



**CITY OF KIRTLAND
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2001 & 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

CITY OF KIRTLAND
LAKE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
General Purpose Financial Statements - For the Years Ended December 31, 2001 and December 31, 2000.....	3
Notes to the General Purpose Financial Statements.....	13
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	33
Schedule of Findings.....	35
Schedule of Prior Audit Findings.....	38

This page intentionally left blank.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

Lausche Building
615 Superior Avenue, NW.
Twelfth Floor
Cleveland, Ohio 44113-1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Kirtland, Lake County, Ohio, (the City) as of and for the years ended December 31, 2001 and December 31, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Kirtland, Lake County, Ohio, as of December 31, 2001 and December 31, 2000, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

November 15, 2002

This page intentionally left blank.

City of Kirtland
Lake County
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2001

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPES	ACCOUNT GROUPS		Totals (Memorandum Only) 2001
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS									
Assets:									
Cash and Cash Equivalents	\$ 396,596	\$ 162,530	\$ -	\$ 1,208,927	\$ 133,928	\$ 324,772	\$ -	\$ -	\$ 2,226,753
Receivables (net of allowance for doubtful accounts):									
Taxes	1,325,457	816,951	-	-	-	-	-	-	2,142,408
Accounts	24,498	-	-	-	2,038	-	-	-	26,536
Due from Other Governments	47,496	17,933	-	-	-	-	-	-	65,429
Inventory of Supplies at Cost	71,350	-	-	-	-	-	-	-	71,350
Prepaid Items	2,223	-	-	-	-	-	-	-	2,223
Fixed Assets, (Net where applicable of Accumulated Depreciation)	-	-	-	-	348,491	-	8,842,964	-	9,191,455
Other Assets:									
Amount to be Provided for General Long-term Obligations	-	-	-	-	-	-	-	4,219,518	4,219,518
Total Assets and Other Debits	\$ 1,867,620	\$ 997,414	\$ -	\$ 1,208,927	\$ 484,457	\$ 324,772	\$ 8,842,964	\$ 4,219,518	\$ 17,945,672
LIABILITIES, EQUITY AND OTHER CREDITS									
Liabilities:									
Accounts Payable	\$ 21,025	\$ 2,435	\$ -	\$ 17,682	\$ -	\$ -	\$ -	\$ -	\$ 41,142
Accrued Wages and Benefits	163,257	-	-	-	658	-	-	-	163,915
Accrued Interest Payable	-	-	-	-	567	-	-	-	567
Due to Others	-	-	-	-	-	322,386	-	-	322,386
Deferred Revenue	948,122	816,951	-	-	-	-	-	-	1,765,073
Bond Anticipation Notes Payable	-	-	-	-	-	-	-	1,454,000	1,454,000
Capital Lease Payable	-	-	-	-	-	-	-	23,902	23,902
Compensated Absences Payable	-	-	-	-	-	-	-	61,138	61,138
General Obligation Bonds Payable	-	-	-	-	109,916	-	-	2,516,360	2,626,276
OPWC Loans	-	-	-	-	-	-	-	164,118	164,118
Total Liabilities	1,132,404	819,386	-	17,682	111,141	322,386	-	4,219,518	6,622,517
Equity and Other Credits:									
Investment in General Fixed Assets	-	-	-	-	-	-	8,842,964	-	8,842,964
Retained Earnings	-	-	-	-	373,316	-	-	-	373,316
Fund Balance:									
Reserve for Inventory	71,350	-	-	-	-	-	-	-	71,350
Reserve for Encumbrances	25,185	-	-	-	-	-	-	-	25,185
Reserve for Prepaid Items	2,223	12,720	-	12,810	-	-	-	-	27,753
Unreserved:									
Undesignated	636,458	165,308	-	1,178,435	-	2,386	-	-	1,982,587
Total Fund Equity	735,216	178,028	-	1,191,245	373,316	2,386	8,842,964	-	11,323,155
Total Liabilities, Equity and Other Credits	\$ 1,867,620	\$ 997,414	\$ -	\$ 1,208,927	\$ 484,457	\$ 324,772	\$ 8,842,964	\$ 4,219,518	\$ 17,945,672

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

City of Kirtland
Lake County
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2000

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPES	ACCOUNT GROUPS		Totals (Memorandum Only) 2000
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS									
Assets:									
Cash and Cash Equivalents	\$ 705,664	\$ 131,193	\$ -	\$ 22,426	\$ 131,954	\$ 362,552	\$ -	\$ -	\$ 1,353,789
Receivables (net of allowance for doubtful accounts):									
Taxes	905,772	785,771	-	-	-	-	-	-	1,691,543
Accounts	26,158	-	-	-	2,462	-	-	-	28,620
Due from Other Governments	37,780	11,944	-	-	-	-	-	-	49,724
Inventory of Supplies at Cost	21,720	-	-	-	-	-	-	-	21,720
Prepaid Items	322	-	-	-	-	-	-	-	322
Fixed Assets, (Net where applicable of Accumulated Depreciation)	-	-	-	-	360,639	-	8,399,967	-	8,760,606
Other Assets:									
Amount to be Provided for General Long-term Obligations	-	-	-	-	-	-	-	2,925,038	2,925,038
Total Assets and Other Debits	\$ 1,697,416	\$ 928,908	\$ -	\$ 22,426	\$ 495,055	\$ 362,552	\$ 8,399,967	\$ 2,925,038	\$ 14,831,362
LIABILITIES, EQUITY AND OTHER CREDITS									
Liabilities:									
Accounts Payable	\$ 66,892	\$ 13,103	\$ -	\$ -	\$ 1,054	\$ -	\$ -	\$ -	\$ 81,049
Accrued Wages and Benefits	282,540	-	-	-	1,482	-	-	-	284,022
Accrued Interest Payable	-	-	-	-	870	-	-	-	870
Due to Others	-	-	-	-	-	360,166	-	-	360,166
Deferred Revenue	539,220	785,771	-	-	-	-	-	-	1,324,991
Compensated Absences Payable	-	-	-	-	-	-	-	52,158	52,158
General Obligation Bonds Payable	-	-	-	-	119,127	-	-	2,634,740	2,753,867
OPWC Loans	-	-	-	-	-	-	-	238,140	238,140
Total Liabilities	888,652	798,874	-	-	122,533	360,166	-	2,925,038	5,095,263
Equity and Other Credits:									
Investment in General Fixed Assets	-	-	-	-	-	-	8,399,967	-	8,399,967
Retained Earnings	-	-	-	-	372,522	-	-	-	372,522
Fund Balance:									
Reserve for Inventory	21,720	-	-	-	-	-	-	-	21,720
Reserve for Encumbrances	95,757	-	-	-	-	-	-	-	95,757
Reserve for Prepaid Items	322	-	-	-	-	-	-	-	322
Unreserved:									
Undesignated	690,965	130,034	-	22,426	-	2,386	-	-	845,811
Total Fund Equity	808,764	130,034	-	22,426	372,522	2,386	8,399,967	-	9,736,099
Total Liabilities, Equity and Other Credits	\$ 1,697,416	\$ 928,908	\$ -	\$ 22,426	\$ 495,055	\$ 362,552	\$ 8,399,967	\$ 2,925,038	\$ 14,831,362

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

City of Kirtland
Lake County
Combined Statement of Revenues,
Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2001

REVENUES	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	Totals (Memorandum Only) 2001
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Expendable Trust	
Property Taxes	\$ 507,082	\$ 784,614	\$ -	\$ -	\$ -	\$ 1,291,696
Municipal Income Taxes	2,046,820	-	-	-	-	2,046,820
Other Local Taxes	918	-	-	-	-	918
Intergovernmental	647,914	295,002	-	189,749	-	1,132,665
Charges for Services	128,103	-	-	-	-	128,103
Fines, Licenses & Permits	48,508	6,308	-	-	-	54,816
Investment Earnings	60,997	-	-	26,000	-	86,997
Donations	-	-	-	1,264,118	-	1,264,118
All Other Revenues	229,110	30,000	-	-	-	259,110
Total Revenues	3,669,452	1,115,924	-	1,479,867	-	6,265,243
EXPENDITURES						
Programs:						
Security of Persons and Property	1,053,713	664,992	-	-	-	1,718,705
Leisure Time Activities	60,023	124,113	-	-	-	184,136
Community Environment	76,117	6,823	-	-	-	82,940
Transportation	637,594	241,077	-	-	-	878,671
General Government	1,116,049	-	-	-	-	1,116,049
Public Health	45,149	-	-	-	-	45,149
Capital Outlay	261,499	30,925	-	1,962,863	-	2,255,287
Debt Service:						
Principal Retirement	8,250	-	192,402	-	-	200,652
Interest and Fiscal Charges	725	-	125,817	-	-	126,542
Total Expenditures	3,259,119	1,067,930	318,219	1,962,863	-	6,608,131
Excess of Revenues Over (Under) Expenditures	410,333	47,994	(318,219)	(482,996)	-	(342,888)
OTHER FINANCING SOURCES (USES)						
Inception of Capital Lease	32,153	-	-	-	-	32,153
Proceeds of Notes	-	-	-	1,454,000	-	1,454,000
Operating Transfers - In	-	-	318,219	197,815	-	516,034
Operating Transfers - Out	(516,034)	-	-	-	-	(516,034)
Total Other Financing Sources (Uses)	(483,881)	-	318,219	1,651,815	-	1,486,153
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(73,548)	47,994	-	1,168,819	-	1,143,265
Fund Balances (Deficits) at Beginning of Year	808,764	130,034	-	22,426	2,386	963,610
Fund Balances (Deficits) at End of Year	\$ 735,216	\$ 178,028	\$ -	\$ 1,191,245	\$ 2,386	\$ 2,106,875

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

City of Kirtland
Lake County
Combined Statement of Revenues,
Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2000

REVENUES	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	Totals (Memorandum Only) 2000
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Expendable Trust	
Property Taxes	\$ 451,710	\$ 770,471	\$ -	\$ -	\$ -	\$ 1,222,181
Municipal Income Taxes	1,949,354	-	-	-	-	1,949,354
Other Local Taxes	1,195	-	-	-	-	1,195
Intergovernmental	787,731	324,120	-	170,549	-	1,282,400
Charges for Services	142,252	-	-	-	-	142,252
Fines, Licenses & Permits	49,840	695	-	-	-	50,535
Investment Earnings	78,516	-	-	-	-	78,516
Donations	-	-	-	620,421	-	620,421
All Other Revenues	208,355	-	-	-	-	208,355
Total Revenues	3,668,953	1,095,286	-	790,970	-	5,555,209
EXPENDITURES						
Programs:						
Security of Persons and Property	993,954	660,000	-	-	-	1,653,954
Leisure Time Activities	9,004	134,741	-	-	-	143,745
Community Environment	44,106	5,540	-	-	-	49,646
Transportation	711,755	286,541	-	-	-	998,296
General Government	1,044,910	-	-	-	-	1,044,910
Public Health	43,097	-	-	-	-	43,097
Capital Outlay	313,558	50,780	-	1,074,857	-	1,439,195
Debt Service:						
Principal Retirement	-	-	182,402	-	-	182,402
Interest and Fiscal Charges	-	-	131,951	-	-	131,951
Total Expenditures	3,160,384	1,137,602	314,353	1,074,857	-	5,687,196
Excess of Revenues Over (Under) Expenditures	508,569	(42,316)	(314,353)	(283,887)	-	(131,987)
OTHER FINANCING SOURCES (USES)						
Inception of Capital Lease	-	-	-	-	-	-
Proceeds of Notes	-	-	-	-	-	-
Operating Transfers - In	-	-	314,353	189,013	-	503,366
Operating Transfers - Out	(503,366)	-	-	-	-	(503,366)
Total Other Financing Sources (Uses)	(503,366)	-	314,353	189,013	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	5,203	(42,316)	-	(94,874)	-	(131,987)
Fund Balances (Deficits) at Beginning of Year	803,561	172,350	-	117,300	2,386	1,095,597
Fund Balances (Deficits) at End of Year	\$ 808,764	\$ 130,034	\$ -	\$ 22,426	\$ 2,386	\$ 963,610

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

City of Kirtland
Lake County

Combined Statement of Revenues,
Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types
For the Year Ended December 31, 2001

REVENUES:	GENERAL FUND				SPECIAL REVENUE FUNDS				DEBT SERVICE FUND				CAPITAL PROJECTS FUNDS				TOTALS - 2001 (MEMORANDUM ONLY)			
	Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)	
Property Taxes	\$ 495,047	\$ 507,082	\$ 12,035		\$ 768,072	\$ 784,614	\$ 16,542		\$ -	\$ -	\$ -		\$ -	\$ -	\$ -		\$ 1,263,119	\$ 1,291,696	\$ 28,577	
Municipal Income Taxes	1,985,000	2,036,036	51,036		-	-	-		-	-	-		-	-	-		1,985,000	2,036,036	51,036	
Other Local Taxes	900	918	18		-	-	-		-	-	-		-	-	-		900	918	18	
Intergovernmental Taxes	630,000	639,494	9,494		313,000	289,008	(23,992)		4,477,049	51,000	(4,426,049)		5,420,049	979,502	(4,440,547)		5,420,049	979,502	(4,440,547)	
Charges for Services	115,000	129,763	14,763		600	6,313	5,713		-	-	-		-	-	-		115,000	129,763	14,763	
Fines, Licenses & Permits	44,000	44,812	812		-	-	-		-	-	-		-	-	-		44,000	51,125	6,525	
Investment Earnings	75,000	60,997	(14,003)		15,000	30,000	15,000		-	-	-		-	-	-		75,000	60,997	(14,003)	
All Other Revenues	614,800	229,110	(385,690)		-	-	-		-	-	-		-	-	-		629,800	1,523,228	893,428	
Total Revenues	3,959,747	3,648,212	(311,535)		1,096,672	1,109,935	13,263		4,477,049	1,315,118	(3,161,931)		9,533,468	6,073,265	(3,460,203)		9,533,468	6,073,265	(3,460,203)	
EXPENDITURES:																				
Programs:																				
Security of Persons and Property	1,116,613	1,144,047	(27,434)		665,000	664,992	\$		-	-	-		-	-	-		1,781,613	1,809,039	(27,426)	
Leisure Time Activities:	112,360	62,715	49,645		130,400	132,799	(2,399)		-	-	-		-	-	-		242,760	195,514	47,246	
Community Environment	99,869	80,483	19,386		6,900	6,823	77		-	-	-		-	-	-		106,769	87,306	19,463	
Transportation	859,347	732,974	106,373		245,000	241,077	3,923		-	-	-		-	-	-		1,104,347	994,051	110,296	
General Government	1,168,995	1,128,461	40,534		-	-	-		-	-	-		-	-	-		1,168,995	1,128,461	40,534	
Public Health	45,000	45,148	(148)		-	-	-		-	-	-		-	-	-		45,000	45,148	(148)	
Capital Outlay	362,674	264,702	97,972		86,000	48,061	37,939		4,477,050	1,824,114	(2,652,936)		4,925,724	2,136,877	(2,788,847)		4,925,724	2,136,877	(2,788,847)	
Debt Service:																				
Principal Retirement	8,250	8,250	-		-	-	-		203,056	204,023	(967)		-	-	-		211,306	212,273	(967)	
Interest and Fiscal Charges	725	725	-		-	-	-		132,944	132,944	-		-	-	-		133,669	133,669	-	
Total Expenditures	3,773,833	3,487,505	286,328		1,133,300	1,093,752	39,548		336,967	1,824,114	(2,652,936)		4,477,050	1,824,114	(508,996)		9,720,183	6,742,338	2,977,845	
Excess of Revenues Over (Under) Expenditures	185,914	160,707	(25,207)		(36,628)	16,183	52,811		(336,967)	(508,996)	(967)		(1)	(508,996)	(186,715)		(186,715)	(669,073)	(482,358)	
OTHER FINANCING SOURCES (USES):																				
Proceeds of Bonds	-	-	-		-	-	-		1,480,000	1,480,000	1,480,000		-	-	-		-	1,480,000	1,480,000	
Operating Transfers - In	(482,150)	(520,574)	(38,424)		-	-	-		340,000	373,978	33,978		-	-	-		340,000	2,051,793	1,711,793	
Operating Transfers - Out	-	-	-		-	-	-		-	(1,517,011)	(1,517,011)		-	-	-		(482,150)	(2,037,585)	(1,555,455)	
Total Other Financing Sources (Uses)	(482,150)	(520,574)	(38,424)		-	-	-		340,000	356,967	(3,033)		-	-	-		(42,150)	1,494,208	1,636,358	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(296,236)	(359,867)	(63,631)		(36,628)	16,183	52,811		4,000	-	(4,000)		(1)	(1,168,819)	(328,865)		(328,865)	825,135	1,154,000	
Fund Balances (Deficits) at Beginning of Year	532,116	532,116	-		118,090	118,090	-		-	-	-		22,426	22,426	-		672,632	672,632	-	
Prior Year Encumbrances	162,648	162,648	-		13,103	13,103	-		-	-	-		-	-	-		175,751	175,751	-	
Fund Balances (Deficits) at End of Year	398,528	334,897	(63,631)		94,565	147,376	52,811		(4,000)	1,191,245	(1,187,434)		(22,426)	1,191,245	(1,187,434)		519,518	1,673,518	1,154,000	

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

City of Kirtland
Lake County

Combined Statement of Revenues,
Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types
For the Year Ended December 31, 2000

REVENUES:	GENERAL FUND				SPECIAL REVENUE FUNDS				DEBT SERVICE FUND				CAPITAL PROJECTS FUNDS				TOTALS - 2000 (MEMORANDUM ONLY)			
	Revised	Actual	Variance		Revised	Actual	Variance		Revised	Actual	Variance		Revised	Actual	Variance		Revised	Actual	Variance	
	Budget		Favorable (Unfavorable)		Budget		Favorable (Unfavorable)		Budget		Favorable (Unfavorable)		Budget		Favorable (Unfavorable)		Budget		Favorable (Unfavorable)	
Property Taxes	\$ 439,699	\$ 451,710	\$ 12,011		\$ 748,683	\$ 770,471	\$ 21,788		\$ -	\$ -	\$ -		\$ 1,188,382	\$ 1,222,181	\$ 33,799		\$ 1,188,382	\$ 1,222,181	\$ 33,799	
Municipal Income Taxes	1,970,000	1,927,227	(42,773)		-	-	-		-	-	-		1,970,000	1,927,227	(42,773)		1,970,000	1,927,227	(42,773)	
Other Local Taxes	1,000	1,195	195		-	-	-		-	-	-		1,000	1,195	195		1,000	1,195	195	
Intergovernmental Taxes	600,000	788,466	188,466		327,000	326,740	(260)		-	-	-		4,708,900	1,170,738	(3,538,162)		4,708,900	1,170,738	(3,538,162)	
Charges for Services	90,000	117,612	27,612		-	-	-		-	-	-		90,000	117,612	27,612		90,000	117,612	27,612	
Fees, Licenses & Permits	40,000	40,330	330		600	750	150		-	-	-		40,000	41,080	480		40,000	41,080	480	
Investment Earnings	55,000	78,516	23,516		-	-	-		-	-	-		55,000	78,516	23,516		55,000	78,516	23,516	
All Other Revenues	211,500	208,355	(3,145)		2,000	-	(2,000)		-	-	-		213,500	828,776	615,276		213,500	828,776	615,276	
Total Revenues	3,407,199	3,613,411	206,212		1,078,283	1,097,961	19,678		-	-	-		3,781,900	675,953	(3,105,947)		3,781,900	675,953	(3,105,947)	
EXPENDITURES:																				
Programs:																				
Security of Persons and Property	1,010,785	955,215	55,570		660,000	660,000	-		-	-	-		1,670,785	1,615,215	55,570		1,670,785	1,615,215	55,570	
Leisure Time Activities	5,000	5,451	(451)		151,560	140,009	11,551		-	-	-		156,560	145,460	11,100		156,560	145,460	11,100	
Community Environment	53,063	43,482	9,581		10,000	5,540	4,460		-	-	-		63,063	49,022	14,041		63,063	49,022	14,041	
Transportation	704,549	664,503	40,046		280,000	286,541	(6,541)		-	-	-		984,549	950,844	33,705		984,549	950,844	33,705	
General Government	1,135,376	1,052,469	82,907		-	-	-		-	-	-		1,135,376	1,052,469	82,907		1,135,376	1,052,469	82,907	
Public Health	43,100	43,097	3		-	-	-		-	-	-		43,100	43,097	3		43,100	43,097	3	
Capital Outlay	481,430	477,928	3,502		86,000	81,380	4,620		-	-	-		3,857,800	1,519,348	2,905,882		4,425,230	1,519,348	2,905,882	
Debt Service:																				
Principal Retirement	-	-	-		-	-	-		194,022	194,022	-		-	194,022	-		194,022	194,022	-	
Interest and Fiscal Charges	-	-	-		-	-	-		139,385	139,385	-		-	145,978	-		145,978	139,385	6,593	
Total Expenditures	3,433,303	3,241,945	191,358		1,187,560	1,173,670	13,890		333,407	333,407	-		3,857,800	959,840	2,897,960		3,857,800	959,840	2,897,960	
Excess of Revenues Over (Under) Expenditures	(26,104)	371,466	397,570		(109,277)	(75,709)	33,568		(333,407)	(333,407)	-		(75,900)	(283,887)	(207,987)		(551,281)	(321,537)	229,744	
OTHER FINANCING SOURCES (USES):																				
Operating Transfers - In	-	-	-		-	-	-		333,407	333,407	-		-	189,013	189,013		340,000	522,420	182,420	
Operating Transfers - Out	(583,460)	(503,366)	80,094		-	-	-		-	-	-		-	(503,366)	80,094		(583,460)	(503,366)	80,094	
Total Other Financing Sources (Uses)	(583,460)	(503,366)	80,094		-	-	-		333,407	333,407	-		(6,593)	-	80,094		(6,593)	-	80,094	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(609,564)	(131,900)	477,664		(109,277)	(75,709)	33,568		-	-	-		(75,900)	(94,874)	(18,974)		(794,741)	(302,483)	492,258	
Fund Balances (Deficits) at Beginning of Year	566,453	566,453	-		157,735	157,735	-		-	-	-		117,300	117,300	-		841,488	841,488	-	
Prior Year Encumbrances	97,563	97,563	-		36,064	36,064	-		-	-	-		-	133,627	-		133,627	133,627	-	
Fund Balances (Deficits) at End of Year	\$ 54,452	\$ 532,116	\$ 477,664		\$ 84,522	\$ 118,090	\$ 33,568		\$ -	\$ -	\$ -		\$ -	\$ 22,426	\$ (18,974)		\$ 180,374	\$ 672,632	\$ 492,258	

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

City of Kirtland
 Lake County
 Statement of Revenues, Expenses,
 and Changes in Retained Earnings
 Proprietary Fund
 For the Year Ended December 31, 2001

OPERATING REVENUES:	2001
Charges for Services	\$ 75,026
Total Operating Revenues	75,026
OPERATING EXPENSES:	
Personal Services	12,213
Materials and Supplies	39,309
Depreciation	12,152
Capital Expenses	1,338
Total Operating Expenses	65,012
Operating Income (Loss)	10,014
NON-OPERATING EXPENSES:	
Interest and Fiscal Charges	(9,220)
Total Non-operating Expenses	(9,220)
NET INCOME (LOSS)	794
Retained Earnings at Beginning of Year	372,522
Retained Earnings at End of Year	\$ 373,316

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

City of Kirtland
 Lake County
 Statement of Revenues, Expenses,
 and Changes in Retained Earnings
 Proprietary Fund
 For the Year Ended December 31, 2000

OPERATING REVENUES:	2000
Charges for Services	\$ 75,503
Total Operating Revenues	75,503
OPERATING EXPENSES:	
Personal Services	12,983
Materials and Supplies	38,897
Depreciation	12,152
Capital Expenses	-
Total Operating Expenses	64,032
Operating Income (Loss)	11,471
NON-OPERATING EXPENSES:	
Interest and Fiscal Charges	(10,074)
Total Non-operating Expenses	(10,074)
NET INCOME (LOSS)	1,397
Retained Earnings at Beginning of Year	371,125
Retained Earnings at End of Year	\$ 372,522

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

City of Kirtland
 Lake County
 Statement of Cash Flows
 Proprietary Fund
 For the Year Ended December 31, 2001

Cash Flows from Operating Activities	2001
Cash Received from Customers	\$ 75,450
Cash Payments to Employees	(13,037)
Cash Payments for Materials and Supplies	(41,701)
Net Cash Provided (Used) by Operating Activities	20,712
<u>Cash Flows from Capital and Related Financing Activities</u>	
Principal Paid on Bonds	(11,620)
Interest Paid on Bonds	(7,118)
Net Cash Used for Capital and Related Financing Activities	(18,738)
Net Increase (Decrease) in Cash and Cash Equivalents	1,974
Cash and Cash Equivalents at Beginning of Year	131,954
Cash and Cash Equivalents at End of Year	\$ 133,928
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>	
Operating Income (Loss)	\$ 10,014
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depeiciation Expense	12,152
(Increase) Decrease in Accounts Receivable	424
Increase (Decrease) in Accounts Payable	(1,054)
Increase (Decrease) in Accrued Wages	(824)
Total Adjustments	10,698
Net Cash Provided (Used) by Operating Activities	\$ 20,712

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

City of Kirtland
Lake County
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2000

Cash Flows from Operating Activities	2000
Cash Received from Customers	\$ 74,005
Cash Payments to Employees	(12,509)
Cash Payments for Materials and Supplies	(40,599)
Net Cash Provided (Used) by Operating Activities	20,897
<u>Cash Flows from Capital and Related Financing Activities</u>	
Principal Paid on Bonds	(11,620)
Interest Paid on Bonds	(7,435)
Net Cash Used for Capital and Related Financing Activities	(19,055)
Net Increase (Decrease) in Cash and Cash Equivalents	1,842
Cash and Cash Equivalents at Beginning of Year	130,112
Cash and Cash Equivalents at End of Year	\$ 131,954
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>	
Operating Income (Loss)	\$ 11,471
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depeciation Expense	12,152
(Increase) Decrease in Accounts Receivable	(1,498)
Increase (Decrease) in Accounts Payable	(1,702)
Increase (Decrease) in Accrued Wages	474
Total Adjustments	9,426
Net Cash Provided (Used) by Operating Activities	\$ 20,897

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

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 1 - Summary of Significant Accounting Policies

A. Description of Reporting Entity and Summary of Significant Accounting Policies

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

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

The City is associated with NOPEC, which is a jointly governed organization. The organization is presented in Note 14 to the general purpose financial statements.

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

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

B. Basis of Presentation - Fund Accounting

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

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

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

Governmental Funds

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

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

General Fund – This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio, and the limitations of the City Charter.

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

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

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

Proprietary Fund

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

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

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

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

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

Account Groups

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

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

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

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The governmental funds and expendable trust and agency funds follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is considered to be 60 days after year-end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Revenue considered susceptible to accrual at year-end includes income taxes withheld by employers,

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until actually received.

Special assessment installments, including related accrued interest, which are measurable but not available at December 31 are recorded as deferred revenue. Property taxes measurable as of December 31, 2000 and December 31, 2001, but which are not intended to finance 2000 and 2001 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

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

The proprietary funds utilize the accrual basis of accounting for reporting purposes. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year-end.

D. Budgetary Process

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

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

1. Tax Budget

By July 20, the Mayor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission certifies its actions to the City by September 1st of each year. As part of this certification process the City receives an official certificate of estimated resources which states the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2000 and 2001.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1st of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1st of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. Administrative control is maintained through the establishment of more detailed line-item budgets. During the year, several supplemental appropriation measures were passed. None, however, were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

4. Encumbrances

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

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

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

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

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

	<u>Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
<u>2000</u>				
GAAP Basis (as reported)	\$ 5,203	\$ (42,316)	\$ -	\$ (94,874)
Increase (Decrease):				
Accrued revenues at December 31, 2000, Received during 2001	(441,390)	(11,944)	-	-
Accrued revenues at December 31, 1999, Received during 2000	385,848	14,619	-	-
Accrued expenditures at December 31, 2000, Paid during 2001	327,390	13,103	-	-
Accrued expenditures at December 31, 1999, paid during 2000	(246,303)	(36,068)	-	-
Encumbrances at end of year	(162,648)	(13,103)	-	-
Budget Basis	\$ (131,900)	\$ (75,709)	\$ -	\$ (94,874)

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

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

<u>2001</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
GAAP Basis (as reported)	\$ (73,548)	\$ 47,994	\$ -	\$ 1,168,819
Increase (Decrease):				
Accrued revenues at December 31, 2001, Received during 2002	(430,111)	(17,933)	-	-
Accrued revenues at December 31, 2000, received during 2001	404,332	11,944	-	-
Accrued expenditures at December 31, 2001, paid during 2002	110,797	2,435	-	-
Accrued expenditures at December 31, 2000, paid during 2001	(327,390)	(13,103)	-	-
Encumbrances at end of year	<u>(43,947)</u>	<u>(15,154)</u>	<u>-</u>	<u>-</u>
Budget Basis	<u>\$ (359,867)</u>	<u>\$ 16,183</u>	<u>\$ -</u>	<u>\$ 1,168,819</u>

E. Cash and Cash Equivalents

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

During fiscal year 2001, investments were limited to STAROhio (the State Treasury Asset Reserve of Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments with the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio's share price which is the price the investment could be sold on December 31, 2001 and 2000.

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

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

F. Inventory

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

G. Prepaid Items

Prepaid items represent payments made by the City for a maintenance agreement that will benefit periods beyond December 31, 2001 and 2000. Recorded prepaids in governmental fund types are equally offset by the fund balance reserve, which indicates that they don't constitute spendable resources even though they are a component of net assets.

H. Fixed Assets and Depreciation

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

1. Property, Plant and Equipment - General Governmental Purposes

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

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

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

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

2. Property, Plant and Equipment - Proprietary Fund

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

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

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

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

I. Long-Term Obligations

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

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

J. Compensated Absences

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

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

K. Pensions

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

L. Interfund Transactions

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

- (1) Operating transfers are reported as other Financing Sources and Uses in the governmental funds, as "Operating transfers-in" by the recipient fund, and "Operating transfers-out" by the disbursing fund.
- (2) Residual equity transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 2000 and 2001.

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

M. Reservations of Fund Balance

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

N. Total Columns on Combined Financial Statements - Overview

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

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

O. Estimates

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

P. Revenue – Exchange and Non-exchange Transactions

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

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

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

NOTE 2 Change in Accounting Principle and Restatement of Prior Year's Fund Equity

For 2001, the City implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", and GASB 36, "Recipient Reporting for Certain Shared non-exchange Revenues",

GASB Statement No. 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or modified accrual basis of accounting is required. For revenue recognition to occur on the modified accrual basis, however, the criteria established for accrual basis revenue recognition must be met and the revenue must be available. This change in accounting principle had no effect on the fund balance at December 31, 2000.

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 3 - Accountability

The following accounts had expenditures plus encumbrances in excess of appropriations at December 31, 2000 contrary to Section 5705.41, Ohio Revised Code:

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
General Government			
Executive:			
Capital Outlay	\$3,000	\$4,048	\$1,048
Police:			
Services & Supplies	112,000	118,500	6,500
Capital Outlay	70,950	74,350	3,400
Fire:			
Services & Supplies	92,100	99,655	7,555
Capital Outlay	131,160	133,392	2,232
Parks & Recreation:			
Services & Supplies	5,000	5,451	451
Special Revenue			
Senior Citizens/Recreation:			
Services & Supplies	67,000	67,264	264
Street Construction Maintenance			
Personal Services	260,000	266,541	6,541

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

The following accounts had expenditures plus encumbrances in excess of appropriations at December 31, 2001 contrary to Section 5705.41, Ohio Revised Code:

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
General Government			
Boards & Commissions:			
Services & Supplies	\$3,250	\$3,878	\$628
Executive:			
Services & Supplies	13,100	22,697	9,597
Municipal Center:			
Services & Supplies	56,200	63,035	6,835
Capital Outlay	5,000	11,546	6,546
Finance:			
Services & Supplies	66,800	67,496	696
Capital Outlay	6,900	7,364	464
Police:			
Personal Services	532,960	559,054	26,094
Fire:			
Personal Services	303,060	317,150	14,090
Parks & Recreation:			
Personal Services	-	26,902	26,902
Public Health			
Services & Supplies	45,000	45,148	148
Workers' Compensation:			
Services & Supplies	72,600	77,113	4,513
Employee Insurance:			
Services & Supplies	210,000	229,984	19,984
Unemployment Compensation			
Services & Supplies	4,500	5,001	501
Transfers:			
Transfers	482,150	520,574	38,424
Special Revenue			
Senior Citizens/Recreation:			
Personal Services	66,480	67,514	1,034
Services & Supplies	23,790	33,272	9,482
Capital Improvement			
St. Rte. 306 Repaving Project			
Capital Outlay	-	73,426	73,426
Debt Service			
General Obligation Bond			
Principal Retirement	203,056	204,023	967
Transfer Out	-	1,517,011	1,517,011

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 4 - Pooled Cash, Cash Equivalents and Investments

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

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

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

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

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

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

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

Repurchase agreement collateralized by securities enumerated above;

Interim deposits in eligible institutions applying for interim funds;

Bonds and other obligations of the State of Ohio, and

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

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

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

Discount notes of the Federal National Mortgage Association;

Bonds of the State of Ohio, and

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

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

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

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

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

Deposits:

- Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Uncollateralized

Investments:

- Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year-end the carrying amount of the City's deposits was \$103,885 in 2000 and \$169,397 in 2001 and the bank balance was \$320,098 in 2000 and \$383,922 in 2001. Federal depository insurance covered \$100,000 of the bank balance in 2000 and 2001, and all the remaining deposits were classified as category 3.

B. Investments

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

	<u>Carrying Amount</u>		<u>Fair Value</u>	
	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>
<u>Non Categorized Investments:</u>				
State Treasury Asset Reserve of Ohio (STAR Ohio)	<u>\$1,249,904</u>	<u>\$2,057,356</u>	<u>\$1,249,904</u>	<u>\$2,057,356</u>
Total Investments	<u><u>\$1,249,904</u></u>	<u><u>\$2,057,356</u></u>	<u><u>\$1,249,904</u></u>	<u><u>\$2,057,356</u></u>

The investment in STAROhio is not categorized because it is not evidenced by securities that exist in physical or bookkeeping entry form. Investments in STAROhio are valued at STAROhio's share price which is the price the investments could be sold for on December 31, 2001 and December 31, 2000.

NOTE 5- Taxes

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property which is used in business, located in the City. Real property taxes (other than public utility) collected in one calendar year are levied after October 1st of the preceding year on assessed values as of January 1 of that preceding year. Assessed values for real property are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2000 and equalization adjustments were made in 2000. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

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

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

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

The full tax rate for all City operations for the year ended December 31, 2000 and December 31, 2001, was \$11.05 per \$1,000 of assessed value. The assessed value upon which the 2000 levy was based was \$167,887,935 and the 2001 levy was based was \$189,021,541. The 2000 amount constitutes \$156,679,430 in real property assessed value, \$8,564,260 in public utility assessed value and \$2,644,245 in tangible personal property assessed value. The 2001 amount constitutes \$177,911,730 in real property assessed value, \$8,256,200 in public utility assessed value and \$2,853,611 in tangible personal property assessed value.

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

B. Income Tax

The City levies a tax of 1 percent on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 25% of the tax paid to another municipality, up to a limit of 1% of the amount assessed.

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

NOTE 6 - Receivables

Receivables at December 31, 2000 and December 31, 2001, consisted of taxes and accounts. All receivables are considered fully collectible except for a portion of accounts receivable, which is classified as allowance for doubtful accounts.

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 7 - Operating Transfers

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

A. 2000

	Transfers <u>In</u>	Transfers <u>Out</u>
General Fund	\$ -	\$503,366
Capital Project Fund: Kirtland Chardon Realignment	189,013	-
Debt Service Fund: General Bond Retirement Fund	<u>314,353</u>	<u>-</u>
Totals	<u><u>\$503,366</u></u>	<u><u>\$503,366</u></u>

B. 2001

	Transfers <u>In</u>	Transfers <u>Out</u>
General Fund	\$ -	\$516,034
Capital Project Fund: Kirtland Chardon Realignment	197,815	-
Debt Service Fund: General Bond Retirement Fund	<u>318,219</u>	<u>-</u>
Totals	<u><u>\$516,034</u></u>	<u><u>\$516,034</u></u>

NOTE 8 - Fixed Assets

2000 General Fixed Assets--Summary by category of changes in general fixed assets:

<u>Category</u>	<u>December 31, 1999</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2000</u>
Land	\$ 623,690	\$ -	\$ -	\$ 623,690
Buildings, Structures and Improvements	5,057,990	2,999	-	5,060,989
Machinery and Equipment	<u>2,356,924</u>	<u>433,998</u>	<u>(75,634)</u>	<u>2,715,288</u>
Totals	<u><u>\$8,038,604</u></u>	<u><u>\$436,997</u></u>	<u><u>\$(75,634)</u></u>	<u><u>\$8,399,967</u></u>

Proprietary Fixed Assets – Summary by Category at December 31, 2000

<u>Category</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Waste Water Treatment Plants	\$717,223	\$(356,584)	\$360,639

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

2001 General Fixed Assets--Summary by category of changes in general fixed assets:

<u>Category</u>	<u>December 31, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2001</u>
Land	\$ 623,690	\$ -	\$ -	\$ 623,690
Buildings, Structures And Improvements	5,060,989	-	-	5,060,989
Machinery and Equipment	2,715,288	325,507	(12,099)	3,028,696
Construction in Progress	-	129,589	-	129,589
Totals	<u>\$8,399,967</u>	<u>\$455,096</u>	<u>\$ (12,099)</u>	<u>\$8,842,964</u>

Proprietary Fixed Assets – Summary by Category at December 31, 2001

<u>Category</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Waste Water Treatment Plants	\$717,223	\$(368,732)	\$348,491

NOTE 9 - Defined Benefit Pension Plans

A. Public Employees Retirement System

All employees of the City, other than non-administrative full-time uniformed police officers and full-time firefighters participate in the Public Employees Retirement System of Ohio ("PERS of Ohio"), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report, which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer pension contribution rate for the City was 9.25 percent of covered payroll, increased from 6.54 percent in 2000. For 2000, PERS instituted a temporary employer rate rollback for state and local governments. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2001, 2000, 1999 and 1998 were \$119,081, \$105,814, \$89,611 and \$81,150, respectively. The full amount has been contributed for 2001, 2000, 1999 and 1998.

B. Police and Firemen's Disability and Pension Fund

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12 percent for police and 16.5 percent for firefighters. For 2000, the City contributions were 12.25 percent for police and 16.75 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$51,680 and \$90,790 for the year ended December 31, 2001, \$47,637 and \$81,002 for 2000, \$41,512 and \$76,227 for 1999, and \$40,506 and \$76,197 for 1998. The full amount has been contributed for 2001, 2000, 1999 and 1998.

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 10 - Postemployment Benefits

A. Public Employees Retirement System

The Public Employment Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service employees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 and 2000 employer contribution rate was 13.55 and 10.84 percent of covered payroll, 4.30 percent was the portion that was used to fund health care for 2001 and 2000.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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

The number of active contributing participants, as of 2001 and 2000, was 411,076 and 401,339 respectively. The City's actual contributions for 2001 and 2000, which were used to fund post-employment benefits were \$55,924 and \$47,860 respectively. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000 (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrual liability were \$14,364.6 million and \$2,628.7 million, respectively.

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1974, disclosure had been based on a pay-as-you-go funding basis.

B. Police and Firemen's Disability and Pension Fund

The Ohio Police and Firemen's Pension Fund ("OP&F") provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No 12. The Ohio Revised Code provide the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.25 percent and 7.25 percent of covered payroll was applied to the postemployment health care program during 2001 and 2000, respectively. In addition, since July 1, 1982, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2001 and 2000 that were used to fund post-employment benefits were \$30,586 and \$28,193 for police and \$39,297 and \$35,060 for fire, respectively. OP&F's total health care expense for the year ended December 31, 2000 (the latest information available) was \$106,160,054, which was net of member contributions of \$5,657,431. The number of OP&F participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters.

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 11 - Other Employee Benefits

Compensated Absences

The City provides a liability for accumulated unpaid vacation, holiday's, and sick leave when earned by employees. Accrued employee benefits for Governmental Funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount increased from a beginning balance of \$48,800 to the year-end balance of \$52,158 in 2000 while the amount increased from a beginning balance of \$52,158 to the year end balance of \$61,138 in 2001. Upon retirement, a City employee is paid 33.3 percent of sick time available up to 320 hours.

NOTE 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2001 and 2000 the City has contracted with various private carriers for the provision of property damage, general liability, automotive damage, public official's liability, police liability, boiler and machinery damage/loss, and crime and employee dishonesty.

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

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

NOTE 13 - Long-Term Obligations

Changes in the long-term obligations of the City during the year ended December 31, 2000, were as follows:

	<u>Balance Dec. 31, 1999</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2000</u>
Enterprise Debt				
General Obligation Bonds				
1991 4.5% to 7.5% Waste Water Improv.	\$ 20,000	\$ -	\$10,000	\$ 10,000
1998 4.5% to 5% Waste Water Refunding	<u>146,880</u>	<u>-</u>	<u>1,620</u>	<u>145,260</u>
Total Enterprise Debt	<u>\$166,880</u>	<u>\$ -</u>	<u>\$11,620</u>	<u>\$155,260</u>
General Long-term Obligations Account Group				
General Obligation Bonds				
1991 4.5% to 7.5% Fire and Civic Center	\$ 170,000	\$ -	\$ 80,000	\$ 90,000
1998 4.5% to 5% Fire and Civic Center	<u>2,573,120</u>	<u>-</u>	<u>28,380</u>	<u>2,544,740</u>
Total General Obligation Bonds	<u>2,743,120</u>	<u>-</u>	<u>108,380</u>	<u>2,634,740</u>
OPWC Issue II Loans				
GC419 –Road Safety Upgrade	73,289	-	20,939	52,350
GC515 –Road Safety Upgrade	105,480	-	23,440	82,040
GC701 –Road Safety Upgrade	<u>133,393</u>	<u>-</u>	<u>29,643</u>	<u>103,750</u>
Total OPWC Issue II Loans	<u>312,162</u>	<u>-</u>	<u>74,022</u>	<u>238,140</u>
Other Long-term Obligations				
Compensated Absences	<u>48,800</u>	<u>3,358</u>	<u>-</u>	<u>52,158</u>
Total General Long-term Obligations	<u>\$3,104,082</u>	<u>\$ 3,358</u>	<u>\$182,402</u>	<u>\$2,925,038</u>

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

Changes in the long-term obligations of the City during the year ended December 31, 2001, were as follows:

	<u>Balance Dec. 31, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2001</u>
Enterprise Debt				
General Obligation Bonds				
1991 4.5% to 7.5% Waste Water Improv.	\$ 10,000	\$ -	\$10,000	\$ -
1998 4.5% to 5% Waste Water Refunding	<u>145,260</u>	<u>-</u>	<u>1,620</u>	<u>143,640</u>
Total Enterprise Debt	<u>\$155,260</u>	<u>\$ -</u>	<u>\$11,620</u>	<u>\$143,640</u>
General Long-term Obligations Account Group				
General Obligation Bonds				
1991 4.5% to 7.5% Fire and Civic Center	\$ 90,000	\$ -	\$ 90,000	\$ -
1998 4.5% to 5% Fire and Civic Center	<u>2,544,740</u>	<u>-</u>	<u>28,380</u>	<u>2,516,360</u>
Total General Obligation Bonds	<u>2,634,740</u>	<u>-</u>	<u>118,380</u>	<u>2,516,360</u>
OPWC Issue II Loans				
GC419 -Road Safety Upgrade	52,350	-	20,939	31,411
GC515 -Road Safety Upgrade	82,040	-	23,440	58,600
GC701 -Road Safety Upgrade	<u>103,750</u>	<u>-</u>	<u>29,643</u>	<u>74,107</u>
Total OPWC Issue II Loans	<u>238,140</u>	<u>-</u>	<u>74,022</u>	<u>164,118</u>
Other Long-term Obligations				
Compensated Absences	52,158	8,980	-	61,138
Capital Leases	<u>-</u>	<u>32,152</u>	<u>8,250</u>	<u>23,902</u>
Total Other Long-term Obligations	<u>52,158</u>	<u>41,132</u>	<u>8,250</u>	<u>85,040</u>
Total General Long-term Obligations Account Group	<u>\$2,925,038</u>	<u>\$ 41,132</u>	<u>\$200,652</u>	<u>\$2,765,518</u>

Principal and interest requirements to retire long-term obligations at December 31, 2001 are as follows:

Years	General Obligation Bonds 1998		General Obligation Bonds 1998		OPWC		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$132,440	\$118,997	\$7,560	\$6,793	\$74,022	\$ -	\$214,022	\$125,790
2003	137,170	113,435	7,830	6,475	63,555	-	208,555	119,910
2004	141,900	107,537	8,100	6,138	26,541	-	176,541	113,675
2005	151,360	101,364	8,640	5,786	-	-	160,000	107,150
2006	151,360	94,628	8,640	5,402	-	-	160,000	100,030
2007-2011	823,020	363,562	46,980	20,753	-	-	870,000	384,315
2012-2016	979,110	151,597	55,890	8,654	-	-	1,035,000	160,251
	<u>\$2,516,360</u>	<u>\$1,051,120</u>	<u>\$143,640</u>	<u>\$60,001</u>	<u>\$164,118</u>	<u>\$ -</u>	<u>\$2,824,118</u>	<u>\$1,111,121</u>

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

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

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

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

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

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

	<u>December 31, 2000</u>	<u>December 31, 2001</u>
Outstanding balance of General Obligation Bonds	\$155,260	\$143,640
Unamortized Accounting Loss	<u>(36,133)</u>	<u>(33,724)</u>
Net Bond Payable	<u>\$119,127</u>	<u>\$109,916</u>

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

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

NOTE 14 – Jointly Governed Organizations

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 92 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Kirtland did not contribute to NOPEC during 2001. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, OH 44095.

**CITY OF KIRTLAND
LAKE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 15 - Contingencies

A. Litigation

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

B. Grant

The City received financial assistance from a State agency in the form of a grant. The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2001.

NOTE 16 – Capital Leases

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

General fixed assets consisting of equipment has been capitalized in the general fixed assets account group in the amount of \$32,152. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long term obligations account group. Principal payments in fiscal year 2001 totaled \$8,250.

<u>Year</u>	<u>General Long-Term Obligation</u>
2002	\$ 11,655
2003	11,656
2004	<u>2,681</u>
Total Minimum Lease Payments	25,992
Less: Amount Representing Interest	<u>(2,090)</u>
Present Value of minimum lease payments	\$ <u><u>23,902</u></u>

NOTE 17 – Operating Leases

The City leases the Police department’s computer system under a noncancelable operating lease. Total cost for the lease was \$15,538 for the year ended December 31, 2001. The future minimum lease payments for this lease are as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 16,950
2003	16,950
2004	<u>1,412</u>
Total	<u><u>\$ 35,312</u></u>

NOTE 18 – Subsequent Events

On March 18, 2002, the City issued a new bond anticipation note for two pumper fire trucks for \$600,000, and on August 7, 2002, the City refinanced bond anticipation notes for \$1,454,000 at a rate of 1.80% to improve the City’s sewer system, S.R. 306 and emergency communication equipment.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

Lausche Building
615 Superior Avenue, NW.
Twelfth Floor
Cleveland, Ohio 44113-1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

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

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

To the City Council:

We have audited the financial statements of the City of Kirtland, Lake County, Ohio, (the City) as of and for the years ended December 31, 2001 and December 31, 2000, and have issued our report thereon dated November 15, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-20843-001 through 2001-20843-003. We also noted immaterial instances of noncompliance that we have reported to the management of the City in a separate letter date November 15, 2002.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated November 15, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end.

Jim Petro
Auditor of State

November 15, 2002

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number	2001-20843-001
----------------	----------------

Ohio Revised Code § 5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

This section also provides two exceptions to the above requirements:

- A. If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the City may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.

- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the City.

59 of the 60 transactions tested (98%) were not certified by the fiscal officer at the time the commitment was incurred and neither of the exceptions provided for were used. Prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City funds being over expended or exceeding budgetary spending limitations, we recommend that all the City's disbursements receive prior certification of the fiscal officer that the funds are or will be available. When prior certification is not possible, then and now certification should be utilized.

Finding Number	2001-20843-002
----------------	----------------

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

The City did not compile and file its financial statements within the above time frame for 2001 and 2000. The State of Ohio may fine an entity \$25 a day, up to \$750.

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

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number	2001-20843-003
----------------	----------------

Ohio Rev. Code Section 5705.41(B) states that “no subdivision or taxing unit is to expend money unless it has been appropriated.” In December 31, 2001 and December 31, 2000, the City had expenditures plus encumbrances in excess of appropriations as follows:

For 2001:

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
General Government			
Boards & Commissions:			
Services & Supplies	\$3,250	\$3,878	\$628
Executive:			
Services & Supplies	13,100	22,697	9,597
Municipal Center:			
Services & Supplies	56,200	63,035	6,835
Capital Outlay	5,000	11,546	6,546
Finance:			
Services & Supplies	66,800	67,496	696
Capital Outlay	6,900	7,364	464
Police:			
Personal Services	532,960	559,054	26,094
Fire:			
Personal Services	303,060	317,150	14,090
Parks & Recreation:			
Personal Services	-	26,902	26,902
Public Health			
Services & Supplies	45,000	45,148	148
Workers' Compensation:			
Services & Supplies	72,600	77,113	4,513
Employee Insurance:			
Services & Supplies	210,000	229,984	19,984
Unemployment Compensation			
Services & Supplies	4,500	5,001	501
Transfers:			
Transfers	482,150	520,574	38,424

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number	2001-20843-003 (Continued)
----------------	----------------------------

For 2001 (Continued):

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
Special Revenue			
Senior Citizens/Recreation:			
Personal Services	66,480	67,514	1,034
Services & Supplies	23,790	33,272	9,482
Capital Improvement			
St. Rte. 306 Repaving Project			
Capital Outlay	-	73,426	73,426
Debt Service			
General Obligation Bond			
Principal Retirement	203,056	204,023	967
Transfer Out	-	1,517,011	1,517,011

For 2000:

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
General Government			
Executive:			
Capital Outlay	\$3,000	\$4,048	\$1,048
Police:			
Services & Supplies	112,000	118,500	6,500
Capital Outlay	70,950	74,350	3,400
Fire:			
Services & Supplies	92,100	99,655	7,555
Capital Outlay	131,160	133,392	2,232
Parks & Recreation:			
Services & Supplies	5,000	5,451	451
Special Revenue			
Senior Citizens/Recreation:			
Services & Supplies	67,000	67,264	264
Street Construction Maintenance			
Personal Services	260,000	266,541	6,541

By over expending appropriations, the City could encounter deficit balances in funds. We recommend the City monitor expenditures and compare them to appropriations on a monthly basis.

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-20843-001	Ohio Rev. Code Section 5705.41(D) Failure to certify funds.	No	Not Corrected – Reissued in 2001 as Finding Number 2001-20843-001.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
JANUARY 7, 2003**