fund. The general fund had an increase in fund balance due to an increase in rental income and income tax revenue. The fire emergency levy special revenue fund which is used to operate the fire department had a slight decrease in fund balance due to a reduction in the tangible personal property reimbursement. The State Route 306 and State Route 6 capital projects fund had a decrease in fund balance due to a decrease in grant monies. The decrease in fund balance was partially offset by a reduction in capital outlay expenditures.

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**General Fund Budgeting Highlights**

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2011, the City amended its general fund budget from the original certified revenues. All capital projects and requests for capital type purchases in excess of \$15,000 must be reviewed and approved individually by the Mayor, after which they are sent to the formal Council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, contractual services/supplies and capital outlay object levels for each function for all funds. The Finance Director, with approval from the Mayor, has been authorized to allocate appropriations to more detailed function and object levels within each fund.

The general fund supports many major activities such as the police department, fire department, building and planning departments as well as the legislative and most executive activities. Some major capital projects are funded with general fund dollars. By ordinance, these funds are transferred from the general fund to capital project funds where the revenues and expenditures for the capital improvement are tracked and monitored.

For the general fund, the final budgeted revenues matched the original budget estimate. The final budget appropriations matched the original budget appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

Table 4 shows 2011 balances of capital assets as compared to 2010.

**Table 4**  
**Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$1,364,602	\$1,364,602	\$124,417	\$124,417	\$1,489,019	\$1,489,019
Construction in Progress	0	0	1,685,587	1,350,670	1,685,587	1,350,670
Buildings, Structures and Improvements	3,367,332	3,434,061	30,784	33,778	3,398,116	3,467,839
Machinery and Equipment	1,796,169	1,662,768	23,575	26,241	1,819,744	1,689,009
Infrastructure						
Roads	10,974,670	11,265,412	0	0	10,974,670	11,265,412
Storm Sewers	627,218	668,518	0	0	627,218	668,518
Sewer Lines	0	0	80,857	89,842	80,857	89,842
<b>Total Capital Assets</b>	<b>\$18,129,991</b>	<b>\$18,395,361</b>	<b>\$1,945,220</b>	<b>\$1,624,948</b>	<b>\$20,075,211</b>	<b>\$20,020,309</b>

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Governmental capital assets decreased due to annual depreciation. This decrease was partially offset by additions to building improvements, machinery and equipment and roads. Business-type capital assets increased due to additions to construction in progress outpacing current year depreciation.

The City continues to improve the safety and traffic flow on its roads. This has been accomplished by the commitment to continue road resurfacing as well as the installation of storm sewers.

City Council is committed along with the Administration to maintain its capital assets at a condition acceptable to provide the best possible service for all residents. In 2011, the City's capital asset purchases included additions to construction in progress, building improvements, the purchase of police and fire equipment and vehicles and highway improvements.

The City continues to monitor the requirements of its public buildings and lands. Currently the existing buildings and land are adequate to provide for the current services being offered.

See Note 9 of the Notes to the Basic Financial Statements for additional information on the City's capital assets.

***Debt***

Table 5 summarizes bonds, loans and notes outstanding.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
General Obligation						
Bonds	\$2,669,740	\$2,918,636	\$352,455	\$363,466	\$3,022,195	\$3,282,102
OPWC Loans	86,250	59,062	212,936	227,132	299,186	286,194
Short-Term Notes	315,000	105,000	735,000	5,000	1,050,000	110,000
Long-Term Notes	1,275,000	1,515,000	0	735,000	1,275,000	2,250,000
Totals	<u>\$4,345,990</u>	<u>\$4,597,698</u>	<u>\$1,300,391</u>	<u>\$1,330,598</u>	<u>\$5,646,381</u>	<u>\$5,928,296</u>

At December 31, 2011, the general obligation bonds outstanding consist of the 1998 fire department, civic center and waste water bonds and the 2006 various purpose bonds. The 1998 bonds are associated with the construction of the fire station, civic center and waste water treatment plants. The 2006 various purpose bonds are for improvements to State Route 306, park and recreational improvements and service facility and senior center improvements. The outstanding OPWC loans are for the State Route 306 widening project, the State Route 306 and Route 6 intersection/signal replacement project and the construction of the Templeview waste water treatment plant. Payments are made from the general fund and the waste water fund. The Templeview sewer loan will be paid from assessments based on benefit units to landowners within the development.

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*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

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On July 20, 2011 the City retired \$2,360,000 in general obligation bond anticipation notes and issued \$2,325,000 in notes with a maturity date of July 19, 2012. The City issued the notes for road and sewer improvements and major capital projects throughout the City.

See Notes 15 and 16 of the Notes to the Basic Financial Statements for additional information on the City's outstanding debt obligations.

***Current Financial Related Activities***

Over the past ten years the City has enjoyed strong growth in revenues as a result of new residential development. The City of Kirtland is located in Lake County in the northeast section of Ohio, approximately 22 miles east of the City of Cleveland, and about 5 miles inland from Lake Erie. The City, with a population of about 6,700, is about 17 square miles and consists predominately of residential homes. The City is bounded on three sides by the East and West Branches of the Chagrin River, which is designated as one of Ohio's "scenic rivers." Surrounded by Geauga and Cuyahoga Counties, there is an estimated population of 2,000,000 residing within a 50 mile radius. Due to the location and the beauty of the City, continued residential development is expected in the future. This development provides for additional income and property taxes that allow the City to continue to provide high quality services and has lead to a strong and healthy community.

City health care costs for employees have been increasing every year. During the period of 2002 through 2008, health care insurance costs continued to escalate; however, the City found ways to keep the costs at reasonable levels while providing the best possible insurance coverage. Starting September 1, 2008 the City entered into a three year contract with the Lake County Board of Commissioners to participate in their group health plan. In addition to the savings from joining the County plan, the City has a negotiated cost sharing plan with bargaining units.

The Finance Director, Mayor and City Council work extremely hard managing our debt level. The Mayor annually presents an updated five-year capital budget as part of the annual budget which anticipates future capital spending requirements; this planning allows the City to pay cash for many of the facility improvements and acquisitions. The City lives within its means and plans ahead knowing that responsible leadership commands that we observe the budget and expend less than the revenues we receive.

**Contacting the City's Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information contact Director of Finance, Keith Martinet, City of Kirtland, 9301 Chillicothe Road, Kirtland, Ohio 44011, telephone 440-256-3332, or at the website at [www.kirtlandohio.com](http://www.kirtlandohio.com).

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**City of Kirtland, Ohio**

*Statement of Net Assets*

*December 31, 2011*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,632,767	\$377,991	\$2,010,758
Materials and Supplies Inventory	198,000	0	198,000
Accounts Receivable	38,805	0	38,805
Intergovernmental Receivable	620,133	469,047	1,089,180
Municipal Income Taxes Receivable	714,121	0	714,121
Property Taxes Receivable	1,606,499	0	1,606,499
Deferred Charges	50,630	0	50,630
Non-Depreciable Capital Assets	1,364,602	1,810,004	3,174,606
Depreciable Capital Assets, Net	16,765,389	135,216	16,900,605
<i>Total Assets</i>	<u>22,990,946</u>	<u>2,792,258</u>	<u>25,783,204</u>
<b>Liabilities</b>			
Accounts Payable	36,178	11	36,189
Accrued Wages and Benefits	180,994	721	181,715
Vacation Benefits Payable	115,670	0	115,670
Intergovernmental Payable	74,642	462	75,104
Deferred Revenue	1,554,795	0	1,554,795
Accrued Interest Payable	17,210	11,131	28,341
Notes Payable	315,000	735,000	1,050,000
Long-Term Liabilities:			
Due Within One Year	276,407	28,255	304,662
Due In More Than One Year	3,996,329	537,136	4,533,465
<i>Total Liabilities</i>	<u>6,567,225</u>	<u>1,312,716</u>	<u>7,879,941</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	13,834,631	644,829	14,479,460
Restricted for:			
Capital Projects	780,916	0	780,916
Fire Emergency Levy	83,903	0	83,903
Street Construction, Maintenance and Repair	180,172	0	180,172
Senior Citizens	193,069	0	193,069
Other Purposes	194,979	0	194,979
Unrestricted	1,156,051	834,713	1,990,764
<i>Total Net Assets</i>	<u>\$16,423,721</u>	<u>\$1,479,542</u>	<u>\$17,903,263</u>

See accompanying notes to the basic financial statements

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants	Capital Grants
<b>Governmental Activities</b>				
General Government	\$1,812,035	\$209,278	\$0	\$0
Security of Persons and Property	2,510,527	303,993	140,366	0
Transportation	2,223,914	87,738	394,407	382,110
Public Health and Welfare	74,939	7,129	0	0
Community Environment	72,907	6,809	0	0
Leisure Time Activities	343,902	10,149	114,639	0
Interest and Fiscal Charges	153,019	0	0	0
<i>Total Governmental Activities</i>	7,191,243	625,096	649,412	382,110
<b>Business-Type Activities</b>				
Waste Water	99,500	48,220	0	661,059
<i>Total</i>	\$7,290,743	\$673,316	\$649,412	\$1,043,169

**General Revenues**

Property Taxes Levied for:  
General Purposes  
Fire Operating  
Police Operating  
Police Pension  
Senior Citizen Recreation  
Municipal Income Taxes  
Levied for General Purposes  
Grants and Entitlements  
not Restricted to Specific Programs  
Investment Earnings  
Miscellaneous

*Total General Revenues*

Transfers

*Total General Revenues and Transfers*

Change in Net Assets

*Net Assets Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the basic financial statements

Net Revenue (Expense) and  
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,602,757)	\$0	(\$1,602,757)
(2,066,168)	0	(2,066,168)
(1,359,659)	0	(1,359,659)
(67,810)	0	(67,810)
(66,098)	0	(66,098)
(219,114)	0	(219,114)
(153,019)	0	(153,019)
(5,534,625)	0	(5,534,625)
<u>0</u>	<u>609,779</u>	<u>609,779</u>
(5,534,625)	609,779	(4,924,846)
598,487	0	598,487
736,486	0	736,486
88,456	0	88,456
66,260	0	66,260
123,952	0	123,952
3,244,018	0	3,244,018
619,339	0	619,339
2,043	0	2,043
65,706	0	65,706
5,544,747	0	5,544,747
(53,704)	53,704	0
5,491,043	53,704	5,544,747
(43,582)	663,483	619,901
16,467,303	816,059	17,283,362
<u>\$16,423,721</u>	<u>\$1,479,542</u>	<u>\$17,903,263</u>

**City of Kirtland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2011*

	<u>General</u>	<u>Fire Emergency Levy</u>	<u>State Route 306 and State Route 6</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and					
Cash Equivalents	\$563,314	\$18,321	\$760,065	\$291,067	\$1,632,767
Materials and Supplies Inventory	198,000	0	0	0	198,000
Accounts Receivable	24,259	0	0	14,546	38,805
Interfund Receivable	46,620	0	0	0	46,620
Intergovernmental Receivable	317,549	45,752	21,747	235,085	620,133
Municipal Income Taxes Receivable	714,121	0	0	0	714,121
Property Taxes Receivable	593,390	615,235	0	397,874	1,606,499
<i>Total Assets</i>	<u>\$2,457,253</u>	<u>\$679,308</u>	<u>\$781,812</u>	<u>\$938,572</u>	<u>\$4,856,945</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$29,405	\$0	\$0	\$6,773	\$36,178
Accrued Wages and Benefits	180,994	0	0	0	180,994
Interfund Payable	0	0	0	46,620	46,620
Intergovernmental Payable	74,358	0	0	284	74,642
Deferred Revenue	1,305,527	660,987	0	586,537	2,553,051
Accrued Interest Payable	271	0	896	146	1,313
Notes Payable	65,000	0	215,000	35,000	315,000
<i>Total Liabilities</i>	<u>1,655,555</u>	<u>660,987</u>	<u>215,896</u>	<u>675,360</u>	<u>3,207,798</u>
<b>Fund Balances</b>					
Nonspendable	198,000	0	0	0	198,000
Restricted	0	18,321	565,916	331,814	916,051
Committed	89,366	0	0	0	89,366
Assigned	2,790	0	0	0	2,790
Unassigned (Deficit)	511,542	0	0	(68,602)	442,940
<i>Total Fund Balances</i>	<u>801,698</u>	<u>18,321</u>	<u>565,916</u>	<u>263,212</u>	<u>1,649,147</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,457,253</u>	<u>\$679,308</u>	<u>\$781,812</u>	<u>\$938,572</u>	<u>\$4,856,945</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2011*

<b>Total Governmental Fund Balances</b>		\$1,649,147
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,129,991
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	51,704	
Intergovernmental	455,016	
Municipal Income Taxes	491,536	
Total		998,256
In the statement of activities bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		50,630
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(15,897)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(115,670)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds:		
General Obligation Bonds	(2,669,740)	
OPWC Loans	(86,250)	
Notes	(60,000)	
Refunding Notes	(1,215,000)	
Compensated Absences	(241,746)	
Total		(4,272,736)
<i>Net Assets of Governmental Activities</i>		\$16,423,721

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2011*

	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$598,864	\$618,645	\$0	\$397,531	\$1,615,040
Municipal Income Taxes	3,017,196	0	0	0	3,017,196
Charges for Services	138,539	0	0	167,330	305,869
Licenses and Permits	18,365	0	0	0	18,365
Fines and Forfeitures	25,493	0	0	42,739	68,232
Intergovernmental	661,839	95,991	313,312	845,842	1,916,984
Rentals	232,630	0	0	0	232,630
Interest	2,032	0	0	11	2,043
Miscellaneous	65,706	0	0	0	65,706
<i>Total Revenues</i>	<u>4,760,664</u>	<u>714,636</u>	<u>313,312</u>	<u>1,453,453</u>	<u>7,242,065</u>
<b>Expenditures</b>					
Current:					
General Government	1,749,578	0	0	0	1,749,578
Security of Persons and Property	1,409,765	720,000	0	330,000	2,459,765
Transportation	920,505	0	0	394,000	1,314,505
Public Health and Welfare	74,939	0	0	0	74,939
Community Environment	71,191	0	0	0	71,191
Leisure Time Activities	106,596	0	0	269,568	376,164
Capital Outlay	0	0	357,558	338,800	696,358
Debt Service:					
Principal Retirement	0	0	0	247,780	247,780
Principal Retirement - Current Refunding	50,000	0	215,000	35,000	300,000
Interest and Fiscal Charges	3,033	0	15,582	140,730	159,345
<i>Total Expenditures</i>	<u>4,385,607</u>	<u>720,000</u>	<u>588,140</u>	<u>1,755,878</u>	<u>7,449,625</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>375,057</u>	<u>(5,364)</u>	<u>(274,828)</u>	<u>(302,425)</u>	<u>(207,560)</u>
<b>Other Financing Sources (Uses)</b>					
OPWC Loans Issued	0	0	29,688	0	29,688
Proceeds of Notes	60,000	0	0	0	60,000
Proceeds of Refunding Notes	160,000	0	925,000	130,000	1,215,000
Current Refunding	(160,000)	0	(925,000)	(130,000)	(1,215,000)
Transfers In	0	0	15,250	388,364	403,614
Transfers Out	(293,318)	0	0	(164,000)	(457,318)
<i>Total Other Financing Sources (Uses)</i>	<u>(233,318)</u>	<u>0</u>	<u>44,938</u>	<u>224,364</u>	<u>35,984</u>
<i>Net Change in Fund Balances</i>	141,739	(5,364)	(229,890)	(78,061)	(171,576)
<i>Fund Balances Beginning of Year</i>	<u>659,959</u>	<u>23,685</u>	<u>795,806</u>	<u>341,273</u>	<u>1,820,723</u>
<i>Fund Balances End of Year</i>	<u>\$801,698</u>	<u>\$18,321</u>	<u>\$565,916</u>	<u>\$263,212</u>	<u>\$1,649,147</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2011*

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**Net Change in Fund Balances - Total Governmental Funds** (\$171,576)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	971,822	
Current Year Depreciation	<u>(1,237,192)</u>	
Total		(265,370)

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

Property Taxes	(1,399)	
Intergovernmental	(266,123)	
Municipal Income Taxes	<u>226,822</u>	
Total		(40,700)

In the statement of activities, interest is accrued on outstanding bonds, bond premium and bond issuance costs are amortized over the terms of the bonds whereas in the governmental funds the expenditure is reported when bonds are issued:

Accrued Interest	6,326	
Amortization of Deferred Charges	(3,616)	
Amortization of Bond Premium	<u>3,616</u>	
Total		6,326

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

Compensated Absences	(12,875)	
Vacation Benefits	<u>(17,479)</u>	
Total		(30,354)

Repayment of long term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,762,780

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets:

OPWC Loans Issued	(29,688)	
Notes Issued	(60,000)	
Refunding Notes Issued	<u>(1,215,000)</u>	
Total		<u>(1,304,688)</u>

*Change in Net Assets of Governmental Activities* (\$43,582)

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Year Ended December 31, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues</b>				
Property Taxes	\$608,341	\$608,341	\$598,864	(\$9,477)
Municipal Income Taxes	3,161,718	3,161,718	3,112,810	(48,908)
Charges for Services	140,721	140,721	138,544	(2,177)
Licenses and Permits	21,376	21,376	21,045	(331)
Fines and Forfeitures	27,188	27,188	26,768	(420)
Intergovernmental	719,146	719,146	706,851	(12,295)
Rentals	213,373	213,373	210,072	(3,301)
Interest	2,064	2,064	2,032	(32)
Miscellaneous	66,738	66,738	65,706	(1,032)
<i>Total Revenues</i>	<u>4,960,665</u>	<u>4,960,665</u>	<u>4,882,692</u>	<u>(77,973)</u>
<b>Expenditures</b>				
Current:				
General Government	1,887,360	1,887,360	1,754,188	133,172
Security of Persons and Property	1,540,467	1,540,467	1,446,879	93,588
Transportation	1,106,975	1,106,975	1,054,570	52,405
Public Health and Welfare	81,233	81,233	74,939	6,294
Community Environment	74,230	74,230	71,949	2,281
Leisure Time Activities	113,174	113,174	106,903	6,271
Debt Service:				
Principal Retirement - Current Refunding	75,000	75,000	75,000	0
Interest and Fiscal Charges	2,938	2,938	2,938	0
<i>Total Expenditures</i>	<u>4,881,377</u>	<u>4,881,377</u>	<u>4,587,366</u>	<u>294,011</u>
<i>Excess of Revenues Over Expenditures</i>	<u>79,288</u>	<u>79,288</u>	<u>295,326</u>	<u>216,038</u>
<b>Other Financing Sources (Uses)</b>				
Notes Issued	75,000	75,000	75,000	0
Refunding Notes Issued	210,000	210,000	210,000	0
Current Refunding	(160,000)	(160,000)	(160,000)	0
Transfers Out	(268,062)	(268,062)	(293,318)	(25,256)
<i>Total Other Financing Sources (Uses)</i>	<u>(143,062)</u>	<u>(143,062)</u>	<u>(168,318)</u>	<u>(25,256)</u>
<i>Net Change in Fund Balance</i>	(63,774)	(63,774)	127,008	190,782
<i>Fund Balance Beginning of Year</i>	331,262	331,262	331,262	0
Prior Year Encumbrances Appropriated	33,106	33,106	33,106	0
<i>Fund Balance End of Year</i>	<u>\$300,594</u>	<u>\$300,594</u>	<u>\$491,376</u>	<u>\$190,782</u>

See accompanying notes to the basic financial statements



**City of Kirtland, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
Fire Emergency Levy Fund  
For the Year Ended December 31, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues</b>				
Property Taxes	\$605,402	\$605,402	\$618,645	\$13,243
Intergovernmental	94,046	94,046	95,991	1,945
<i>Total Revenues</i>	699,448	699,448	714,636	15,188
<b>Expenditures</b>				
Current:				
Security of Persons and Property	720,000	720,000	720,000	0
<i>Net Change in Fund Balance</i>	(20,552)	(20,552)	(5,364)	15,188
<i>Fund Balance Beginning of Year</i>	23,685	23,685	23,685	0
<i>Fund Balance End of Year</i>	<u>\$3,133</u>	<u>\$3,133</u>	<u>\$18,321</u>	<u>\$15,188</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Fund Net Assets*  
*Enterprise Fund*  
*December 31, 2011*

	Waste Water
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$377,991
Intergovernmental Receivable	469,047
<i>Total Current Assets</i>	847,038
<i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	1,810,004
Depreciable Capital Assets, Net	135,216
<i>Total Noncurrent Assets</i>	1,945,220
<i>Total Assets</i>	2,792,258
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	11
Accrued Wages and Benefits	721
Intergovernmental Payable	462
Accrued Interest Payable	11,131
Notes Payable	735,000
Bonds Payable	14,060
OPWC Loans Payable	14,195
<i>Total Current Liabilities</i>	775,580
<i>Long-Term Liabilities (net of current portion)</i>	
Bonds Payable	338,395
OPWC Loans Payable	198,741
<i>Total Long-Term Liabilities</i>	537,136
<i>Total Liabilities</i>	1,312,716
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	644,829
Unrestricted	834,713
<i>Total Net Assets</i>	\$1,479,542

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Enterprise Fund  
For the Year Ended December 31, 2011*

	Waste Water
<b>Operating Revenues</b>	
Charges for Services	\$48,220
<b>Operating Expenses</b>	
Personal Services	18,641
Services and Supplies	39,984
Depreciation	14,645
<i>Total Operating Expenses</i>	<i>73,270</i>
<i>Operating Loss</i>	<i>(25,050)</i>
<b>Non Operating Revenues (Expenses)</b>	
Capital Grants	661,059
Interest and Fiscal Charges	(26,230)
<i>Total Non Operating Revenues (Expenses)</i>	<i>634,829</i>
<i>Income Before Transfers</i>	<i>609,779</i>
Transfers In	53,704
<i>Change in Net Assets</i>	<i>663,483</i>
<i>Net Assets Beginning of Year</i>	<i>816,059</i>
<i>Net Assets End of Year</i>	<i>\$1,479,542</i>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Cash Flows*  
*Enterprise Fund*  
For the Year Ended December 31, 2011

	Waste Water
<b>Decrease in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers	\$48,220
Cash Payments to Suppliers for Services and Supplies	(49,602)
Cash Payments for Employee Services and Benefits	(18,630)
	(20,012)
<i>Net Cash Used for Operating Activities</i>	
<b>Cash Flows from Noncapital Financing Activities</b>	
Grants	192,012
Transfers In	53,704
	245,716
<i>Net Cash Provided by Noncapital Financing Activities</i>	
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	(334,917)
Proceeds from Sale of Notes	735,000
Principal Paid on Bonds	(13,420)
Interest Paid on Bonds	(16,838)
Principal Paid on OPWC Loans	(14,196)
Principal Paid on Notes	(740,000)
Interest Paid on Notes	(9,250)
	(393,621)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
Net Decrease in Cash and Cash Equivalents	(167,917)
<i>Cash and Cash Equivalents Beginning of Year</i>	545,908
<i>Cash and Cash Equivalents End of Year</i>	\$377,991
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$25,050)
<i>Adjustments:</i>	
Depreciation	14,645
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,246)
Contracts Payable	(8,372)
Accrued Wages and Benefits	27
Intergovernmental Payable	(16)
	5,038
<i>Total Adjustments</i>	
<i>Net Cash Used for Operating Activities</i>	(\$20,012)

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*December 31, 2011*

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	Private Purpose Trust	
	Cemetery	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$2,386	\$313,223
<b>Liabilities</b>		
Deposits Held and Due to Others	0	\$313,223
<b>Net Assets</b>		
Held in Trust for Perpetual Care	\$2,386	

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*For the Year Ended December 31, 2011*

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	Cemetery
<b>Additions</b>	\$0
<b>Deductions</b>	0
<i>Change in Net Assets</i>	0
<i>Net Assets Beginning of Year</i>	2,386
<i>Net Assets End of Year</i>	\$2,386

See accompanying notes to the basic financial statements

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

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**Note 1 – Description of the City and Reporting Entity**

***Description of the City***

The City of Kirtland was incorporated under the laws of the State of Ohio. The City operates under its own Charter adopted in 1971. The Charter, as amended, provides for a Council-Mayor form of government. The Mayor, elected by the voters for a four-year term, is the chief executive and administrative officer of the City and presides at Council meetings. Legislative authority is vested in a seven member council with all seven members elected at large for a term of four years. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments, boards and agencies that are not legally separate from the City. For the City of Kirtland this includes the departments and agencies that provide the following services: police and fire protection, emergency medical, parks, recreation, a cemetery, street maintenance and waste water services.

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

The City participates in one jointly governed organization, the Northeast Ohio Public Energy Council. This organization is presented in Note 17 of the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City of Kirtland 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. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activity and enterprise fund. The more significant of the City's accounting policies are described below.

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

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***Basis of Presentation***

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

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

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

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

***Fund Accounting***

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

***Governmental Funds*** Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

***General Fund*** This fund accounts for and reports all financial resources except those required to be accounted for and reported 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.

***Fire Emergency Levy Fund*** This fund accounts for and reports property tax revenues restricted for the additional operations and capital purposes of the fire department.



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

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***State Route 306 and State Route 6 Fund*** This fund accounts for and reports grant monies and note issuances restricted for various capital improvements to State Route 306 and State Route 6.

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

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

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

***Waste Water Fund*** This fund accounts for revenues generated from charges for waste water services provided to the residential and commercial users of the City and for the maintenance and construction of sewer lines.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City utilizes the private purpose trust and the agency fund types. The private purpose trust accounts for donations for the perpetual care of selected plots in the cemetery. The agency funds account for deposits from various contractors, developers or individuals to insure compliance with various City ordinances.

***Measurement Focus***

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

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

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

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

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The private purpose trust fund is reported using the economic resources measurement focus.

***Basis of Accounting***

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). 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 use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

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

***Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the personal services, services and supplies and capital outlay object levels within each department and fund. Any budgetary modifications at this level may only be made by ordinance of Council.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the final amended certificate of estimated resources in effect at the time final appropriations were enacted by Council.

The appropriation ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

***Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2011, investments were limited to STAR Ohio (State Treasury Asset Reserve of Ohio).

The City of Kirtland has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$2,032, which includes \$1,460 assigned from other City funds.

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

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

***Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

***Capital Assets***

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest costs incurred during the construction of enterprise fund capital assets are also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings, Structures and Improvements	10 - 50 Years
Machinery and Equipment	5 - 20 Years
Infrastructure	15 - 50 Years

The City's infrastructure consists of roadways, sanitary sewers and storm sewers and includes infrastructure acquired prior to December 31, 1980.

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

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***Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables”. Interfund balance amounts are eliminated in the statement of net assets.

***Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as “vacation benefits payable” on the statement of net assets rather than as a long-term liability.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees after ten years of current service with the City.

***Accrued Liabilities and Long-Term Obligations***

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

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

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use by law either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for law enforcement, drug enforcement and education, police pension payments, state highway maintenance and recreation activities.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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***Fund Balance***

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

***Nonspendable:*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

***Restricted:*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

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

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

***Unassigned:*** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

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

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for waste water system. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definition of operating are reported as nonoperating.

***Internal Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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

***Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

***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.

**Note 3 – Change in Accounting Principles**

For 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and GASB Statement No. 59, “Financial Instruments Omnibus”.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in a change in total fund balance but only the classification of fund balance on the City's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the City's financial statements.

**Note 4 – Fund Balances**

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

Fund Balances	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable:</u>					
Inventory	\$198,000	\$0	\$0	\$0	\$198,000
<u>Restricted for:</u>					
Police Department Operations	0	0	0	45,538	45,538
Police Pension	0	0	0	9,760	9,760
Fire Department Operations	0	18,321	0	3,596	21,917
Senior Citizen Recreation	0	0	0	180,152	180,152
Street and Highway Construction, Maintenance and Repair	0	0	0	50,606	50,606
Emergency Medical Services	0	0	0	42,162	42,162
Capital Improvements	0	0	565,916	0	565,916
<i>Total Restricted</i>	<u>0</u>	<u>18,321</u>	<u>565,916</u>	<u>331,814</u>	<u>916,051</u>
<u>Committed to:</u>					
Other Purposes	89,366	0	0	0	89,366
<u>Assigned to:</u>					
Other Purposes	2,790	0	0	0	2,790
Unassigned (Deficit)	511,542	0	0	(68,602)	442,940
Total Fund Balances	<u>\$801,698</u>	<u>\$18,321</u>	<u>\$565,916</u>	<u>\$263,212</u>	<u>\$1,649,147</u>



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

**Note 5 - Budgetary Basis of Accounting**

While the City is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general and the major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

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

Net Change in Fund Balances		
	General	Fire Emergency Levy
GAAP Basis	\$141,739	(\$5,364)
Net Adjustment for Revenue Accruals	187,028	0
Net Adjustment for Expenditure Accruals	(83,201)	0
Encumbrances	(118,558)	0
Budget Basis	\$127,008	(\$5,364)

**Note 6 – Fund Deficits**

The major capital equipment special revenue fund and the tibbetts road resurfacing capital projects fund had fund deficits of \$20,135 and \$48,467, respectively. The general fund is liable for any deficits in these funds and provides operating transfers when cash is required, rather than when accruals occur.

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

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**Note 7 - Deposits and Investments**

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies held by the City can be deposited or invested in the following securities:

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$1,024,204 of the City's bank balance of \$1,402,731 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

### **Investments**

Investments are reported at fair value. As of December 31, 2011, the City's only investment was in STAR Ohio with a fair value of \$1,224,386 and an average maturity of 57.0 days.

***Interest Rate Risk*** As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

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

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**Credit Risk** STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

**Note 8 – Receivables**

Receivables at December 31, 2011, consisted primarily of property taxes, municipal income taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

**Property Taxes**

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes.

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

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$11.05 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2011 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$231,192,340
Other Real Estate	15,601,630
Public Utility Personal Property	7,287,960
Total Valuation	<u><u>\$254,081,930</u></u>

**City of Kirtland, Ohio**  
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The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2011, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while on the modified accrual basis the revenue has been deferred.

***Income Tax***

In November of 2001, the City approved an income tax increase from one to two percent beginning January 1, 2002 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 percent of the tax paid to another municipality, not to exceed two percent of taxable income.

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.

***Intergovernmental Receivable***

A summary of the governmental activities principal items of intergovernmental receivables follows:

Governmental Activities	Amount
Local Government	\$192,160
Homestead and Rollback	116,985
Gasoline Tax	87,015
Estate Tax	54,095
Cents Per Gallon	43,573
Motor Vehicle License Tax	34,855
Permissive Tax	29,121
Residential Recycling Grant	22,781
OPWC Reimbursement Grant	21,747
State of Ohio	14,254
Other	2,272
Willoughby Municipal Court	1,275
Total Intergovernmental Receivables	\$620,133

**City of Kirtland, Ohio**  
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**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,364,602	\$0	\$0	\$1,364,602
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	6,011,368	88,965	0	6,100,333
Machinery and Equipment	3,733,090	351,655	0	4,084,745
Infrastructure:				
Roads	30,716,850	531,202	0	31,248,052
Storm Sewer	1,032,484	0	0	1,032,484
<i>Total Capital Assets, being depreciated</i>	41,493,792	971,822	0	42,465,614
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(2,577,307)	(155,694)	0	(2,733,001)
Machinery and Equipment	(2,070,322)	(218,254)	0	(2,288,576)
Infrastructure:				
Roads	(19,451,438)	(821,944)	0	(20,273,382)
Storm Sewer	(363,966)	(41,300)	0	(405,266)
<i>Total Accumulated Depreciation</i>	(24,463,033)	(1,237,192) *	0	(25,700,225)
<i>Total Capital Assets being depreciated, Net</i>	17,030,759	(265,370)	0	16,765,389
<i>Governmental Activities Capital Assets, Net</i>	\$18,395,361	(\$265,370)	\$0	\$18,129,991

**City of Kirtland, Ohio**  
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	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
<b>Business-Type Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$124,417	\$0	\$0	\$124,417
Construction in Progress	1,350,670	334,917	0	1,685,587
<i>Total Capital Assets not being depreciated</i>	<u>1,475,087</u>	<u>334,917</u>	<u>0</u>	<u>1,810,004</u>
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	149,654	0	0	149,654
Machinery and Equipment	46,505	0	0	46,505
Infrastructure:				
Sewer Lines	449,314	0	0	449,314
<i>Total Capital Assets, being depreciated</i>	<u>645,473</u>	<u>0</u>	<u>0</u>	<u>645,473</u>
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(115,876)	(2,994)	0	(118,870)
Machinery and Equipment	(20,264)	(2,666)	0	(22,930)
Infrastructure:				
Sewer Lines	(359,472)	(8,985)	0	(368,457)
<i>Total Accumulated Depreciation</i>	<u>(495,612)</u>	<u>(14,645)</u>	<u>0</u>	<u>(510,257)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>149,861</u>	<u>(14,645)</u>	<u>0</u>	<u>135,216</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$1,624,948</u>	<u>\$320,272</u>	<u>\$0</u>	<u>\$1,945,220</u>

\* Depreciation expense was charged to governmental activities as follows:

General Government	\$61,314
Security of Persons and Property	138,761
Transportation	979,184
Community Environment	1,323
Leisure Time Activities	56,610
Total	<u>\$1,237,192</u>

**City of Kirtland, Ohio**  
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**Note 10 - Risk Management**

***Property and Liability***

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2011, the City contracted with Selective Insurance Company for various types of insurance through Wichert Insurance Agency. The City also contracted with Scottsdale Indemnity Company Insurance for various types of insurance through Love Insurance Agency. The type, coverage, and deductibles for the City's insurance follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Wichert Insurance Agency:		
Commercial Property	\$10,625,712	\$1,000
Earthquake and Flood	500,000	25,000
Boiler Machinery and Machinery	10,625,712	1,000
Inland Marine	819,728	1,000
Commercial General Liability	1,000,000	0
Umbrella Liability	4,000,000	0
Commercial Automotive	1,000,000	500
Uninsured Motorists	25,000	0
Love Insurance Agency:		
Law Enforcement	1,000,000	5,000
Public Officials	1,000,000	5,000
Employment Practices	1,000,000	5,000
Finance Director	100,000	0
City Clerks	100,000	0

Settled claims have not exceeded this coverage in any of the last three years. There has not been significant reduction in coverage from the prior year.

***Workers' Compensation***

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**Note 11 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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 percent 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. Under the Combined Plan, OPERS invests



**City of Kirtland, Ohio**  
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employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

**Funding Policy** – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$158,063, \$143,018 and \$125,576, respectively. The full amount has been contributed for years 2011, 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$431 made by the City and \$308 made by plan members.

***Ohio Police and Firemen Pension Fund***

**Plan Description** – 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

**Funding Policy** – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

**City of Kirtland, Ohio**  
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The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$77,576 and \$112,970 for the year ended December 31, 2011, \$71,454 and \$110,702 for the year ended December 31, 2010, and \$74,986 and \$107,082 for the year ended December 31, 2009, respectively. The full amount has been contributed for years 2011, 2010 and 2009.

## **Note 12 – Postemployment Benefits**

### ***Ohio Public Employees Retirement System***

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

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The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010 and 2009 were \$63,225, \$81,533 and \$90,801, respectively. The full amount has been contributed for years 2011, 2010 and 2009.

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

***Ohio Police and Firemen Pension Fund***

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree

**City of Kirtland, Ohio**  
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health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$41,070 and \$44,206 for the year ended December 31, 2011, \$37,828 and \$43,318 for the year ended December 31, 2010, and \$39,699 and \$41,902 for the year ended December 31, 2009. The full amount has been contributed for years 2011, 2010 and 2009.

### **Note 13 – Other Employee Benefits**

#### ***Compensated Absences***

Employees earn two to five weeks of vacation per year, depending upon length of service, which is calculated based on the hire date of each full time employee. This time should be taken within one year from the employee's anniversary date; however, in approved cases, an employee may be paid for vacation days the employee was unable to take. Employees can earn twelve holidays per year including two personal days off and one personal sick day. Upon termination, employees are paid for accrued unused vacation, compensatory or holiday time earned but not used.

Employees earn sick leave at a rate of .0575 percent of each and every 80 hours they are paid on a biweekly or salary basis, either for hours worked or for paid time off. They earn sick time up to a maximum of 120 hours of sick time per year. During 2000, the fire department full time staff started a new agreement whereby the employees could earn sick time at the same rate of .0575 hours but since they work 24-hour shifts, or work 53 hours per week, they would earn 6.09 hours per pay, for a maximum of 159 hours per year. Sick leave accrual is continuous, without limit. Upon retirement, an employee with ten years of continuous service or more is paid at their current rate of pay for the first 320 hours of unused sick leave. Any remaining time is paid at a rate of \$20 for each eight hours of sick time.

#### ***Health Insurance***

The City provides hospitalization, medical, dental, vision and life insurance for all full time employees. United Health Care provided the hospitalization and medical insurance in 2011. Employees pay ten percent of the premium up to a maximum of \$140 per month effective January 2011. MetLife provides the dental insurance which is paid entirely by the City. Eye Care Plan of America provides vision insurance which is paid entirely by the City. The plan covers lenses, contacts and routine office exams. MetLife provides life insurance and core accidental death insurance of \$20,000 which is paid entirely by the City. Employees are able to add extra insurance once a year for themselves, their spouse or children up to \$500,000 or five times their annual salary, whichever is less, paid by the employee through payroll deductions.

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**Note 14 - Operating Leases**

The City of Kirtland entered into an operating lease with Pitney Bowes for a postage meter. This is a cancelable lease that is renewed annually. The City pays \$53 per month. The City must provide the lessor written notice at least 60 days prior to termination of the lease.

**Note 15 – Note Debt**

A summary of note transactions for the year ended December 31, 2011 follows:

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
<b>Governmental Activities</b>				
2010 - 1.25% Various Purpose Notes	\$105,000	\$0	(\$105,000)	\$0
2011 - 1.00% Various Purpose Notes	0	315,000	0	315,000
<b>Total Governmental Activities</b>	<u>\$105,000</u>	<u>\$315,000</u>	<u>(\$105,000)</u>	<u>\$315,000</u>
<b>Business-Type Activities</b>				
2010 - 1.25% Various Purpose Notes	\$5,000	\$0	(\$5,000)	\$0
2011 - 1.00% Various Purpose Notes	0	735,000	0	735,000
<b>Total Business-Type Activities</b>	<u>\$5,000</u>	<u>\$735,000</u>	<u>(\$5,000)</u>	<u>\$735,000</u>

All the notes are backed by the full faith and credit of the City of Kirtland and mature within one year. The maturity date for all outstanding notes is July 19, 2012. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended. The notes will be paid from transfers from the general obligation bond retirement fund.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. There are limitations on the number of times a note can be renewed. All notes outstanding at year-end are bond anticipation notes. The notes will be refinanced until the projects are complete and the City determines it is advantageous to issue bonds.

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**Note 16 - Long-Term Obligations**

The original issue date, interest rate, original issue amount and date of maturity of each of the City's bonds, notes and loans follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Enterprise General Obligation Bonds:</i>			
Waste Water Refunding - 1998	4.50 - 5.00 %	\$173,000	December 1, 2016
Templeview Sewer Project Bond - 2006	4.375	323,000	June 1, 2046
<i>Enterprise Ohio Public Works Commission Loans:</i>			
Templeview Sewer - 2003	0.00	283,915	July 1, 2026
<i>General Obligation Bonds:</i>			
Fire Department and Civic Center - 1998	4.50 - 5.00	2,667,000	December 1, 2016
<i>Various Purpose Bonds - 2006:</i>			
State Route 306 Improvement	3.75 - 5.00	1,055,000	December 1, 2026
Parks and Recreation Purposes	3.75 - 5.00	650,000	December 1, 2026
Service Facility	3.75 - 5.00	200,000	December 1, 2026
Senior Center	3.75 - 5.00	100,000	December 1, 2026
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 2005	0.00	50,000	January 31, 2026
Route 306 and Route 6 Intersection	0.00	50,000	July 1, 2030
<i>Long-term Notes Payable:</i>			
2011 Various Purpose	1.00	1,275,000	July 19, 2012

The changes in long-term obligations during the year were as follows:

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Amounts Due in One Year
<b>Business-Type Activities</b>					
<i>General Obligation Bonds</i>					
Waste Water Refunding	\$65,610	\$0	(\$9,720)	\$55,890	\$10,260
Unamortized Loss on Refunding	(12,044)	0	2,409	(9,635)	0
<i>Total Waste Water Refunding</i>	53,566	0	(7,311)	46,255	10,260
Templeview Sewer Project	309,900	0	(3,700)	306,200	3,800
<i>Total General Obligation Bonds</i>	363,466	0	(11,011)	352,455	14,060
<i>OPWC Loan</i>					
Templeview Sewer	227,132	0	(14,196)	212,936	14,195
<i>Other Long-term Obligations</i>					
Notes Payable	735,000	0	(735,000)	0	0
<i>Total Business-Type Activities</i>	\$1,325,598	\$0	(\$760,207)	\$565,391	\$28,255

**City of Kirtland, Ohio**  
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	Balance 12/31/10	Additions	Reductions	Balance 12/31/11	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
Fire Department and Civic Center 1998 Refunding Bonds	\$1,149,390	\$0	(\$170,280)	\$979,110	\$179,740
Various Purpose Bonds 2006:					
State Route 306 Improvement	902,406	0	(39,464)	862,942	42,095
Parks and Recreation Purposes	555,986	0	(24,314)	531,672	25,935
Service Facility	171,073	0	(7,481)	163,592	7,980
Senior Center	85,535	0	(3,741)	81,794	3,990
Unamortized Premium	54,246	0	(3,616)	50,630	0
Total Various Purpose Bonds	1,769,246	0	(78,616)	1,690,630	80,000
<b>Total General Obligation Bonds</b>	<b>2,918,636</b>	<b>0</b>	<b>(248,896)</b>	<b>2,669,740</b>	<b>259,740</b>
<b>OPWC Loan</b>					
Route 306 Widening, Phase II	38,750	0	(2,500)	36,250	2,500
Route 306 and Route 6 Intersection	20,312	29,688	0	50,000	2,632
<b>Total OPWC Loans</b>	<b>59,062</b>	<b>29,688</b>	<b>(2,500)</b>	<b>86,250</b>	<b>5,132</b>
<b>Other Long-term Obligations</b>					
Notes Payable	1,515,000	1,275,000	(1,515,000)	1,275,000	0
Compensated Absences	228,871	32,810	(19,935)	241,746	11,535
<b>Total Other Long-term Obligations</b>	<b>1,743,871</b>	<b>1,307,810</b>	<b>(1,534,935)</b>	<b>1,516,746</b>	<b>11,535</b>
<b>Total Governmental Activities</b>	<b>\$4,721,569</b>	<b>\$1,337,498</b>	<b>(\$1,786,331)</b>	<b>\$4,272,736</b>	<b>\$276,407</b>

On May 28, 1998, the City issued \$2,840,000 in general obligation bonds with interest rates varying from 4.50 percent to 5.00 percent. The bond proceeds were used to refund the 1991 Fire Department and Civic Center general obligation bonds of \$2,630,000 and the 1991 waste water general obligation bonds of \$150,000. During 2001, the outstanding refunded general obligation bonds were called and paid.

The enterprise fund advance 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 deduction from the bond liability in the accompanying financial statements, is being charged to operations through the year 2016 using the straight line method over the life of the old or new bonds, whichever is shorter.

In 2006, the City issued \$2,005,000 in twenty year various purpose general obligation bonds with interest rates varying from 3.75 percent to 5.00 percent. The bond proceeds were used for the State Route 306 improvement, park and recreational purpose improvements, and equipping and improving the City's service facility and senior center.

Also in 2006, the City issued \$323,000 in forty year general obligation bonds with an interest rate of 4.375 percent. The bond proceeds were used for the Templeview sewer project.

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

The fire department and civic center general obligation bonds will be paid from the debt retirement fund. Compensated absences will be paid from the general fund which is the fund the employees are paid from. The waste water refunding bonds will be paid from collections in the waste water fund.

From 2003 to 2006, the City received \$283,915 in Ohio Public Works Commission (OPWC) loans for the Templeview Sewer Project. A special assessment will be levied on the benefiting units upon completion of the project.

In 2005, the City received a \$50,000 OPWC loan for the Route 306 Widening Phase II Project which will be paid from the debt retirement fund.

In 2011, the City received the remaining \$29,688 of a \$50,000 OPWC loan for the Route 306 and Route 6 Intersection Project which will be paid from the debt retirement fund.

The City's overall legal debt margin was \$22,383,243 with an unvoted debt margin of \$9,679,146 at December 31, 2011. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are as follows:

	<b>Governmental Activities</b>			<b>Business-Type Activities</b>		
	General Obligation Bonds		OPWC Loan	General Obligation Bonds		OPWC Loan
	Principal	Interest	Principal	Principal	Interest	Principal
2012	\$259,740	\$127,009	\$5,132	\$14,060	\$17,340	\$14,195
2013	269,470	114,822	5,131	14,530	16,645	14,196
2014	283,930	102,112	5,132	15,270	15,929	14,196
2015	293,390	88,727	5,131	16,010	15,176	14,196
2016	312,580	74,822	5,132	17,020	14,387	14,195
2017-2021	525,000	250,000	25,658	26,100	65,361	70,979
2022-2026	675,000	104,750	24,408	32,200	58,606	70,979
2027-2031	0	0	10,526	39,900	50,265	0
2032-2036	0	0	0	49,600	39,901	0
2037-2041	0	0	0	61,500	27,043	0
2042-2046	0	0	0	75,900	11,124	0
Total	<u>\$2,619,110</u>	<u>\$862,242</u>	<u>\$86,250</u>	<u>\$362,090</u>	<u>\$331,777</u>	<u>\$212,936</u>

**Note 17 – Jointly Governed Organization**

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 and natural gas. NOPEC is currently comprised of 164 communities who have been authorized by ballot to purchase electricity on behalf of their citizens and 125 communities who have been authorized by ballot to purchase natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.



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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the nine-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation programs. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2011. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Suite 20, Solon, Ohio 44139.

**Note 18 – Interfund Transactions**

***Interfund Transfers***

The general fund and the major capital equipment special revenue fund transferred \$222,302 and \$164,000, respectively, to the general obligation bond retirement fund for debt payment requirements. The general fund transferred \$2,062 and \$15,250, respectively, to the major capital equipment special revenue fund and the State Route 306 and State Route 6 capital projects fund for debt payment requirements. The general fund transferred \$53,704 to the waste water fund for debt payment requirements. Transfer activity is shown in the following table.

Transfers To	Transfers From		Totals
	General	Other Governmental Funds	
<i>Major Funds:</i>			
State Route 306 & State Route 6	\$15,250	0	15,250
Waste Water	53,704	0	53,704
Total Major Funds	68,954	0	68,954
<i>Other Governmental Funds:</i>			
Bond Retirement	222,302	164,000	386,302
Major Capital Equipment	2,062	0	2,062
Total Nonmajor Funds	224,364	164,000	388,364
Totals	\$293,318	\$164,000	\$457,318

***Interfund Balances***

At December 31, 2011, the general fund had an interfund receivable of \$46,620 and the tibbetts road resurfacing capital projects fund had an interfund payable of \$46,620. The interfund balances were the result of a deficit cash balance in the tibbetts road resurfacing fund due to the timing of the receipt of grant monies. The general fund provides temporary funding of the project until the grant dollars are received.

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

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**Note 19 - Contingencies**

***Grants***

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. 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.

***Litigation***

The City is a party to legal proceedings. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City and that the City has adequate liability insurance coverage to protect itself against any material loss.

**Note 20 – Subsequent Event**

On July 18, 2012, the City reissued the various purpose notes in the amount of \$1,435,000 at a rate of 1.0 percent. This amount includes the reissuance of \$1,275,000 of existing notes and \$160,000 of a new note liability. The notes mature on July 17, 2013.



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 5, 2012, wherein we noted the City adopted provisions of Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

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

We did note a matter not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 5, 2012.

We intend this report solely for the information and use of management, the audit committee, the City Council, and others within the City. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

November 5, 2012



# Dave Yost • Auditor of State

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  
NOVEMBER 27, 2012