



Mary Taylor, CPA
Auditor of State

**CITY OF KIRTLAND
LAKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, (the City) as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, as of December 31, 2005 and December 31, 2004, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Fire Emergency Levy funds for December 31, 2005 and for the General, Fire Operating Levy and Fire Emergency Levy funds for December 31, 2004 for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2004, the City implemented GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments* and during the year ended December 31, 2005, the City implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and restated the beginning budgetary fund balance for general fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

October 26, 2007

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The discussion and analysis of the City of Kirtland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are:

- This is the second year that the City has reported based on the GASB Statement No. 34 Reporting Model.
- Total assets increased by \$579,450 or 2.33 percent from \$24,908,521 in 2004 to \$25,487,971 in 2005.
- Total liabilities increased by \$946,240 or 15.58 percent from \$6,073,635 in 2004 to \$7,019,875 in 2005.
- Total net assets decreased \$366,790 or 1.95 percent from \$18,834,886 in 2004 to \$18,468,096 in 2005.
- Total capital assets increased \$626,988 or 3.33 percent from \$20,368,877 in 2004 to \$20,995,865 in 2005.
- Total long-term liabilities decreased \$182,336 or 4.19 percent from \$4,352,574 in 2004 to \$4,170,208 in 2005.

Using This Annual Basic Financial Statement Report (BFS)

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

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

City of Kirtland, Ohio
Management's Discussion and Analysis
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The City of Kirtland as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

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

Reporting the City of Kirtland's Most Significant Funds

Fund Financial Statements

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

Government Funds

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

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Proprietary Funds

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

The City of Kirtland as a Whole

The *Statement of Net Assets* looks at the City as a whole. Table I provides a summary of the City's net assets for 2005 compared to 2004.

Table I
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$4,419,114	\$4,463,798	\$72,992	\$75,846	\$4,492,106	\$4,539,644
Capital Assets, Net	20,191,551	19,627,843	804,314	741,034	20,995,865	20,368,877
<i>Total Assets</i>	<u>24,610,665</u>	<u>24,091,641</u>	<u>877,306</u>	<u>816,880</u>	<u>25,487,971</u>	<u>24,908,521</u>
Current and Other Liabilities	2,846,912	1,718,385	2,755	2,676	2,849,667	1,721,061
Long-Term Liabilities:						
Due Within One Year	174,618	172,383	8,640	8,640	183,258	181,023
Due In More Than One Year	3,908,169	4,086,539	78,781	85,012	3,986,950	4,171,551
<i>Total Liabilities</i>	<u>6,929,699</u>	<u>5,977,307</u>	<u>90,176</u>	<u>96,328</u>	<u>7,019,875</u>	<u>6,073,635</u>
Invested in Capital Assets, Net of Related Debt	15,549,339	16,407,304	716,893	647,382	16,266,232	17,054,686
Restricted:						
Capital Projects	710,707	253,717	0	0	710,707	253,717
Other Purposes	745,480	540,222	0	0	745,480	540,222
Unrestricted	675,440	913,091	70,237	73,170	745,677	986,261
<i>Total Net Assets</i>	<u>\$17,680,966</u>	<u>\$18,114,334</u>	<u>\$787,130</u>	<u>\$720,552</u>	<u>\$18,468,096</u>	<u>\$18,834,886</u>

Total assets increased by \$579,450 from 2004 to 2005. The biggest increases in assets were in the available cash at year end offset by the decrease in inventory and intergovernmental taxes receivable at year end. Cash increases were due to improved collections of income taxes and inheritance taxes. The increase in capital assets was due to acquisitions of major capital equipment offset by current year depreciation of assets.

Total liabilities increased by \$946,240 from 2004 to 2005. This increase was due to additional borrowings for the acquisition of major capital equipment and the widening of State Route 306.

Total net assets decreased by \$366,790, comprised of governmental net assets decreasing by \$433,368 and business-type activities increasing by \$66,578. Net assets decreased mainly due to the net effect of depreciation of capital assets.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Table 2 shows the changes in net assets for the years ended December 31, 2005, as compared to 2004.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	\$492,202	\$437,012	\$76,582	\$75,466	\$568,784	\$512,478
Operating Grants and Contributions	551,241	410,659	0	0	551,241	410,659
Capital Grants and Contributions	605,031	496,434	0	0	605,031	496,434
Total Program Revenues	1,648,474	1,344,105	76,582	75,466	1,725,056	1,419,571
General Revenues						
Property Taxes	1,365,107	1,241,351	0	0	1,365,107	1,241,351
Municipal Income Taxes	2,828,313	2,776,914	0	0	2,828,313	2,776,914
Grants and Entitlements	738,334	692,282	0	0	738,334	692,282
Interest	64,977	18,097	0	0	64,977	18,097
Miscellaneous	263,454	66,459	0	0	263,454	66,459
Total General Revenues	5,260,185	4,795,103	0	0	5,260,185	4,795,103
Total Revenues	6,908,659	6,139,208	76,582	75,466	6,985,241	6,214,674
Program Expenses						
General Government	1,730,128	1,637,303	0	0	1,730,128	1,637,303
Security of Persons and Property	2,740,035	2,167,192	0	0	2,740,035	2,167,192
Transportation	2,190,549	1,919,053	0	0	2,190,549	1,919,053
Public Health and Welfare	66,133	55,716	0	0	66,133	55,716
Community Environment	71,442	62,750	0	0	71,442	62,750
Leisure Time Activities	336,763	316,698	0	0	336,763	316,698
Interest and Fiscal Charges	129,053	146,370	8,737	0	137,790	146,370
Sewer	0	0	79,191	83,556	79,191	83,556
Total Program Expenses	7,264,103	6,305,082	87,928	83,556	7,352,031	6,388,638
Decrease in Net Assets						
Before Transfers	(355,444)	(165,874)	(11,346)	(8,090)	(366,790)	(173,964)
Transfers	(77,924)	0	77,924	0	0	0
<i>Increase (Decrease) in Net Assets</i>	<i>(433,368)</i>	<i>(165,874)</i>	<i>66,578</i>	<i>(8,090)</i>	<i>(366,790)</i>	<i>(173,964)</i>
Net Assets Beginning of Year	18,114,334	18,280,208	720,552	728,642	18,834,886	19,008,850
Net Assets End of Year	\$17,680,966	\$18,114,334	\$787,130	\$720,552	\$18,468,096	\$18,834,886

The City is very dependent on property taxes and income taxes, which account for 60.03 percent of total revenues. The City remained consistent in 2005 with previous years in the collection of revenues and the cost of doing business. The largest taxpayers of income taxes are employees of public facilities such as school and government agencies. This allows for consistency and stability of collections of income taxes.

The increase in grants and entitlements is due to the City receiving more inheritance taxes and grant monies in 2005 over 2004.

City of Kirtland, Ohio
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Security of persons and property represents the largest governmental program expense, 37.72 percent of governmental expenses. General government represents 23.53 percent and transportation represents 29.80 percent of total expenses. These three sources cover most of the services and programs offered by the City. The remaining 9.40 percent of governmental expenses are for community environment, leisure time or parks activities, sewer, and interest and fiscal charges on debt. The largest increase in expenses occurred in security of persons and property. The 26.43 percent increase in this area is primarily due to pay increases as well as additional purchases made in the Fire Department.

The governmental activities of the City principally include: general government, police, fire, streets and highways, parks, recreation and public lands, community development and engineering services.

GOVERNMENTAL ACTIVITIES

Several revenue sources fund the City's governmental activities with City income tax being the largest contribution. The income tax rate of 1 percent was established by City Ordinance No. 71-0-11, passed December 20, 1971. On November 6, 2001, the electors approved an increase in the income tax rate to 2 percent from 1 percent and a change in the tax credit for residents having income taxable in another community. In 2005, the revenue collected from income taxes was \$2,828,313. General revenues from property taxes and charges for services are also significant revenue generators. The City monitors its sources of revenues very closely for any changes or fluctuations.

Overall, the City has enjoyed a steady increase in income tax collections for the past ten years. This has been especially important to the City because the tax revenue has provided the City the funds to maintain streets, make infrastructure improvements and strengthen safety forces. The City of Kirtland continues to be very aggressive in collecting delinquent income tax. The City's strong economic growth and strong base of taxpayers provide the City with an income tax base that can sustain the loss of any major tax paying entity and still be able to meet the financial needs of the City. City income tax revenues of \$2,828,313 were designated for the City's general fund.

Total revenues for governmental activities for 2005 were \$6,908,659. Revenue consists primarily of property taxes of \$1,365,107 and income taxes of \$2,828,313, representing 19.76 and 40.94 percent, respectively, of total revenues. Intergovernmental revenues received through operating and capital grants or contributions as well as unrestricted grants and entitlements make up \$1,894,606 or 27.42 percent of revenues. The remaining 11.88 percent of revenues represent charges for services, interest and miscellaneous receipts. Charges for services include non-resident ambulance billing, cemetery fees and recreation fees.

Total governmental activities program expenses for 2005 were \$7,264,103. General government, security of persons and property and transportation expenses are the three main sources of expenses, representing 91.69 percent of all governmental expenses. These activities include police protection, fire protection, road construction, road maintenance, planning/zoning, mayoral office and finance office.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
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Table 3 presents a summary for governmental activities of the total cost of services and the net cost of providing these services. The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

Table 3
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
General Government	\$1,730,128	\$1,637,303	\$1,489,267	\$1,473,137
Security of Persons and Property	2,740,035	2,167,192	2,496,443	1,980,976
Transportation	2,190,549	1,919,053	1,143,439	1,024,994
Public Health and Welfare	66,133	55,716	60,788	49,905
Community Environment	71,442	62,750	65,915	53,380
Leisure Time Activities	336,763	316,698	230,724	232,215
Interest and Fiscal Charges	129,053	146,370	129,053	146,370
<i>Total</i>	\$7,264,103	\$6,305,082	\$5,615,629	\$4,960,977

Dependence on general revenues for governmental activities is apparent. Over 57.73 percent of total expenses are supported through taxes. Operating and capital grants program revenues support 26.08 percent while charges for services support 6.78 percent. The remaining expenses are supported by investment and miscellaneous revenues along with some of the carryover cash balance from year 2004.

BUSINESS-TYPE ACTIVITIES

Utility services for waste water had \$76,582 in charges for services which were not sufficient to cover the \$87,928 in total expenses in 2005. Currently the City operates three waste water treatment plants, which are combined for reporting purposes. Services include the monitoring and testing the discharge. The City closely monitors the cost of these services and will adjust the operating and/or capital improvement charges to pay for future development and related costs, as needed.

The City's Funds

All governmental funds had total revenues of \$6,832,831 and expenditures of \$8,039,742. The most significant fund is the general fund with a year-end fund balance of \$363,680, which included an unreserved fund balance of \$349,536 compared to annual expenditures of \$4,745,786. Expenditures exceeded revenues by \$193,850. For governmental funds, expenditures exceeded revenues by \$1,206,911 due to the payment of short-term notes.

The fire emergency levy special revenue fund is used to operate the fire department. Property tax revenues of \$363,286 along with \$55,798 in intergovernmental revenues exceeded total expenditures of \$410,000. The fire emergency levy ended the year with an \$98,147 fund balance. The fire department services will be continuing at the current level of service.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The state route 306 realignment and signal capital projects fund ended the year with a decrease in fund balance of \$733,237, due to additional costs related to the realignment of State Route 306 and the purchase of new traffic signals.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2005 the City amended its general fund budget two times for a total increase to certified revenues in the amount of \$52,381. All capital projects and requests for capital type purchases in excess of \$15,000 must be reviewed and approved individually by the Mayor, after which they are sent to the formal council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, services and supplies, capital outlay object level within each department and fund. The Finance Director, with approval from the Mayor, has been authorized to allocated appropriations to more detailed function and object levels within each fund.

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

For the general fund, the original budgeted revenues were \$4,417,359, the final budgeted amount was \$4,469,740 and the actual amount was \$5,001,304. The \$531,564 difference was due primarily to the City receiving more income tax and grant revenue than anticipated. Original appropriations of \$4,163,243 were increased during the year by \$75,650 to establish final appropriations of \$4,238,893 for the year. The actual expenditures of \$4,688,069 exceeded the final budget by \$449,176, primarily due to personnel and equipment costs in the police and fire departments.

Capital Assets and Debt Administration

Capital Assets

Total capital assets for the City of Kirtland as of December 31, 2005 were \$20,995,865. The \$1,642,898 in additions to buildings and improvements, machinery and equipment, and roads for the governmental activities capital assets were offset by the \$1,067,099 in current year depreciation, giving the capital assets an overall increased from 2004 to 2005. Business-type activities capital assets had \$77,924 in additions to construction in progress offset by \$14,644 in current year depreciation to give an overall \$63,280 increase in capital assets.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$623,690	\$623,690	\$114,840	\$114,840	\$738,530	\$738,530
Construction in Progress	0	0	466,389	388,465	466,389	388,465
Buildings and Improvements	3,658,781	3,775,297	48,742	51,735	3,707,523	3,827,032
Machinery and Equipment	1,884,479	1,674,558	39,568	42,233	1,924,047	1,716,791
Infrastructure						
Roads	13,161,623	12,650,496	0	0	13,161,623	12,650,496
Storm Sewers	862,978	903,802	0	0	862,978	903,802
Sewer Lines	0	0	134,775	143,761	134,775	143,761
<i>Total Capital Assets</i>	\$20,191,551	\$19,627,843	\$804,314	\$741,034	\$20,995,865	\$20,368,877

The City continues to improve the safety and traffic flow on its roads. This has been accomplished by the commitment to continue road resurfacing as well as the installation of storm sewers. In addition to the improvements above, the City completed a major capital road project for the addition of a third lane on State Route 306 in the town center. The project was funded through a combination of local, county, and State funding. Major future projects include the improvement of the intersection of State Routes 306 and 6.

City Council is committed along with the Administration to maintain its capital assets at a condition acceptable to provide the best possible service for all residents. In 2004, the City's capital equipment purchases included civic center improvements, three new police vehicles and a senior center pavilion. In 2005, the City's capital equipment purchases included dump trucks, paving equipment, an ambulance, and vehicles for the service and police departments.

The City continues to monitor the requirements of its public buildings and lands. Currently the existing buildings and lands are adequate to provide for the current services being offered. Future additions or replacements will include the addition of land for recreational purposes, improvements to the recreation center and improvements to the fire station and service garage located on State Route 306.

See Note 8 of the Notes to the Basic Financial Statements for additional information on the City's capital assets.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Debt

On December 31, 2005, the City of Kirtland had \$4,715,326 in bonds, loans and notes outstanding, with \$800,000 due within one year. Table 5 summarizes bonds, loans and notes outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$1,953,490	\$2,104,850	\$87,421	\$93,652	\$2,040,911	\$2,198,502
OPWC Loans	313,415	313,415	0	0	313,415	313,415
Short-term Notes Payable	640,000	26,000	0	0	640,000	26,000
Long-term Notes Payable	1,721,000	1,761,000	0	0	1,721,000	1,761,000
Total	\$4,627,905	\$4,205,265	\$87,421	\$93,652	\$4,715,326	\$4,298,917

The general obligation bonds include a fire department and civic center bond of \$1,953,490 - a \$2,667,000 bond originally issued on December 1, 1998. Payments are made from the general fund.

The Ohio Public Works Commission loans represent interest free loans obtained to finance portions of sanitary sewers for the Templeview Sewer Rehabilitation. This loan is not finalized since the project is not yet completed. It will be paid from assessments based on benefit units to landowners within the development.

On July 25, 2005 the City retired \$1,787,000 in general obligation bond anticipation notes and issued \$2,361,000 in notes with a maturity date of July 28, 2006. \$1,721,000 of these notes are considered to be long-term obligations of the City since they are anticipating rolling them into bonds in 2007. The \$1,721,000 notes issued were for various building improvement projects throughout the City and for various street or storm sewer improvements.

The City's overall legal debt margin on December 31, 2005 was \$20,890,472 with an unvoted debt margin of \$9,043,626.

See Notes 14 and 15 of the Notes to the Basic Financial Statements for additional information on the City's outstanding debt obligations.

Current Financial Related Activities

Over the past ten years the City has enjoyed strong growth in revenues as a result of new residential development. The City, with the support of the school system, has granted a tax abatement to one new company. Although property taxes have been partially deferred as a result of the tax abatement, the deferral has been more than offset by the significant increase in income tax collections.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

City health care costs for employees have been increasing by nearly 14 percent since 2004. During the period of 2002 through 2005, health care insurance costs continued to escalate everywhere and the City continues to find ways to keep the costs at reasonable levels while providing the best possible insurance coverage for City employees. The City negotiated an employee cost sharing with all bargaining units in the City in 2004.

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

Contacting the City's Finance Department

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

City of Kirtland, Ohio

Statement of Net Assets

December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,695,643	\$72,283	\$1,767,926
Materials and Supplies Inventory	31,977	0	31,977
Accounts Receivable	38,769	709	39,478
Intergovernmental Receivable	539,431	0	539,431
Prepaid Items	858	0	858
Municipal Income Taxes Receivable	778,039	0	778,039
Property Taxes Receivable	1,334,397	0	1,334,397
Non-Depreciable Capital Assets	623,690	581,229	1,204,919
Depreciable Capital Assets, Net	19,567,861	223,085	19,790,946
<i>Total Assets</i>	<u>24,610,665</u>	<u>877,306</u>	<u>25,487,971</u>
Liabilities			
Accounts Payable	43,687	1,644	45,331
Contracts Payable	148,252	0	148,252
Accrued Wages and Benefits	195,054	301	195,355
Vacation Benefits Payable	91,039	0	91,039
Intergovernmental Payable	391,051	360	391,411
Deferred Revenue	1,305,394	0	1,305,394
Accrued Interest Payable	32,435	450	32,885
Notes Payable	640,000	0	640,000
Long-Term Liabilities:			
Due Within One Year	174,618	8,640	183,258
Due In More Than One Year	3,908,169	78,781	3,986,950
<i>Total Liabilities</i>	<u>6,929,699</u>	<u>90,176</u>	<u>7,019,875</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	15,549,339	716,893	16,266,232
Restricted for:			
Capital Projects	710,707	0	710,707
Fire Emergency Levy	136,621	0	136,621
Street Construction, Maintenance and Repair	170,288	0	170,288
Senior Citizens	153,015	0	153,015
Other Purposes	285,556	0	285,556
Unrestricted	675,440	70,237	745,677
<i>Total Net Assets</i>	<u>\$17,680,966</u>	<u>\$787,130</u>	<u>\$18,468,096</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$1,730,128	\$240,861	\$0	\$0
Security of Persons and Property	2,740,035	154,040	89,552	0
Transportation	2,190,549	80,340	361,739	605,031
Public Health and Welfare	66,133	5,345	0	0
Community Environment	71,442	5,527	0	0
Leisure Time Activities	336,763	6,089	99,950	0
Interest and Fiscal Charges	129,053	0	0	0
<i>Total Governmental Activities</i>	7,264,103	492,202	551,241	605,031
Business-Type Activities				
Waste Water	87,928	76,582	0	0
<i>Total</i>	\$7,352,031	\$568,784	\$551,241	\$605,031

General Revenues

Property Taxes Levied for:
 General Purposes
 Fire Operating
 Fire Emergency
 Other Purposes
Municipal Income Taxes
 Levied for General Purposes
Grants and Entitlements
 not Restricted to Specific Programs
Investment Earnings
Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net Revenue (Expense) and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,489,267)	\$0	(\$1,489,267)
(2,496,443)	0	(2,496,443)
(1,143,439)	0	(1,143,439)
(60,788)	0	(60,788)
(65,915)	0	(65,915)
(230,724)	0	(230,724)
(129,053)	0	(129,053)
(5,615,629)	0	(5,615,629)
<u>0</u>	<u>(11,346)</u>	<u>(11,346)</u>
<u>(5,615,629)</u>	<u>(11,346)</u>	<u>(5,626,975)</u>
573,448	0	573,448
136,650	0	136,650
366,013	0	366,013
288,996	0	288,996
2,828,313	0	2,828,313
738,334	0	738,334
64,977	0	64,977
263,454	0	263,454
5,260,185	0	5,260,185
<u>(77,924)</u>	<u>77,924</u>	<u>0</u>
<u>5,182,261</u>	<u>77,924</u>	<u>5,260,185</u>
(433,368)	66,578	(366,790)
<u>18,114,334</u>	<u>720,552</u>	<u>18,834,886</u>
<u>\$17,680,966</u>	<u>\$787,130</u>	<u>\$18,468,096</u>

City of Kirtland, Ohio

Balance Sheet

Governmental Funds

December 31, 2005

	<u>General</u>	<u>Fire Emergency Levy</u>	<u>State Route 306 Realignment and Signal</u>
Assets			
Equity in Pooled Cash and			
Cash Equivalents	\$344,931	\$98,147	\$278,585
Materials and Supplies Inventory	31,977	0	0
Accounts Receivable	38,769	0	0
Intergovernmental Receivable	307,500	29,091	0
Prepaid Items	858	0	0
Municipal Income Taxes Receivable	778,039	0	0
Property Taxes Receivable	<u>560,602</u>	<u>370,618</u>	<u>0</u>
<i>Total Assets</i>	<u><u>\$2,062,676</u></u>	<u><u>\$497,856</u></u>	<u><u>\$278,585</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$37,436	\$0	\$150
Accrued Wages and Benefits	195,054	0	0
Contracts Payable	19,620	0	128,632
Intergovernmental Payable	391,051	0	0
Deferred Revenue	1,055,835	399,709	0
Accrued Interest Payable	0	0	0
Notes Payable	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Liabilities</i>	<u>1,698,996</u>	<u>399,709</u>	<u>128,782</u>
Fund Balances			
Reserved for Encumbrances	14,144	0	1,987
Unreserved:			
Undesignated, Reported in:			
General Fund	349,536	0	0
Special Revenue Funds	0	98,147	0
Capital Projects Funds (Deficit)	<u>0</u>	<u>0</u>	<u>147,816</u>
<i>Total Fund Balances (Deficit)</i>	<u>363,680</u>	<u>98,147</u>	<u>149,803</u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$2,062,676</u></u>	<u><u>\$497,856</u></u>	<u><u>\$278,585</u></u>

See accompanying notes to the basic financial statements

<u>Templeview Sewer</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$281,168	\$692,812	\$1,695,643
0	0	31,977
0	0	38,769
0	202,840	539,431
0	0	858
0	0	778,039
0	403,177	1,334,397
<u>\$281,168</u>	<u>\$1,298,829</u>	<u>\$4,419,114</u>
\$0	\$6,101	\$43,687
0	0	195,054
0	0	148,252
0	0	391,051
0	541,575	1,997,119
7,418	1,374	8,792
540,000	100,000	640,000
<u>547,418</u>	<u>649,050</u>	<u>3,423,955</u>
0	244,127	260,258
0	0	349,536
0	462,498	560,645
(266,250)	(56,846)	(175,280)
<u>(266,250)</u>	<u>649,779</u>	<u>995,159</u>
<u>\$281,168</u>	<u>\$1,298,829</u>	<u>\$4,419,114</u>

City of Kirtland, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2005*

Total Governmental Fund Balances		\$995,159
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		20,191,551
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	29,003	
Intergovernmental	364,090	
Municipal Income Taxes	298,632	
Total		691,725
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(23,643)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(91,039)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds.		
General Obligation Bonds	(1,953,490)	
OPWC Loans	(313,415)	
Notes Payable	(1,721,000)	
Capital Leases	(14,307)	
Compensated Absences	(80,575)	
Total		(4,082,787)
<i>Net Assets of Governmental Activities</i>		\$17,680,966

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Fire Emergency Levy	General Obligation Bond Retirement	State Route 306 Realignment and Signal
Revenues				
Property and Other Taxes	\$569,945	\$363,286	\$0	\$0
Municipal Income Taxes	2,763,786	0	0	0
Charges for Services	136,477	0	0	0
Licenses and Permits	17,239	0	0	0
Fines and Forfeitures	47,186	0	0	0
Intergovernmental	749,572	55,798	0	605,031
Rentals	183,300	0	0	0
Interest	64,977	0	0	0
Contributions and Donations	0	0	0	0
Miscellaneous	19,454	0	0	0
<i>Total Revenues</i>	<u>4,551,936</u>	<u>419,084</u>	<u>0</u>	<u>605,031</u>
Expenditures				
Current:				
General Government	1,666,443	0	0	0
Security of Persons and Property	1,868,989	410,000	0	0
Transportation	1,016,971	0	0	0
Public Health and Welfare	66,133	0	0	0
Community Environment	68,382	0	0	0
Leisure Time Activities	33,528	0	0	0
Capital Outlay	23,375	0	0	1,338,268
Debt Service:				
Principal Retirement	1,898	0	151,360	0
Interest and Fiscal Charges	67	0	133,961	0
<i>Total Expenditures</i>	<u>4,745,786</u>	<u>410,000</u>	<u>285,321</u>	<u>1,338,268</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(193,850)</u>	<u>9,084</u>	<u>(285,321)</u>	<u>(733,237)</u>
Other Financing Sources (Uses)				
Notes Issued	0	0	1,221,000	0
Current Refunding	0	0	(1,221,000)	0
Inception of Capital Lease	12,516	0	0	0
Transfers In	0	0	285,321	0
Transfers Out	(311,321)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(298,805)</u>	<u>0</u>	<u>285,321</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(492,655)	9,084	0	(733,237)
<i>Fund Balances (Deficit)</i>				
<i>Beginning of Year</i>	<u>856,335</u>	<u>89,063</u>	<u>0</u>	<u>883,040</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$363,680</u>	<u>\$98,147</u>	<u>\$0</u>	<u>\$149,803</u>

(continued)

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (continued)
For the Year Ended December 31, 2005

	Templeview Sewer	Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Taxes	\$0	\$423,292	\$1,356,523
Municipal Income Taxes	0	0	2,763,786
Charges for Services	0	106,241	242,718
Licenses and Permits	0	0	17,239
Fines and Forfeitures	0	1,759	48,945
Intergovernmental	0	471,488	1,881,889
Rentals	0	0	183,300
Interest	0	0	64,977
Contributions and Donations	0	10,000	10,000
Miscellaneous	0	244,000	263,454
<i>Total Revenues</i>	<u>0</u>	<u>1,256,780</u>	<u>6,832,831</u>
Expenditures			
Current:			
General Government	0	0	1,666,443
Security of Persons and Property	0	310,001	2,588,990
Transportation	0	329,901	1,346,872
Public Health and Welfare	0	0	66,133
Community Environment	0	11,383	79,765
Leisure Time Activities	0	210,931	244,459
Capital Outlay	77,924	311,472	1,751,039
Debt Service:			
Principal Retirement	0	0	153,258
Interest and Fiscal Charges	7,418	1,337	142,783
<i>Total Expenditures</i>	<u>85,342</u>	<u>1,175,025</u>	<u>8,039,742</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(85,342)</u>	<u>81,755</u>	<u>(1,206,911)</u>
Other Financing Sources (Uses)			
Notes Issued	0	500,000	1,721,000
Current Refunding	(540,000)	0	(1,761,000)
Inception of Capital Lease	0	0	12,516
Transfers In	0	26,000	311,321
Transfers Out	0	0	(311,321)
<i>Total Other Financing Sources (Uses)</i>	<u>(540,000)</u>	<u>526,000</u>	<u>(27,484)</u>
<i>Net Change in Fund Balances</i>	<u>(625,342)</u>	<u>607,755</u>	<u>(1,234,395)</u>
<i>Fund Balances (Deficit)</i>			
<i>Beginning of Year</i>	<u>359,092</u>	<u>42,024</u>	<u>2,229,554</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$266,250)</u></u>	<u><u>\$649,779</u></u>	<u><u>\$995,159</u></u>

City of Kirtland, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds	(\$1,234,395)
 <i>Amounts reported for governmental activities in the statements of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:	
Capital Asset Additions	1,642,898
Current Year Depreciation	<u>(1,067,099)</u>
Total	575,799
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
	(12,091)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Delinquent Property Taxes	8,584
Intergovernmental	2,717
Municipal Income Taxes	<u>64,527</u>
Total	75,828
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets:	
Note Principal	(1,721,000)
Capital Lease	<u>(12,516)</u>
Total	(1,733,516)
Repayment of bond, note and loan principal and capital lease payments are expenditures in the governmental funds, but the repayments reduce the long-term liabilities in the statement of net assets:	
Bond, Note and Loan Principal	1,912,360
Capital Lease Payments	<u>1,898</u>
Total	1,914,258
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an expenditure is reported when bonds are due.	
	13,730
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Compensated Absences	(4,607)
Vacation Benefits	<u>(28,374)</u>
Total	<u>(32,981)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>(\$433,368)</u></u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property and Other Taxes	\$608,506	\$620,339	\$569,945	(\$50,394)
Municipal Income Taxes	2,440,432	2,466,412	2,839,288	372,876
Charges for Services	117,294	118,543	136,464	17,921
Licenses and Permits	14,817	14,975	17,239	2,264
Fines and Forfeitures	41,297	41,736	48,046	6,310
Intergovernmental	953,168	963,315	1,108,950	145,635
Rentals	157,550	159,228	183,300	24,072
Interest	55,849	56,443	64,977	8,534
Miscellaneous	28,446	28,749	33,095	4,346
<i>Total Revenues</i>	<u>4,417,359</u>	<u>4,469,740</u>	<u>5,001,304</u>	<u>531,564</u>
Expenditures				
Current:				
General Government	1,595,643	1,700,971	1,685,445	15,526
Security of Persons and Property	1,435,185	1,365,455	1,819,235	(453,780)
Transportation	963,961	1,006,917	1,017,295	(10,378)
Public Health and Welfare	55,800	56,900	66,133	(9,233)
Community Environment	72,700	68,696	68,696	0
Leisure Time Activities	39,954	39,954	31,265	8,689
<i>Total Expenditures</i>	<u>4,163,243</u>	<u>4,238,893</u>	<u>4,688,069</u>	<u>(449,176)</u>
<i>Excess of Revenues Over Expenditures</i>	254,116	230,847	313,235	82,388
Other Financing Uses				
Transfers Out	(320,000)	(320,000)	(311,321)	8,679
<i>Net Change in Fund Balance</i>	(65,884)	(89,153)	1,914	91,067
<i>Fund Balance Beginning of Year</i>	208,742	208,742	208,742	0
Prior Year Encumbrances Appropriated	69,893	69,893	69,893	0
<i>Fund Balance End of Year</i>	<u>\$212,751</u>	<u>\$189,482</u>	<u>\$280,549</u>	<u>\$91,067</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Emergency Levy Fund
For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property and Other Taxes	\$364,142	\$352,434	\$363,286	\$10,852
Intergovernmental	35,000	55,000	55,798	798
<i>Total Revenues</i>	399,142	407,434	419,084	11,650
Expenditures				
Current:				
Security of Persons and Property	410,000	326,000	410,000	(84,000)
<i>Net Change in Fund Balance</i>	(10,858)	81,434	9,084	(72,350)
<i>Fund Balance Beginning of Year</i>	89,063	89,063	89,063	0
<i>Fund Balance End of Year</i>	\$78,205	\$170,497	\$98,147	(\$72,350)

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2005

	Waste Water
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$72,283
Accounts Receivable	709
	72,992
<i>Total Current Assets</i>	
 <i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	581,229
Depreciable Capital Assets, Net	223,085
	804,314
<i>Total Noncurrent Assets</i>	
	877,306
 Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	1,644
Accrued Wages and Benefits	301
Intergovernmental Payable	360
Accrued Interest Payable	450
Bonds Payable - Current	8,640
	11,395
<i>Total Current Liabilities</i>	
 <i>Long-Term Liabilities</i>	
Bonds Payable	78,781
	90,176
<i>Total Liabilities</i>	
 Net Assets	
Invested in Capital Assets, Net of Related Debt	716,893
Unrestricted	70,237
	\$787,130
<i>Total Net Assets</i>	

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Fund
For the Year Ended December 31, 2005*

	Waste Water
Operating Revenues	
Charges for Services	\$76,582
Operating Expenses	
Personal Services	17,029
Services and Supplies	47,518
Depreciation	14,644
<i>Total Operating Expenses</i>	79,191
<i>Operating Loss</i>	(2,609)
Non Operating Expenses	
Interest and Fiscal Charges	(8,737)
<i>Loss Before Contributions</i>	(11,346)
Capital Contributions	77,924
<i>Change in Net Assets</i>	66,578
<i>Net Assets Beginning of Year</i>	720,552
<i>Net Assets End of Year</i>	\$787,130

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2005

	Waste Water
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$75,995
Cash Payments to Suppliers for Services and Supplies	(47,472)
Cash Payments for Employee Services and Benefits	(16,964)
	11,559
<i>Net Cash Provided By Operating Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Principal Paid on Bonds	(8,640)
Interest Paid on Bonds	(6,360)
	(15,000)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
Net Decrease in Cash and Cash Equivalents	(3,441)
<i>Cash and Cash Equivalents Beginning of Year</i>	75,724
<i>Cash and Cash Equivalents End of Year</i>	\$72,283
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(\$2,609)
<i>Adjustments:</i>	
Depreciation	14,644
Increase in Assets:	
Accounts Receivable	(587)
Increase (Decrease) in Liabilities:	
Accounts Payable	46
Accrued Wages and Benefits	56
Intergovernmental Payable	9
	14,168
<i>Total Adjustments</i>	14,168
<i>Net Cash Provided by Operating Activities</i>	\$11,559

Noncash Activities:

The City of Kirtland Waster Water District received donated capital assets from developers in the amount of \$77,924.

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	<u>Private Purpose Trust</u>	
	<u>Cemetery</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,386	<u>\$393,447</u>
Liabilities		
Deposits Held and Due to Others	<u>0</u>	<u>\$393,447</u>
Net Assets		
Held in Trust for Perpetual Care	<u>\$2,386</u>	

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2005

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

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 – Description of the City and Reporting Entity

Description of the City

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

Reporting Entity

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

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

The City participates in one jointly governed organization, the Northeast Ohio Public Energy Council. This organization is presented in Note 16 of the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Kirtland have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activity and enterprise fund. The more significant of the City's accounting policies are described below.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

General Fund This fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

General Obligation Bond Retirement Fund – This fund accounts for transfers that are utilized for the repayment of general obligation debt.

State Route 306 Realignment and Signal Fund – The State Route 306 realignment and signal fund accounts for the costs associated with the road realignment and movement/replacement of traffic signals on State Route 306.

Templeview Sewer Fund The Templeview Sewer fund accounts for the costs associated with the repair and construction to the sewer lines on Templeview.

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

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

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

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

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

C. Measurement Focus

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

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

During 2005, investments were limited to STAROhio (State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2005.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$64,977, which includes \$54,619 assigned from other City funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

H. Inventory

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars (\$1,000). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest costs incurred during the construction of enterprise fund capital assets are also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 Years
Machinery and Equipment	10 Years
Vehicles	8-20 Years
Infrastructure	20-100 years

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances are recorded as a reservation of fund balance.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use by law either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,456,187 of restricted net assets, of which \$134,385 is restricted by enabling legislation. Net assets

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

restricted for other purposes include resources restricted for law enforcement, drug enforcement and education, police pension payments, state highway maintenance and recreation activities.

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

Note 3 – Change in Accounting Principles

A. Changes in Accounting Principles

For 2005, the City has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures,” and GASB Statement No. 42 “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.”

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

GASB Statement No. 40 establishes new disclosure requirements for risk associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

Note 4 - Budgetary Basis of Accounting

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

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

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and major special revenue funds.

Net Change in Fund Balance

	General	Fire Emergency Levy
GAAP Basis	(\$492,655)	\$9,084
Net Adjustment for Revenue Accruals	436,852	0
Net Adjustment for Expenditure Accruals	(6,665)	0
Encumbrances	64,382	0
Budget Basis	\$1,914	\$9,084

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 5 – Compliance and Accountability

A. Legal Compliance

Contrary to Ohio Revised Code Section 5705.39, the following funds had original appropriations in excess of original certifications of available revenue plus beginning balances:

	Original Certifications Plus Beginning Balances	Original Appropriations	Excess
Police Operating Levy	\$63,747	\$105,000	(\$41,253)
Police Pension	57,752	70,000	(12,248)
Fire Operating Levy	(51,145)	135,000	(186,145)
Senior Citizens and Recreation	130,001	149,990	(19,989)
Street Construction, Maintenance and Repair	290,517	292,092	(1,575)
General Obligation Bond Retirement	1,230,000	1,512,830	(282,830)

Contrary to Ohio Revised Code Section 5705.39, the following funds had final appropriations in excess of final certifications of available revenue plus beginning balances:

	Final Certifications Plus Beginning Balances	Final Appropriations	Excess
Police Operating Levy	\$104,808	\$146,000	(\$41,192)
Police Pension	69,838	82,000	(12,162)
Fire Operating Levy	135,264	322,000	(186,736)
Senior Citizens and Recreation	165,536	192,950	(27,414)

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
<i>General Government</i>			
Judicial			
Services and Supplies	\$25,278	\$33,290	(\$8,012)
Legal			
Services and Supplies	28,553	31,943	(3,390)
Municipal Center			
Services and Supplies	58,609	59,355	(746)
Finance			
Services and Supplies	140,210	147,365	(7,155)
<i>Security of Persons and Property</i>			
Police			
Personal Services	569,023	674,272	(105,249)
Services and Supplies	170,855	174,621	(3,766)
Fire			
Personal Services	311,208	368,366	(57,158)
Services and Supplies	103,869	104,888	(1,019)
Capital Outlay	133,000	420,521	(287,521)
<i>Public Health and Welfare</i>			
Public Health			
Services and Supplies	56,900	66,133	(9,233)
<i>Transportation</i>			
Public Works			
Services and Supplies	301,810	320,383	(18,573)
General Obligation Bond Retirement:			
<i>Debt Service</i>			
Principal Retirement	151,360	177,360	(26,000)
Fire Emergency Levy:			
<i>Security of Persons and Property</i>			
Personal Services	326,000	410,000	(84,000)
Street Construction and Maintenance:			
<i>Transportation</i>			
Services and Supplies	292,092	328,520	(36,428)
Senior Citizens:			
<i>Leisure Time Activities</i>			
Personal Services	15,000	20,805	(5,805)
Major Capital Equipment Account:			
<i>General Government</i>			
Capital Outlay	0	7,804	(7,804)

Although these budgetary violations were not corrected by year-end, management has indicated that appropriations will be closely monitored to ensure no future violations.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Accountability

The senior citizens and recreation special revenue fund had a deficit fund balance of \$4,534 as of December 31, 2005. The fund deficit was caused by adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather when accruals occur.

Note 6 - Deposits and Investments

Monies held by the City are classified by State statute into three categories.

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

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

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$176,405 of the City's bank balance of \$276,405 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

Investments are reported at fair value. As of December 31, 2005, the City's only investment was in STAROhio with a fair value of \$2,055,895 and an average maturity of 39 days.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

Note 7 – Receivables

Receivables at December 31, 2005, consisted primarily of property and other taxes, municipal taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventories.

The full tax rate for all City operations for the year ended December 31, 2005 was \$11.05 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property:	
Residential/Agricultural	\$214,535,770
Other Real Estate	12,324,700
Public Utility Personal Property	8,176,910
Tangible Personal Property	1,899,540
Total	<u><u>\$236,936,920</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

Tangible personal property taxes paid by multi-city taxpayers are due September 20. Single City taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The Lake County Treasurer collects property tax on behalf of all taxing districts within the County, including the City of Kirtland. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

B. Income Tax

In November of 2001, the City approved an income tax increase from one to two percent beginning January 1, 2002 on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 75 percent of the tax paid to another municipality, not to exceed two percent of taxable income.

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

C. Intergovernmental Receivable

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

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$265,898
Gasoline Tax	125,032
Homestead and Rollback	85,081
Motor Vehicle License Tax	30,816
Permissive Tax	27,603
Enforcement Fines	2,944
Estate Tax	2,057
Total Intergovernmental Receivables	<u>\$539,431</u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 8 - Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$623,690	\$0	\$0	\$623,690
Capital Assets, Being Depreciated				
Buildings and Improvements	5,454,152	31,275	0	5,485,427
Machinery and Equipment	3,175,641	402,137	(75,786)	3,501,992
Infrastructure				
Roads	27,732,880	1,209,486	0	28,942,366
Storm Sewers	1,020,606	0	0	1,020,606
<i>Total Capital Assets, Being Depreciated</i>	<u>37,383,279</u>	<u>1,642,898</u>	<u>(75,786)</u>	<u>38,950,391</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(1,678,855)	(147,791)	0	(1,826,646)
Machinery and Equipment	(1,501,083)	(180,125)	63,695	(1,617,513)
Infrastructure				
Roads	(15,082,384)	(698,359)	0	(15,780,743)
Storm Sewers	(116,804)	(40,824)	0	(157,628)
<i>Total Accumulated Depreciation</i>	<u>(18,379,126)</u>	<u>(1,067,099) *</u>	<u>63,695</u>	<u>(19,382,530)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>19,004,153</u>	<u>575,799</u>	<u>(12,091)</u>	<u>19,567,861</u>
Governmental Activities Capital Assets, Net	<u><u>\$19,627,843</u></u>	<u><u>\$575,799</u></u>	<u><u>(\$12,091)</u></u>	<u><u>\$20,191,551</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Balance 12/31/04	Additions	Reductions	Balance 12/31/04
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$114,840	\$0	\$0	\$114,840
Construction in progress	388,465	77,924	0	466,389
<i>Total Capital Assets, Not Being Depreciated</i>	<u>503,305</u>	<u>77,924</u>	<u>0</u>	<u>581,229</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	149,654	0	0	149,654
Machinery and Equipment	46,505	0	0	46,505
Infrastructure				
Sewer Lines	449,314	0	0	449,314
<i>Total Capital Assets, Being Depreciated</i>	<u>645,473</u>	<u>0</u>	<u>0</u>	<u>645,473</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(97,919)	(2,993)	0	(100,912)
Machinery and Equipment	(4,272)	(2,665)	0	(6,937)
Infrastructure				
Sewer Lines	(305,553)	(8,986)	0	(314,539)
<i>Total Accumulated Depreciation</i>	<u>(407,744)</u>	<u>(14,644)</u>	<u>0</u>	<u>(422,388)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>237,729</u>	<u>(14,644)</u>	<u>0</u>	<u>223,085</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u><u>\$741,034</u></u>	<u><u>\$63,280</u></u>	<u><u>\$0</u></u>	<u><u>\$804,314</u></u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$64,580
Security of Persons and Property	135,977
Transportation	812,976
Community Environment	3,060
Leisure Time Activities	50,506
Total	<u><u>\$1,067,099</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 9 - Risk Management

A. Property and Liability

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2005, the City contracted with Sutton Insurance Agency for various types of insurance through Wichert Insurance Agency and Love Insurance Agency as follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Wichert Agency:		
Commercial Property	\$8,052,855	\$0
Earthquake and Buildings	500,000	2,500
Boiler Machinery and Machinery	8,052,855	1,000
Inland Marine	952,787	1,000
Commercial General Liability	1,000,000	1,000
Selective Umbrella Liability	4,000,000	0
Commercial Automotive	1,000,000	500
Uninsured Motorists	25,000	0
Love Insurance Agency:		
Law Enforcement	1,000,000	5,000
Public Officials	1,000,000	5,000
Employment Practices	1,000,000	5,000
Finance Director	100,000	0
City Clerk	100,000	0

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

B. Workers' Compensation

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

Note 10 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$164,315, \$158,699 and \$119,612 respectively; 92.72 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$38 made by the City and \$24 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$65,271 and \$92,268 for the year ended December 31, 2005, \$60,046 and \$92,917 for the year ended December 31, 2004, and \$55,373 and \$79,322 for the year ended December 31, 2003, respectively. The full amount has been contributed for 2003 and 2002. 84.20 percent and 87.86 percent has been contributed for 2005.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 11 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1 and 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$68,823. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health

City of Kirtland, Ohio
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For the Year Ended December 31, 2005

care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$43,051 for police and \$44,005 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

Note 12 – Other Employee Benefits

A. Compensated Absences

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

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

B. Health Insurance

The City provides hospitalization, medical, dental, vision and life insurance for all full time employees. QualChoice provides the hospitalization and medical insurance. Employees pay ten percent of the premium up to a maximum of \$100 effective January 2005. Aetna US Healthworks provides the dental insurance which is paid entirely by the City. Eye Care Plan of America provides vision insurance which is paid entirely by the City. The plan covers lenses, contacts and routine office exams. BMA provides life insurance and core accidental death insurance of \$20,000 which is paid entirely by the City. Employees are able to add extra insurance once a year for themselves, their spouse or children up to \$500,000 or five times their annual salary, whichever is less, paid by the employee through payroll deductions.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 13 – Capital Leases

Prior to 2005, the City entered into three capital leases for a skid steer, Compaq computers and a copier. During 2005, the City entered into two capital leases for a copier and a vehicle. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases". Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program expenditures on a budgetary basis. The equipment contracted was capitalized in the amount of \$101,921, the present value of the minimum lease payments at the inception of the lease. Accumulated depreciation on the equipment was \$35,558, with a book value of \$66,363 as of December 31, 2005.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of minimum lease payments as of December 31, 2005:

Year Ending December 31,	Governmental Activities
2006	\$5,388
2007	4,773
2008	3,640
2009	648
2010	432
Total Minimum Lease Payments	14,881
Less: Amount Representing Interest	(574)
Present Value of Minimum Lease Payments	\$14,307

Note 14 – Note Debt

A summary of note transactions for the year ended December 31, 2005 follows:

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05
Governmental Activities				
2004, 2.55% Communication Equipment	\$26,000	\$0	(\$26,000)	\$0
2005, 3.15% Templeview Sewer	0	540,000	0	540,000
2005, 3.15% Major Capital Equipment	0	100,000	0	100,000
Total	\$26,000	\$640,000	(\$26,000)	\$640,000

All the notes are backed by the full faith and credit of the City of Kirtland and mature within one year. The maturity date for all outstanding notes is July 27, 2006. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended. The notes will be paid from transfers from general obligation bond retirement fund.

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

Note 15 - Long-Term Term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Enterprise General Obligation Bonds:</i>			
Waste Water Refunding - 1998	4.50-5.00 %	\$173,000	December 1, 2016
<i>General Obligation Bonds:</i>			
Fire Department and Civic Center - 1998	4.50-5.00	2,667,000	December 1, 2016
<i>Ohio Public Works Commission Loan:</i>			
GC19B Templeview Sewer - 2003	0.00	313,415	Incomplete
<i>Long-term Notes</i>			
State Route 306	2.05	1,075,000	July 28, 2006
Templeview Sewer	2.05	660,000	July 27, 2006
Major Capital Equipment	3.15	500,000	July 27, 2006
Communication Equipment	2.55	26,000	July 27, 2006

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

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05	Amounts Due in One Year
Business-Type Activities					
<i>General Obligation Bonds</i>					
Waste Water Refunding	\$120,150	\$0	(\$8,640)	\$111,510	\$8,640
Unamortized Loss on Refunding	(26,498)	0	2,409	(24,089)	0
<i>Total Business-Type Activities</i>	<u>\$93,652</u>	<u>\$0</u>	<u>(\$6,231)</u>	<u>\$87,421</u>	<u>\$8,640</u>

City of Kirtland, Ohio
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For the Year Ended December 31, 2005

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05	Amounts Due in One Year
Governmental Activities					
<i>General Obligation Bonds</i>					
Fire Department and Civic Center Refunding Bonds	\$2,104,850	\$0	(\$151,360)	\$1,953,490	\$151,360
<i>OPWC Loan</i>					
Templeview Sewer	313,415	0	0	313,415	0
<i>Long-term Notes</i>					
Various Purpose Notes					
State Route 306	1,075,000	1,075,000	(1,075,000)	1,075,000	0
Templeview Sewer	660,000	120,000	(660,000)	120,000	0
Major Capital Equipment	0	500,000	0	500,000	0
Communication Equipment	26,000	26,000	(26,000)	26,000	0
<i>Total Long-Term Notes</i>	1,761,000	1,721,000	(1,761,000)	1,721,000	0
Capital Lease Obligation	3,689	12,516	(1,898)	14,307	5,184
Compensated Absences	75,968	9,214	(4,607)	80,575	18,074
<i>Total Governmental Activities</i>	\$4,258,922	\$1,742,730	(\$1,918,865)	\$4,082,787	\$174,618

On May 28, 1998, the City issued \$2,840,000 in general obligation bonds with interest rates varying from 4.50 percent to 5.00 percent. The bond proceeds were used to refund the 1991 Fire Department and Civic Center general obligation bonds of \$2,630,000 and the 1991 waste water general obligation bonds of \$150,000. As of December 31, 2001, the outstanding refunded general obligation bonds were called and paid.

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

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

In 2003, the City received \$313,415 in Ohio Public Works Commission loans for the Templeview Sewer Project. The project has not been completed; therefore, no amortization schedule has been established to determine annual payments or the final maturity. A special assessment will be levied on the benefiting units upon completion of the project.

City of Kirtland, Ohio
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For the Year Ended December 31, 2005

Bond anticipation notes that were rolled over prior to the issuance of the financial statements and that have a new maturity beyond the end of the year in which the report is issued have been reported as long-term obligations in the government wide statements. The notes are backed by the full faith of the City of Kirtland. All of the long-term notes will be paid by transfers from the general obligation bond retirement fund.

The City's overall legal debt margin was \$20,890,472 with an unvoted debt margin of \$9,043,626 at December 31, 2005. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	General Obligation Bonds		General Obligation Bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$151,360	\$94,629	\$8,640	\$5,402
2007	160,820	87,818	9,180	5,013
2008	170,280	80,500	9,720	4,595
2009	160,820	72,667	9,180	4,148
2010	160,820	65,108	9,180	3,717
2011-2015	931,810	198,188	53,190	11,313
2016-2020	217,580	10,879	12,420	621
Total	<u>\$1,953,490</u>	<u>\$609,789</u>	<u>\$111,510</u>	<u>\$34,809</u>

Note 16 – Jointly Governed Organization

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2005. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

Note 17 – Interfund Transfers

The general fund transferred \$285,321 to the general obligation bond retirement fund and \$26,000 to the capital equipment fund for debt payment requirements.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 18 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City.

B. Litigation

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

Note 19 – Subsequent Event

On July 27, 2006, the City retired \$2,361,000 in general obligation bond anticipation notes and issued \$1,020,000 in new notes with a maturity date of July 28, 2007 and an interest rate of 3.15 percent. The following table summarizes the activity.

<u>Note Issuance</u>	<u>Retired</u>	<u>Issued</u>
State Route 306	\$1,075,000	\$0
Templeview Sewer	660,000	120,000
Major Capital Equipment	600,000	500,000
Communication Equipment	26,000	0
State Route 306 and Route 6 Intersection	0	400,000
<i>Total Notes</i>	<u>\$2,361,000</u>	<u>\$1,020,000</u>

The City also issued various purpose general obligation bonds in the amount of \$2,005,000, \$1,075,000 of which was used to pay off the \$1,075,000 State Route 306 notes.

On July 27, 2007, the City retired \$1,020,000 in general obligation bond anticipation notes and issued \$915,000 in new notes with a maturity date of July 28, 2008 and an interest rate of 4.15 percent. The following table summarizes the activity.

<u>Note Issuance</u>	<u>Retired</u>	<u>Issued</u>
Templeview Sewer	\$120,000	\$115,000
Major Capital Equipment	500,000	400,000
State Route 306 and Route 6 Intersection	400,000	400,000
<i>Total Notes</i>	<u>\$1,020,000</u>	<u>\$915,000</u>

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The discussion and analysis of the City of Kirtland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are:

- This is the first year that the City has reported based on the GASB Statement No. 34 Reporting Model.
- Total assets decreased by \$349,278 or 1.38 percent from \$25,257,799 in 2003 to \$24,908,521 in 2004.
- Total liabilities decreased by \$175,314 or 2.81 percent from \$6,248,949 in 2003 to \$6,073,635 in 2004.
- Total net assets decreased \$173,964 or 0.92 percent from \$19,008,850 in 2003 to \$18,834,886 in 2004.
- Total capital assets decreased \$732,245 or 3.47 percent from \$21,101,122 in 2003 to \$20,368,877 in 2004.
- Total long-term liabilities increased \$523,582 or 1.37 percent from \$3,828,992 in 2003 to \$4,352,574 in 2004.

Using This Annual Basic Financial Statement Report (BFS)

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

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

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The City of Kirtland as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

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

Reporting the City of Kirtland's Most Significant Funds

Fund Financial Statements

The presentation of the City's funds begins on page 68. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Kirtland, the major funds are the general, fire operating levy, fire emergency levy and State Route 306 realignment and signal funds.

Government Funds

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

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between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Proprietary Funds

Proprietary funds (the waste water fund) have historically operated as enterprise funds using the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the City as a whole.

The City of Kirtland as a Whole

The *Statement of Net Assets* looks at the City as a whole. Table I provides a summary of the City's net assets for 2004 compared to 2003.

Table I
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$4,463,798	\$4,059,827	\$75,846	\$96,850	\$4,539,644	\$4,156,677
Capital Assets, Net	19,627,843	20,367,833	741,034	733,289	20,368,877	21,101,122
<i>Total Assets</i>	24,091,641	24,427,660	816,880	830,139	24,908,521	25,257,799
Current and Other Liabilities	1,718,385	2,417,802	2,676	2,155	1,721,061	2,419,957
Long-Term Liabilities:						
Due Within One Year	172,383	149,759	8,640	8,100	181,023	157,859
Due In More Than One Year	4,086,539	3,579,891	85,012	91,242	4,171,551	3,671,133
<i>Total Liabilities</i>	5,977,307	6,147,452	96,328	101,497	6,073,635	6,248,949
Invested in Capital Assets, Net of Related Debt	16,407,304	16,385,285	647,382	633,947	17,054,686	17,019,232
Restricted:						
Capital Projects	253,717	354,308	0	0	253,717	354,308
Other Purposes	540,222	656,355	0	0	540,222	656,355
Unrestricted	913,091	884,260	73,170	94,695	986,261	978,955
<i>Total Net Assets</i>	\$18,114,334	\$18,280,208	\$720,552	\$728,642	\$18,834,886	\$19,008,850

Total assets decreased by \$349,278 from 2003 to 2004. The biggest increases in assets were in the available cash at year end and the amount of municipal income tax receivable offset by the decrease in capital assets and property taxes receivable at year end. Cash increases were due to improved collections of income taxes and other billed services, while the income tax receivable increase was due to a subpoena tax compliance program implemented in November 2004. The decrease in capital assets was due to the current year depreciation of assets, while the property taxes receivable decrease was due to delayed collections.

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Total liabilities decreased by \$175,314 from 2003 to 2004. This decrease was mainly due to less deferred revenue related to the decrease in property taxes receivable.

Total net assets decreased by \$173,964 with governmental net assets comprising \$165,874 and business-type activities comprising \$8,090 of that amount. Net assets decreased mainly due to net effect of the above increases and decreases to the assets and liabilities along with the fact that revenues were slightly less than the expenses for the year. This shows the basic stability of the City.

Table 2 shows the changes in net assets for the year ended December 31, 2004. Since this was the first year to report under GASB Statement No. 34, comparable data is not available at this time. It will be included when the data is available.

Table 2
Changes in Net Assets

	Governmental Activities <u>2004</u>	Business-Type Activities <u>2004</u>	Total <u>2004</u>
Revenues			
Program Revenues:			
Charges for Services	\$437,012	\$75,466	\$512,478
Operating Grants and Contributions	410,659	0	410,659
Capital Grants and Contributions	496,434	0	496,434
<i>Total Program Revenues</i>	<u>1,344,105</u>	<u>75,466</u>	<u>1,419,571</u>
General Revenues:			
Property Taxes	1,241,351	0	1,241,351
Municipal Income Taxes	2,776,914	0	2,776,914
Grants and Entitlements	692,282	0	692,282
Investments	18,097	0	18,097
Miscellaneous	66,459	0	66,459
<i>Total General Revenues</i>	<u>4,795,103</u>	<u>0</u>	<u>4,795,103</u>
<i>Total Revenues</i>	<u>6,139,208</u>	<u>75,466</u>	<u>6,214,674</u>
Program Expenses			
General Government	1,637,303	0	1,637,303
Security of Persons and Property	2,167,192	0	2,167,192
Transportation	1,919,053	0	1,919,053
Public Health and Welfare	55,716	0	55,716
Community Environment	62,750	0	62,750
Leisure Time Activities	316,698	0	316,698
Interest and Fiscal Charges	146,370	0	146,370
Waste Water	0	83,556	83,556
<i>Total Expenses</i>	<u>6,305,082</u>	<u>83,556</u>	<u>6,388,638</u>
Decrease in Net Assets	(165,874)	(8,090)	(173,964)
Net Assets, January 1, 2004	<u>18,280,208</u>	<u>728,642</u>	<u>19,008,850</u>
Net Assets, December 31, 2004	<u>\$18,114,334</u>	<u>\$720,552</u>	<u>\$18,834,886</u>

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The City is very dependent on property taxes and income taxes, which account for 65.45 percent of total governmental revenues. The overall financial strength of the City remained consistent in 2004 with previous years in the collection of revenues and the cost of doing business. The largest taxpayers of income taxes are public facilities such as school and government agencies. This allows for consistency and stability of collections of income taxes.

Security of persons and property represents the largest governmental program expense, 34.37 percent of all expenses. General government represents 25.97 percent and transportation represents 30.44 percent of total governmental expenses. These three sources cover most of the services and programs offered by the City. The remaining 9.22 percent of expenses are for community environment, leisure time or parks activities, and interest and fiscal charges on debt. The governmental activities of the City principally include: general government, police, fire, streets and highways, parks, recreation and public lands, community development and engineering services.

GOVERNMENTAL ACTIVITIES

Several revenue sources fund the City's governmental activities with City income tax being the largest contribution. The income tax rate of 1 percent was established by City Ordinance No. 71-0-11, passed December 20, 1971. On November 6, 2001, the electors approved an increase in the income tax rate to 2 percent from 1 percent and a change in the tax credit for residents having income taxable in another community. In 2004, the revenue collected from income taxes was \$2,776,914. General revenues from property taxes and charges for services are also significant revenue generators. The City monitors its sources of revenues very closely for any changes or fluctuations.

Overall, the City has enjoyed a steady increase in income tax collections for the past ten years. This has been especially important to the City because the tax revenue has provided the City the funds to maintain streets, make infrastructure improvements and strengthen safety forces. The City of Kirtland continues to be very aggressive in collecting delinquent income tax. The City's strong economic growth and strong base of taxpayers provide the City with an income tax base that can sustain the loss of any major tax paying entity and still be able to meet the financial needs of the City. City income tax revenues of \$2,766,914 were designated for the City's general fund.

Total revenues for governmental activities for 2004 were \$6,139,208. Revenue consists primarily of property taxes of \$1,214,351 and income taxes of \$2,776,914, representing 20.22 and 45.23 percent, respectively, of total revenues. Intergovernmental revenues received through operating or capital grants or contributions as well as unrestricted grants and entitlements make up \$1,599,375 or 26.05 percent of revenues. The remaining 8.50 percent of revenues represent charges for services, interest and miscellaneous receipts. Charges for services include non-resident ambulance billing, cemetery fees and recreation fees.

Total governmental activities program expenses for 2004 were \$6,305,082. General government, security of persons and property and transportation expenses are the three main sources of expenses, representing 90.78 percent of all governmental expenses. These activities include police protection, fire protection, road construction, road maintenance, planning/zoning, mayoral office and finance office.

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Table 3 presents a summary for governmental activities, the total cost of services and the net cost of providing these services. The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Since this was the first year to report under GASB Statement No. 34, comparable data is not available at this time. It will be included when the data is available.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
	2004	2004
General Government	\$1,637,303	\$1,473,137
Security of Persons and Property	2,167,192	1,980,976
Transportation	1,919,053	1,024,994
Public Health and Welfare	55,716	49,905
Community Environment	62,750	53,380
Leisure Time Activities	316,698	232,215
Interest and Fiscal Charges	146,370	146,370
Total Cost of Services	\$6,305,082	\$4,960,977

Dependence on general revenues for governmental activities is apparent. Over 63.73 percent of total expenses are supported through taxes. State support or program revenues support 25.37 percent while charges for services support 6.93 percent. The remaining 3.97 percent of expenses are supported by investment and miscellaneous revenues along with some of the carryover cash balance from year 2003.

BUSINESS-TYPE ACTIVITIES

Utility services for waste water had \$75,466 in charges for services which were not sufficient to cover the \$83,556 in total expenses in 2004. Currently the City operates three waste water treatment plants, which are combined for reporting purposes. Services include monitoring and testing the discharge. The City closely monitors the cost of these services and will adjust the operating and/or capital improvement charges to pay for future development and related costs, as needed.

The City's Funds

The City's governmental funds begin on page 68. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,461,209 and expenditures of \$5,687,995. The most significant fund is the general fund with a year-end fund balance of \$856,335, which included an unreserved fund balance of \$851,391 compared to annual expenditures of \$3,832,632. While all governmental funds revenues exceeded expenditures by \$773,214, much of the excess was transferred to the general obligation bond retirement fund to pay for debt obligations of the City.

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The fire operating levy and the fire emergency levy funds are used to operate the fire department. Property tax revenues of \$420,798 along with \$2,245 in intergovernmental revenues did not exceed total expenditures of \$540,000. The fire operating levy ended the year with an \$181,886 deficit fund balance and the fire emergency levy ended the year with an \$89,063 fund balance. The fire department services will be continuing at the current level of service. The deficit in the fire operating levy will be offset with additional funding provided by the general fund. The Route 306 realignment and signal major fund ended with a fund balance of \$883,040.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2004 the City amended its general fund budget two times for a total increase to certified revenues in the amount of \$37,890. All capital projects and requests for capital type purchases in excess of \$15,000 must be reviewed and approved individually by the Mayor, after which they are sent to the formal council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, services and supplies, capital outlay object level for each department and fund. The Finance Director, with approval from the Mayor, has been authorized to allocated appropriations to more detailed function and object levels within each fund.

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

For the general fund, the original budgeted revenues were \$4,342,230, and the final budgeted amount was \$4,380,120. Of this \$37,890 difference, most was due to increased income tax revenues received. Original appropriations of \$4,038,259 were increased during the year by \$30,000 to establish final appropriations of \$4,068,259 for the year. These increases were due to primarily to legal and personnel costs.

Capital Assets and Debt Administration

Capital Assets

Total capital assets for the City of Kirtland as of December 31, 2004 were \$20,368,877. The \$338,011 in additions to buildings and improvements, machinery and equipment, and storm sewers for the governmental activities capital assets were offset by the \$1,061,501 in current year depreciation, giving the capital assets an overall decrease from 2003 to 2004. Business-type activities capital assets had \$22,108 in additions to machinery and equipment offset by \$14,363 in current year depreciation to give an overall \$7,745 increase in capital assets.

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Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$623,690	\$623,690	\$114,840	\$114,840	\$738,530	\$738,530
Construction in Progress	0	0	388,465	388,465	388,465	388,465
Buildings and Improvements	3,775,297	3,865,061	51,735	54,728	3,827,032	3,919,789
Machinery and Equipment	1,674,558	1,806,876	42,233	22,509	1,716,791	1,829,385
Infrastructure						
Roads	12,650,496	13,343,818	0	0	12,650,496	13,343,818
Storm Sewers	903,802	728,388	0	0	903,802	728,388
Sewer Lines	0	0	143,761	152,747	143,761	152,747
<i>Total Capital Assets</i>	<u>\$19,627,843</u>	<u>\$20,367,833</u>	<u>\$741,034</u>	<u>\$733,289</u>	<u>\$20,368,877</u>	<u>\$21,101,122</u>

The City continues to improve the safety and traffic flow on its roads. This has been accomplished by the commitment to continue road resurfacing as well as the installation of storm sewers. In addition to the improvements above, the City has also embarked on major capital road projects which should be completed in 2005. These projects are generally funded through a combination of local, county, and State funding. Major future projects include the addition of a third lane on State Route 306 in the town center and the improvement of the intersection of State Routes 306 and 6.

City Council is committed along with the Administration to maintain its capital assets at a condition acceptable to provide the best possible service for all residents. In 2003, the City's capital equipment purchases included two new fire trucks, portable defibrillators, and police station equipment. In 2004, the City's capital equipment purchases included civic center improvements, three new police vehicles and a senior center pavilion.

The City continues to monitor the requirements of its public buildings and lands. Currently the existing buildings and lands are adequate to provide for the current services being offered. Future additions or replacements will include the addition of land for recreational purposes, improvements to the recreation center and improvements to the fire station and service garage located on State Route 306.

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

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Debt

On December 31, 2004, the City of Kirtland had \$4,298,917 in bonds, loans and notes outstanding, with \$186,000 due within one year. Table 5 summarizes bonds, loans and notes outstanding.

Table 5
Outstanding Debt at Year End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General Obligation Bonds	\$2,104,850	\$2,246,750	\$93,652	\$99,342	\$2,198,502	\$2,346,092
OPWC Loans	313,415	313,415	0	0	313,415	313,415
Notes Payable	1,787,000	1,728,000	0	0	1,787,000	1,728,000
Total	<u>\$4,205,265</u>	<u>\$4,288,165</u>	<u>\$93,652</u>	<u>\$99,342</u>	<u>\$4,298,917</u>	<u>\$4,387,507</u>

The general obligation bonds include a fire department and civic center bond of \$2,104,850 - a \$2,667,000 bond originally issued on December 1, 1998; payments are made from the general obligation bond retirement fund.

The Ohio Public Works Commission loans represent interest free loans obtained to finance portions of sanitary sewers for the Templeview Sewer Rehabilitation. This loan is not finalized since the project is not yet completed. It will be paid from assessments based on benefit units to landowners within the development.

The City retired \$1,728,000 in general obligation bond anticipation notes and issued \$1,787,000 in new notes with a maturity date of July 28, 2005. Of the \$1,787,000 in new notes, \$26,000 is considered short term. Since it will be paid off in 2005 and the remainder of these notes is considered to be long-term obligations of the City since they are anticipating rolling them into bonds in 2006. The \$1,138,000 notes and the \$675,000 notes were issued for various street, storm sewer improvements, and emergency communication equipment.

The City's overall legal debt margin on December 31, 2004 was \$20,335,039 with an unvoted debt margin of \$8,649,180.

See Notes 16 & 17 of the Notes to the Basic Financial Statements for additional information on the City's outstanding debt obligations.

Current Financial Related Activities

Over the past ten years the City has enjoyed strong growth in revenues as a result of new residential development. The City, with the support of the school system, has granted a tax abatement to one new company. Although property taxes have been partially deferred as a result of the tax abatement, the deferral has been more than offset by the significant increase in income tax collections.

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

City health care costs for employees have been increasing by nearly 8 percent annually since 2002. During the period of 2002 through 2004, health care insurance costs continued to escalate everywhere and the City continues to find ways to keep the costs at reasonable levels while providing the best possible insurance coverage for City employees. The City negotiated an employee cost sharing with all bargaining units in the City in 2004.

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

Contacting the City's Finance Department

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

City of Kirtland, Ohio

Statement of Net Assets

December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,649,233	\$75,724	\$1,724,957
Materials and Supplies Inventory	49,590	0	49,590
Accounts Receivable	47,507	122	47,629
Intergovernmental Receivable	595,007	0	595,007
Prepaid Items	712	0	712
Municipal Income Taxes Receivable	789,014	0	789,014
Property Taxes Receivable	1,332,735	0	1,332,735
Non-Depreciable Capital Assets	623,690	503,305	1,126,995
Depreciable Capital Assets, Net	19,004,153	237,729	19,241,882
<i>Total Assets</i>	<u>24,091,641</u>	<u>816,880</u>	<u>24,908,521</u>
Liabilities			
Accounts Payable	94,361	1,598	95,959
Accrued Wages and Benefits	93,310	245	93,555
Vacation Benefits Payable	62,665	0	62,665
Intergovernmental Payable	92,323	351	92,674
Deferred Revenue	1,312,316	0	1,312,316
Accrued Interest Payable	37,410	482	37,892
Notes Payable	26,000	0	26,000
Long-Term Liabilities:			
Due Within One Year	172,383	8,640	181,023
Due In More Than One Year	4,086,539	85,012	4,171,551
<i>Total Liabilities</i>	<u>5,977,307</u>	<u>96,328</u>	<u>6,073,635</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	16,407,304	647,382	17,054,686
Restricted for:			
Capital Projects	253,717	0	253,717
Fire Emergency Levy	123,239	0	123,239
Street Construction, Maintenance and Repair	152,141	0	152,141
Senior Citizens	117,118	0	117,118
Other Purposes	147,724	0	147,724
Unrestricted	913,091	73,170	986,261
<i>Total Net Assets</i>	<u>\$18,114,334</u>	<u>\$720,552</u>	<u>\$18,834,886</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
Governmental Activities				
General Government	\$1,637,303	\$164,166	\$0	\$0
Security of Persons and Property	2,167,192	171,216	15,000	0
Transportation	1,919,053	84,276	313,349	496,434
Public Health and Welfare	55,716	5,811	0	0
Community Environment	62,750	5,740	3,630	0
Leisure Time Activities	316,698	5,803	78,680	0
Interest and Fiscal Charges	146,370	0	0	0
<i>Total Governmental Activities</i>	6,305,082	437,012	410,659	496,434
Business-Type Activities				
Waste Water	83,556	75,466	0	0
<i>Total</i>	\$6,388,638	\$512,478	\$410,659	\$496,434

General Revenues

Property Taxes Levied for:

- General Purposes
- Fire Operating
- Fire Emergency
- Other Purposes

Municipal Income Taxes Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net Revenue (Expense) and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,473,137)	\$0	(\$1,473,137)
(1,980,976)	0	(1,980,976)
(1,024,994)	0	(1,024,994)
(49,905)	0	(49,905)
(53,380)	0	(53,380)
(232,215)	0	(232,215)
(146,370)	0	(146,370)
(4,960,977)	0	(4,960,977)
0	(8,090)	(8,090)
(4,960,977)	(8,090)	(4,969,067)
573,581	0	573,581
126,431	0	126,431
297,440	0	297,440
243,899	0	243,899
2,776,914	0	2,776,914
692,282	0	692,282
18,097	0	18,097
66,459	0	66,459
4,795,103	0	4,795,103
(165,874)	(8,090)	(173,964)
18,280,208	728,642	19,008,850
\$18,114,334	\$720,552	\$18,834,886

City of Kirtland, Ohio

Balance Sheet

Governmental Funds

December 31, 2004

	<u>General</u>	<u>Fire Operating Levy</u>	<u>Fire Emergency Levy</u>
Assets			
Equity in Pooled Cash and			
Cash Equivalents	\$46,061	\$0	\$89,063
Materials and Supplies Inventory	49,590	0	0
Accounts Receivable	47,507	0	0
Interfund Receivable	232,575	0	0
Intergovernmental Receivable	388,987	1,724	27,520
Prepaid Items	712	0	0
Municipal Income Taxes Receivable	789,014	0	0
Property Taxes Receivable	558,592	122,686	369,596
	<u> </u>	<u> </u>	<u> </u>
<i>Total Assets</i>	<u>\$2,113,038</u>	<u>\$124,410</u>	<u>\$486,179</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$70,534	\$0	\$0
Accrued Wages and Benefits	93,310	0	0
Interfund Payable	0	181,886	0
Intergovernmental Payable	92,323	0	0
Accrued Interest Payable	0	0	0
Notes Payable	0	0	0
Deferred Revenue	1,000,536	124,410	397,116
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities</i>	<u>1,256,703</u>	<u>306,296</u>	<u>397,116</u>
Fund Balances			
Reserved for Encumbrances	4,944	0	0
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	851,391	0	0
Special Revenue Funds	0	(181,886)	89,063
Capital Projects Funds	0	0	0
	<u> </u>	<u> </u>	<u> </u>
<i>Total Fund Balances (Deficit)</i>	<u>856,335</u>	<u>(181,886)</u>	<u>89,063</u>
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,113,038</u>	<u>\$124,410</u>	<u>\$486,179</u>

See accompanying notes to the basic financial statements

State Route 306 Realignment and Signal	Other Governmental Funds	Total Governmental Funds
\$883,040	\$631,069	\$1,649,233
0	0	49,590
0	0	47,507
0	0	232,575
0	176,776	595,007
0	0	712
0	0	789,014
0	281,861	1,332,735
<u>\$883,040</u>	<u>\$1,089,706</u>	<u>\$4,696,373</u>
\$0	\$23,827	\$94,361
0	0	93,310
0	50,689	232,575
0	0	92,323
0	37	37
0	26,000	26,000
0	406,151	1,928,213
<u>0</u>	<u>506,704</u>	<u>2,466,819</u>
0	92	5,036
0	0	851,391
0	249,855	157,032
883,040	333,055	1,216,095
<u>883,040</u>	<u>583,002</u>	<u>2,229,554</u>
<u>\$883,040</u>	<u>\$1,089,706</u>	<u>\$4,696,373</u>

City of Kirtland, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2004*

Total Governmental Fund Balances \$2,229,554

*Amounts reported for governmental activities in
 the statement of net assets are different because*

Capital assets used in governmental activities are not financial resources
 and therefore are not reported in the funds. 19,627,843

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

Delinquent Property Taxes	20,419
Intergovernmental	361,373
Municipal Income Taxes	234,105

Total 615,897

In the statement of activities, interest is accrued on outstanding bonds,
 whereas in governmental funds, an interest expenditure is reported when due. (37,373)

Vacation benefits payable is not expected to be paid with expendable available
 financial resources and therefore are not reported in the funds. (62,665)

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

General Obligation Bonds	(2,104,850)
OPWC Loans	(313,415)
Notes Payable	(1,761,000)
Capital Leases	(3,689)
Compensated Absences	(75,968)

Total (4,258,922)

Net Assets of Governmental Activities \$18,114,334

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Fire Operating Levy	Fire Emergency Levy	General Obligation Bond Retirement
Revenues				
Property and Other Taxes	\$570,821	\$125,739	\$295,059	\$0
Municipal Income Taxes	2,983,797	0	0	0
Charges for Services	159,552	0	0	0
Licenses and Permits	15,784	0	0	0
Fines and Forfeitures	51,680	0	0	0
Intergovernmental	816,081	1,703	542	0
Rentals	172,978	0	0	0
Interest	18,097	0	0	0
Contributions and Donations	0	0	0	0
Miscellaneous	59,977	0	0	0
<i>Total Revenues</i>	<u>4,848,767</u>	<u>127,442</u>	<u>295,601</u>	<u>0</u>
Expenditures				
Current:				
General Government	1,573,175	0	0	0
Security of Persons and Property	1,282,680	135,000	405,000	0
Transportation	806,263	0	0	0
Public Health and Welfare	55,716	0	0	0
Community Environment	55,034	0	0	0
Leisure Time Activities	55,566	0	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	4,109	0	0	141,900
Interest and Fiscal Charges	89	0	0	107,536
<i>Total Expenditures</i>	<u>3,832,632</u>	<u>135,000</u>	<u>405,000</u>	<u>249,436</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,016,135</u>	<u>(7,558)</u>	<u>(109,399)</u>	<u>(249,436)</u>
Other Financing Sources (Uses)				
Notes Issued	0	0	0	0
Current Refunding	0	0	0	0
Transfers In	0	0	0	249,436
Transfers Out	(597,991)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(597,991)</u>	<u>0</u>	<u>0</u>	<u>249,436</u>
<i>Net Change in Fund Balances</i>	418,144	(7,558)	(109,399)	0
<i>Fund Balances (Deficit)</i>				
<i>Beginning of Year - Restated (Note 3)</i>	<u>438,191</u>	<u>(174,328)</u>	<u>198,462</u>	<u>0</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$856,335</u>	<u>(\$181,886)</u>	<u>\$89,063</u>	<u>\$0</u>

(continued)

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (continued)
For the Year Ended December 31, 2004

	State Route 306 Realignment and Signal	Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Taxes	\$0	\$241,821	\$1,233,440
Municipal Income Taxes	0	0	2,983,797
Charges for Services	0	35,875	195,427
Licenses and Permits	0	0	15,784
Fines and Forfeitures	0	1,143	52,823
Intergovernmental	0	885,448	1,703,774
Rentals	0	0	172,978
Interest	0	0	18,097
Contributions and Donations	0	18,630	18,630
Miscellaneous	0	6,482	66,459
<i>Total Revenues</i>	<u>0</u>	<u>1,189,399</u>	<u>6,461,209</u>
Expenditures			
Current:			
General Government	0	0	1,573,175
Security of Persons and Property	0	189,365	2,012,045
Transportation	0	329,744	1,136,007
Public Health and Welfare	0	0	55,716
Community Environment	0	2,050	57,084
Leisure Time Activities	0	215,151	270,717
Capital Outlay	7,253	299,846	307,099
Debt Service:			
Principal Retirement	0	0	146,009
Interest and Fiscal Charges	0	22,518	130,143
<i>Total Expenditures</i>	<u>7,253</u>	<u>1,058,674</u>	<u>5,687,995</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(7,253)</u>	<u>130,725</u>	<u>773,214</u>
Other Financing Sources (Uses)			
Notes Issued	1,075,000	0	1,075,000
Current Refunding	(400,000)	0	(400,000)
Transfers In	0	348,555	597,991
Transfers Out	0	0	(597,991)
<i>Total Other Financing Sources (Uses)</i>	<u>675,000</u>	<u>348,555</u>	<u>675,000</u>
<i>Net Change in Fund Balances</i>	667,747	479,280	1,448,214
<i>Fund Balances (Deficit)</i>			
<i>Beginning of Year - Restated (Note 3)</i>	<u>215,293</u>	<u>103,722</u>	<u>781,340</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>\$883,040</u></u>	<u><u>\$583,002</u></u>	<u><u>\$2,229,554</u></u>

City of Kirtland, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds \$1,448,214

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

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

Capital Asset Additions	338,011	
Current Year Depreciation	<u>(1,061,501)</u>	
Total		(723,490)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (16,500)

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

Delinquent Property Taxes	7,911	
Intergovernmental	(123,029)	
Municipal Income Taxes	<u>(206,883)</u>	
Total		(322,001)

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities, such as notes issued. (1,761,000)

Repayment of bond, note and loan principal and capital lease payments are expenditures in the governmental funds, but the repayments reduce the long-term liabilities in the statement of net assets:

Bond, Note and Loan Principal	1,227,900	
Capital Lease Payments	<u>4,109</u>	
Total		1,232,009

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an expenditure is reported when bonds are due. (16,227)

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

Compensated Absences	(281)	
Vacation Benefits	<u>(6,598)</u>	
Total		<u>(6,879)</u>

Change in Net Assets of Governmental Activities (\$165,874)

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property and Other Taxes	\$608,506	\$608,506	\$570,821	(\$37,685)
Municipal Income Taxes	2,503,434	2,528,839	2,463,326	(65,513)
Charges for Services	151,384	152,921	148,959	(3,962)
Licenses and Permits	16,041	16,204	15,784	(420)
Fines and Forfeitures	48,681	49,175	47,901	(1,274)
Intergovernmental	730,662	738,077	718,956	(19,121)
Rentals	175,794	177,578	172,978	(4,600)
Interest	18,393	18,578	18,097	(481)
Miscellaneous	89,335	90,242	87,904	(2,338)
<i>Total Revenues</i>	<u>4,342,230</u>	<u>4,380,120</u>	<u>4,244,726</u>	<u>(135,394)</u>
Expenditures				
Current:				
General Government	1,548,349	1,597,629	1,585,244	12,385
Security of Persons and Property	1,361,336	1,371,336	1,333,318	38,018
Transportation	849,380	854,880	833,498	21,382
Public Health and Welfare	55,800	55,800	55,716	84
Community Environment	72,103	59,703	56,486	3,217
Leisure Time Activities	151,291	128,911	58,098	70,813
<i>Total Expenditures</i>	<u>4,038,259</u>	<u>4,068,259</u>	<u>3,922,360</u>	<u>145,899</u>
<i>Excess of Revenues Over Expenditures</i>	303,971	311,861	322,366	10,505
Other Financing Uses				
Transfers Out	(598,100)	(598,100)	(597,991)	109
<i>Net Change in Fund Balance</i>	(294,129)	(286,239)	(275,625)	10,614
<i>Fund Balance Beginning of Year</i>	403,018	403,018	403,018	0
Prior Year Encumbrances Appropriated	81,349	81,349	81,349	0
<i>Fund Balance End of Year</i>	<u>\$190,238</u>	<u>\$198,128</u>	<u>\$208,742</u>	<u>\$10,614</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Operating Levy Fund
For the Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Property and Other Taxes	\$130,741	\$130,741	\$130,642	(\$99)
Intergovernmental	<u>0</u>	<u>0</u>	<u>3,418</u>	<u>3,418</u>
<i>Total Revenues</i>	130,741	130,741	134,060	3,319
Expenditures				
Current:				
Security of Persons and Property	<u>135,000</u>	<u>135,000</u>	<u>135,000</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(4,259)	(4,259)	(940)	3,319
<i>Fund Balance (Deficit) Beginning of Year</i>	<u>(180,946)</u>	<u>(180,946)</u>	<u>(180,946)</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u><u>(\$185,205)</u></u>	<u><u>(\$185,205)</u></u>	<u><u>(\$181,886)</u></u>	<u><u>\$3,319</u></u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Emergency Levy Fund
For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property and Other Taxes	\$399,142	\$399,142	\$347,720	(\$51,422)
Intergovernmental	0	0	54,728	54,728
<i>Total Revenues</i>	399,142	399,142	402,448	3,306
Expenditures				
Current:				
Security of Persons and Property	405,000	405,000	405,000	0
<i>Net Change in Fund Balance</i>	(5,858)	(5,858)	(2,552)	3,306
<i>Fund Balance Beginning of Year</i>	91,615	91,615	91,615	0
<i>Fund Balance End of Year</i>	<u>\$85,757</u>	<u>\$85,757</u>	<u>\$89,063</u>	<u>\$3,306</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2004

	Waste Water
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$75,724
Accounts Receivable	122
	75,846
<i>Total Current Assets</i>	
 <i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	503,305
Depreciable Capital Assets, Net	237,729
	741,034
<i>Total Noncurrent Assets</i>	
	816,880
 Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	1,598
Accrued Wages and Benefits	245
Intergovernmental Payable	351
Accrued Interest Payable	482
Bonds Payable - Current	8,640
	11,316
<i>Total Current Liabilities</i>	
 <i>Long-Term Liabilities</i>	
Bonds Payable	85,012
	96,328
<i>Total Liabilities</i>	
 Net Assets	
Invested in Capital Assets, Net of Related Debt	647,382
Unrestricted	73,170
	\$720,552
<i>Total Net Assets</i>	

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Fund
For the Year Ended December 31, 2004*

	Waste Water
Operating Revenues	
Charges for Services	\$75,466
Operating Expenses	
Personal Services	15,003
Services and Supplies	44,911
Depreciation	14,363
<i>Total Operating Expenses</i>	<i>74,277</i>
<i>Operating Income</i>	1,189
Non Operating Expenses	
Interest and Fiscal Charges	(9,279)
<i>Change in Net Assets</i>	(8,090)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<i>728,642</i>
<i>Net Assets End of Year</i>	<i>\$720,552</i>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2004

	Waste Water
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$75,344
Cash Payments to Suppliers for Services and Supplies	(44,096)
Cash Payments for Employee Services and Benefits	(15,266)
	15,982
<i>Net Cash Provided By Operating Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(22,108)
Principal Paid on Bonds	(8,100)
Interest Paid on Bonds	(6,900)
	(37,108)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
Net Decrease in Cash and Cash Equivalents	(21,126)
<i>Cash and Cash Equivalents Beginning of Year</i>	96,850
<i>Cash and Cash Equivalents End of Year</i>	\$75,724
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$1,189
<i>Adjustments:</i>	
Depreciation	14,363
Increase in Assets:	
Accounts Receivable	(122)
Increase (Decrease) in Liabilities:	
Accounts Payable	815
Accrued Wages and Benefits	(2)
Intergovernmental Payable	(261)
	14,793
<i>Total Adjustments</i>	
<i>Net Cash Provided by Operating Activities</i>	\$15,982

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2004

	Private Purpose Trust	
	Cemetery	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,386	\$319,685
Liabilities		
Deposits Held and Due to Others	0	\$319,685
Net Assets		
Held in Trust for Perpetual Care	\$2,386	

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2004

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

See accompanying notes to the basic financial statements

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City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 1 – Description of the City and Reporting Entity

Description of the City

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

Reporting Entity

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

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

The City participates in one jointly governed organization, the Northeast Ohio Public Energy Council. This organization is presented in Note 19 of the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Kirtland have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activity and enterprise fund. The more significant of the City's accounting policies are described below.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

General Fund This fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Fire Operating Levy Fund This fund accounts for property tax revenues levied for the operations of the fire department.

City of Kirtland, Ohio
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Fire Emergency Levy Fund This fund accounts for property tax revenues levied for the additional operations and capital purposes of the fire department.

General Obligation Bond Retirement Fund This fund accounts for transfers that are utilized for the repayment of general obligation debt.

State Route 306 Realignment and Signal Fund – The State Route 306 realignment and signal fund accounts for the costs associated with the road realignment and movement/replacement of traffic signals on State Route 306.

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

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

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

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

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

C. Measurement Focus

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

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

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

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

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

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

During 2004, investments were limited to STAROhio (State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

City of Kirtland, Ohio
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For the Year Ended December 31, 2004

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$18,097, which includes \$17,699 assigned from other City funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

H. Inventory

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars (\$1,000). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest costs incurred during the construction of enterprise fund capital assets are also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 Years
Machinery and Equipment	10 Years
Vehicles	8-20 Years
Infrastructure	20-100 years

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Vacation amounts not used within one year are reported as “Vacation Benefits Payable” on the government-wide financial statements.

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances are recorded as a reservation of fund balance.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use by law either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$793,939 of restricted net assets, of which \$106,319 is restricted by enabling legislation. Net assets restricted

City of Kirtland, Ohio
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For the Year Ended December 31, 2004

for other purposes include resources restricted for law enforcement, drug enforcement and education, police pension payments, state highway maintenance and recreation activities.

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

Note 3 – Change in Accounting Principles and Restatement of Prior Year’s Fund Balance

A. Changes in Accounting Principles

For 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in

City of Kirtland, Ohio
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Governmental Fund Financial Statements,” and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.”

GASB Statement No. 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement of No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosure.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as a component unit based on the nature and significance of their relationship with the primary government.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general fund and each major special revenue fund.

GASB Statement No. 46 further defines how legal enforceability when determining when net assets should be reported as restricted.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

B. Restatement of Net Assets/Fund Balance

The implementation of these changes and corrections to the prior year’s intergovernmental receivables to include all activities related to GASB 33 and 34 requirements had the following effects on fund balance of the major and nonmajor funds of the City. The transition from governmental fund balance to net assets of the governmental activities is also presented.

City of Kirtland, Ohio
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For the Year Ended December 31, 2004

	General	Fire Operating Levy	Fire Emergency Levy
Fund Balance, December 31, 2003	\$302,924	(\$174,328)	\$198,462
Accounts Receivable	22,830	0	0
GASB 33 Adjustments	112,437	0	0
Accrued Interest Payable	0	0	0
Notes Payable	0	0	0
Adjusted Fund Balance, December 31, 2003	<u>\$438,191</u>	<u>(\$174,328)</u>	<u>\$198,462</u>
			(continued)
	State Route 306 Realignment and Signal	Other Funds	Total
Fund Balance, December 31, 2003	\$215,293	\$407,771	\$950,122
Accounts Receivable	0	0	22,830
GASB 33 Adjustments	0	38,025	150,462
Accrued Interest Payable	0	(74)	(74)
Notes Payable	0	(342,000)	(342,000)
Adjusted Fund Balance, December 31, 2003	<u>\$215,293</u>	<u>\$103,722</u>	781,340
GASB 34 Adjustments:			
Capital Assets			20,367,833
Long-Term (Deferred) Assets			937,898
Capital Leases			(7,798)
Compensated Absences			(75,687)
Vacation Benefits Payable			(56,067)
Long-Term Notes			(1,086,000)
General Obligation Bonds			(2,246,750)
OPWC Loans			(313,415)
Accrued Interest			<u>(21,146)</u>
Governmental Activities Net Assets, December 31, 2003			<u>\$18,280,208</u>

The net increase in waste water enterprise net assets of \$388,466, from \$340,176 to \$728,642, as of December 31, 2003 was due to the reclassification of the reserve for net assets for encumbrances as previously reported and the restatement of capital assets to include construction in progress previously reported in the governmental funds capital assets.

The budgetary fund balance for the general fund as of December 31, 2003 was increased from \$212,839 to \$403,018, due to a reclassification of advances.

Note 4 - Budgetary Basis of Accounting

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
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Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general and the major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and major special revenue funds.

Net Change in Fund Balance

	General	Fire Operating Levy	Fire Emergency Levy
GAAP Basis	\$418,144	(\$7,558)	(\$109,399)
Net Adjustment for Revenue Accruals	(604,041)	6,618	106,847
Net Adjustment for Expenditure Accruals	(19,834)	0	0
Encumbrances	(69,894)	0	0
Budget Basis	(\$275,625)	(\$940)	(\$2,552)

Note 5 – Compliance and Accountability

A. Legal Compliance

Contrary to Ohio Revised Code Section 5705.10, the City had negative cash balances in the following funds indicating that revenues from other sources were used to pay obligations of these funds:

	Negative Cash Balance
Fire Operating Levy	\$181,886
Police Operating Levy	39,714
Police Pension	9,858
Senior Citizens/Recreation	1,117
	\$232,575

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Contrary to Ohio Revised Code Section 5705.39, the following funds had original appropriations in excess of original certifications plus beginning balances:

	Original Certifications Plus Beginning Balances	Original Appropriations	Excess
Police Operating Levy	\$69,034	\$110,000	(\$40,966)
Police Pension	59,026	70,000	(10,974)
Fire Operating Levy	(50,205)	135,000	(185,205)
Senior Citizens and Recreation	139,739	166,691	(26,952)

Contrary to Ohio Revised Code Section 5705.39, the following funds had final appropriations in excess of final certification plus beginning balances:

	Final Certifications Plus Beginning Balances	Final Appropriations	Excess
Police Operating Levy	\$69,034	\$110,000	(\$40,966)
Police Pension	59,026	70,000	(10,974)
Fire Operating Levy	(50,205)	135,000	(185,205)

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

City of Kirtland, Ohio
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	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
<i>General Government</i>			
Judicial			
Services and Supplies	\$19,399	\$21,686	(\$2,287)
Legal			
Services and Supplies	18,380	21,692	(3,312)
Executive			
Personal Services	79,510	80,101	(591)
Municipal Center			
Personal Services	11,000	14,601	(3,601)
Services and Supplies	56,343	57,186	(843)
Pensions and Retirements			
Services and Supplies	452,000	468,849	(16,849)
Employee Insurance			
Services and Supplies	400,000	400,894	(894)
<i>Security of Persons and Property</i>			
Police			
Services and Supplies	175,052	176,160	(1,108)
Capital Outlay	70,154	70,487	(333)
Fire			
Capital Outlay	1,900	3,325	(1,425)
<i>Transportation</i>			
Public Works			
Personal Services	649,740	653,989	(4,249)
<i>Community Environment</i>			
Planning and Zoning			
Personal Services	44,600	46,433	(1,833)
Senior Citizens/Recreation:			
<i>Leisure Time Activities</i>			
Personal Services	57,000	64,409	(7,409)
Services and Supplies	75,691	81,073	(5,382)
Capital Outlay	4,000	4,659	(659)
Street Construction and Maintenance:			
<i>Transportation</i>			
Services and Supplies	300,000	309,836	(9,836)
Capital Improvement:			
<i>Security of Persons and Property</i>			
Capital Outlay	12,000	12,365	(365)
Realignment and Signal:			
<i>Capital Outlay</i>			
Capital Outlay	0	7,253	(7,253)

Although these budgetary violations were not corrected by year-end, management has indicated that appropriations will be closely monitored to ensure no future violations.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
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B. Accountability

The following funds had deficit fund balances as of December 31, 2004.

	<u>Deficits</u>
Fire Operating Levy	\$181,886
Police Operating Levy	39,714
Police Pension	9,858
Senior Citizens and Recreation	3,181

Fund deficits were caused by a prior year audit adjustment not posted to the books for the beginning of the 2004 financial year creating negative cash for the above funds. The general fund is responsible for covering deficit fund balances by means of an advance.

Note 6 - Deposits and Investments

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies may be invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

City of Kirtland, Ohio
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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

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

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

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

The following information on classified deposits and investments is by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits At year-end, the carrying amount of the City's deposits was \$656,110 and the bank balance was \$728,120. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$628,120 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Investments GASB Statement No. 3 requires the City to categorize investments to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments that are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is not categorized since it is not evidenced by securities that exist in physical or book entry form.

The balance of the City's STAROhio account as of December 31, 2004 was \$1,390,918, which is reported at cost.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with an original maturity of three months or less.

Reconciliation between the classification of cash and investments on the basic financial statements and the classification per GASB Statement No. 3, is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$2,047,028	\$0
Investments		
STAROhio	(1,390,918)	1,390,918
GASB Statement No. 3	\$656,110	\$1,390,918

Note 7 – Receivables

Receivables at December 31, 2004, consisted primarily of property and other taxes, municipal taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

City of Kirtland, Ohio
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For the Year Ended December 31, 2004

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventories.

The full tax rate for all City operations for the year ended December 31, 2004 was \$11.05 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property:	
Residential/Agricultural	\$210,527,410
Other Real Estate	12,534,300
Public Utility Personal Property	8,525,380
Tangible Personal Property	<u>2,130,090</u>
Total	<u><u>\$233,717,180</u></u>

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

Tangible personal property taxes paid by multi-city taxpayers are due September 20. Single City taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The Lake County Treasurer collects property tax on behalf of all taxing districts within the County, including the City of Kirtland. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

B. Income Tax

In November of 2001, the City approved an increase from one to two percent beginning January 1, 2002 on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 75 percent of the tax paid to another municipality, not to exceed two percent of taxable income.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

C. Intergovernmental Receivable

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

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$261,404
Gasoline Tax	105,535
Homestead and Rollback	80,490
Estate Tax	76,564
Motor Vehicle License Tax	29,012
Permissive Tax	26,127
Grants	<u>15,875</u>
Total Intergovernmental Receivables	<u><u>\$595,007</u></u>

Note 8 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City.

B. Litigation

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Restated Balance 12/31/03	Additions	Reductions	Balance 12/31/04
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$623,690	\$0	\$0	\$623,690
Construction in progress	0	0	0	0
<i>Total Capital Assets, Not Being Depreciated</i>	<u>623,690</u>	<u>0</u>	<u>0</u>	<u>623,690</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	5,397,712	56,440	0	5,454,152
Machinery and Equipment	3,191,094	65,333	(80,786)	3,175,641
Infrastructure				
Roads	27,732,880	0	0	27,732,880
Storm Sewers	804,368	216,238	0	1,020,606
<i>Total Capital Assets, Being Depreciated</i>	<u>37,126,054</u>	<u>338,011</u>	<u>(80,786)</u>	<u>37,383,279</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(1,532,651)	(146,204)	0	(1,678,855)
Machinery and Equipment	(1,384,218)	(181,151)	64,286	(1,501,083)
Infrastructure				
Roads	(14,389,062)	(693,322)	0	(15,082,384)
Storm Sewers	(75,980)	(40,824)	0	(116,804)
<i>Total Accumulated Depreciation</i>	<u>(17,381,911)</u>	<u>(1,061,501) *</u>	<u>64,286</u>	<u>(18,379,126)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>19,744,143</u>	<u>(723,490)</u>	<u>(16,500)</u>	<u>19,004,153</u>
Governmental Activities Capital Assets, Net	<u><u>\$20,367,833</u></u>	<u><u>(\$723,490)</u></u>	<u><u>(\$16,500)</u></u>	<u><u>\$19,627,843</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

	Restated Balance 12/31/03	Additions	Reductions	Balance 12/31/04
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$114,840	\$0	\$0	\$114,840
Construction in progress	388,465	0	0	388,465
<i>Total Capital Assets, Not Being Depreciated</i>	<u>503,305</u>	<u>0</u>	<u>0</u>	<u>503,305</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	149,654	0	0	149,654
Machinery and Equipment	24,397	22,108	0	46,505
Infrastructure				
Sewer Lines	449,314	0	0	449,314
<i>Total Capital Assets, Being Depreciated</i>	<u>623,365</u>	<u>22,108</u>	<u>0</u>	<u>645,473</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(94,926)	(2,993)	0	(97,919)
Machinery and Equipment	(1,888)	(2,384)	0	(4,272)
Infrastructure				
Sewer Lines	(296,567)	(8,986)	0	(305,553)
<i>Total Accumulated Depreciation</i>	<u>(393,381)</u>	<u>(14,363)</u>	<u>0</u>	<u>(407,744)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>229,984</u>	<u>7,745</u>	<u>0</u>	<u>237,729</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u><u>\$733,289</u></u>	<u><u>\$7,745</u></u>	<u><u>\$0</u></u>	<u><u>\$741,034</u></u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$63,860
Security of Persons and Property	137,878
Transportation	804,080
Community Environment	5,666
Leisure Time Activities	50,017
Total	<u><u>\$1,061,501</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 10 - Risk Management

A. Property and Liability

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2004, the City contracted with Sutton Insurance Agency for various types of insurance through Wichert Insurance Agency and Love Insurance Agency as follows:

Type	Coverage	Deductible
Wichert Agency:		
Commercial Property	\$8,052,855	\$0
Earthquake for Buildings	500,000	2,500
Boiler Machinery and Machinery	8,052,855	1,000
Inland Marine	952,787	1,000
Commercial General Liability	1,000,000	1,000
Selective Umbrella Liability	4,000,000	0
Commercial Automotive	1,000,000	500
Uninsured Motorists	25,000	0
Love Insurance Agency:		
Law Enforcement	1,000,000	5,000
Public Officials	1,000,000	5,000
Employment Practices	1,000,000	5,000
Finance Director	100,000	0
City Clerk	100,000	0

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

B. Workers' Compensation

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

Note 11 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City of Kirtland participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$158,699, \$119,612 and \$114,627 respectively; 99.00 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$38 made by the City and \$24 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$60,046 and \$92,917 for the year ended December 31, 2004, \$55,373 and \$79,322 for the year ended December 31, 2003, and \$52,300 and \$76,785 for the year ended December 31, 2002, respectively. The full amount has been contributed for 2003 and 2002. 88.59 percent for police and 87.62 percent for firefighters has been contributed for 2004.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 12 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$66,471. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$39,605 for police and \$44,314 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003 was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,812 for police and 10,528 for firefighters.

Note 13 – Other Employee Benefits

A. Compensated Absences

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

Employees earn sick leave at a rate of .0575 hours for each and every 80 hours they are paid on a biweekly or salary basis, either for hours worked or for paid time off. They earn sick time on overtime up to a maximum of 120 hours of sick time per year. During 2000, the fire department full time staff started a new agreement whereby the employees could earn sick time at the same rate of .0575 hours but since they work 24-hour shifts, or work 53 hours per week, they would earn 6.09 hours per pay, for a maximum of 159 hours per year. If any employee has a severe medical problem and has utilized all of his(her) available time off, other employees may donate a maximum of 16 hours sick time each to a total donation of 180 sick hours to the person with the medical condition, unless the Mayor gives prior approval for more hours. Sick leave accrual is continuous, without limit. Upon retirement, an employee with ten years of service or more is paid for one third of unused sick leave, up to a maximum of 320 hours.

B. Health Insurance

The City provides hospitalization, medical, dental, vision and life insurance for all full time employees. QualChoice provides the hospitalization and medical insurance. Effective January 2004, employees paid ten percent of the premium up to a maximum of \$75.00 per month through payroll deductions. This amount will increase to ten percent up to a maximum of \$100 effective January 2005. Aetna US Healthworks provides the dental insurance which is paid entirely by the City. Eye Care Plan of America provides vision insurance which is paid entirely by the City. The plan covers lenses, contacts and routine office exams. BMA provides life insurance and core accidental death insurance of \$20,000 which is paid entirely by the City. Employees are able to add extra insurance once a year for themselves, their spouse or children up to \$500,000 or five times their annual salary, whichever is less, paid by the employee through payroll deductions.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 14 – Operating Leases

The City leased the Police department’s computer system under a noncancelable operating lease. Total cost for the lease was \$49,438 with the final payment of \$1,412 made during 2004.

Note 15 – Capital Leases

Prior to 2004, the City entered into three capital leases for a skid steer, Compaq computers and a copier. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, “Accounting for Leases”, and has been recorded on the government-wide statements. The equipment contracted was capitalized in the amount of \$88,889, the present value of the minimum lease payments at the inception of the lease. Accumulated depreciation on the equipment was \$26,078, with a book value of \$62,811 as of December 31, 2004.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of minimum lease payments as of December 31, 2004:

Year Ending December 31,	Governmental Activities
2005	\$1,476
2006	1,476
2007	861
Total Minimum Lease Payments	3,813
Less: Amount Representing Interest	(124)
Present Value of Minimum Lease Payments	\$3,689

Note 16 – Notes Payable

A summary of note transactions for the year ended December 31, 2004 follows:

GOVERNMENTAL FUNDS	Balance 12/31/03	Additions	Deletions	Balance 12/31/04
2003 Fire Truck Acquisition	\$300,000	\$0	(\$300,000)	\$0
2003 Templeview Sewer	290,000	0	(290,000)	0
2003 Communication Equipment	52,000	26,000	(52,000)	26,000
<i>Total</i>	\$642,000	\$26,000	(\$642,000)	\$26,000

All the notes are backed by the full faith and credit of the City of Kirtland and mature within one year. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended. The notes will be paid primarily from transfers from the general fund and as they are reissued and then from bonds upon the completion of the projects.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 17 - Long-Term Term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>General Obligation Bonds:</i>			
Fire Department and Civic Center - 1998	4.50-5.00 %	\$2,667,000	December 1, 2016
<i>Ohio Public Works Commission Loan:</i>			
GC19B Templeview Sewer - 2003	0.00	313,415	Incomplete
<i>Long-term Notes</i>			
State Route 306	2.05	1,075,000	July 28, 2005
Templeview Sewer	2.05	660,000	July 28, 2005
Communication Equipment	3.05	52,000	July 28,2005
<i>Enterprise General Obligation Bonds:</i>			
Waste Water Refunding - 1998	4.50-5.00	173,000	December 1, 2016

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

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04	Amounts Due in One Year
Governmental Activities					
<i>General Obligation Bonds</i>					
Fire Department and Civic Center	\$2,246,750	\$0	(\$141,900)	\$2,104,850	\$151,360
<i>OPWC Loan</i>					
Templeview Sewer	313,415	0	0	313,415	0
<i>Long-term Notes</i>					
State Route 306	400,000	1,075,000	(400,000)	1,075,000	0
Templeview Sewer	660,000	660,000	(660,000)	660,000	0
Communication Equipment	26,000	26,000	(26,000)	26,000	0
<i>Total Long-Term Notes</i>	<u>1,086,000</u>	<u>1,761,000</u>	<u>(1,086,000)</u>	<u>1,761,000</u>	<u>0</u>
Capital Lease Obligation	7,798	0	(4,109)	3,689	1,428
Compensated Absences	75,687	4,031	(3,750)	75,968	19,595
<i>Total Governmental Activities</i>	<u>\$3,729,650</u>	<u>\$1,765,031</u>	<u>(\$1,235,759)</u>	<u>\$4,258,922</u>	<u>\$172,383</u>
Business-Type Activities					
<i>General Obligation Bonds</i>					
Waste Water Refunding	\$128,250	\$0	(\$8,100)	\$120,150	\$8,640
Unamortized Loss on Refunding	(28,908)	0	2,410	(26,498)	0
<i>Total Business-Type Activities</i>	<u>\$99,342</u>	<u>\$0</u>	<u>(\$5,690)</u>	<u>\$93,652</u>	<u>\$8,640</u>

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

City of Kirtland, Ohio
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For the Year Ended December 31, 2004

On May 28, 1998, the City issued \$2,840,000 in general obligation bonds with interest rates varying from 4.50 percent to 5.00 percent. A portion of the general obligation bond proceeds were used to refund the various purpose general obligation bonds of \$2,310,000 and the waste water general obligation bonds of \$110,000. 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 deduction from the bond liability in the accompanying financial statements, is being charged to operations through the year 2016 using the straight line method over the life of the old or new bonds, whichever is shorter.

In 2003, the City received \$313,415 in Ohio Public Works Commission loans for the Templeview Sewer Project. The project has not been completed; therefore, no amortization schedule has been established to determine annual payments or the final maturity. A special assessment will be levied on the benefiting units upon completion of the project.

Bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity beyond the end of the year in which the report is issued have been reported in the government wide statements. The notes are backed by the full faith and credit of the City of Kirtland.

The City's overall legal debt margin was \$20,335,039 with an unvoted debt margin of \$8,649,180 at December 31, 2004. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

	Governmental Activities		Business-Type Activities	
	General Obligation Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2005	\$151,360	\$101,364	\$8,640	\$5,786
2006	151,360	94,629	8,640	5,402
2007	160,820	87,818	9,180	5,013
2008	170,280	80,500	9,720	4,595
2009	160,820	72,667	9,180	4,148
2010-2014	889,240	242,247	50,760	13,829
2015-2019	420,970	31,928	24,030	1,822
Total	\$2,104,850	\$711,153	\$120,150	\$40,595

Note 18 – Contractual Commitments

The City signed a contract with Burton Scot Contractors, LLC for \$1,429,320 for the State Route 306 road widening project on December 6, 2004.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 19 – Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2004. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

Note 20 – Interfund Transactions

A. *Interfund Balances*

Interfund Payable	Interfund Receivable
	General
Major Funds:	
Fire Operating Levy	\$181,886
Nonmajor Funds:	
Police Operating Levy	9,858
Police Pension	39,714
Senior Citizens/Recreation	1,117
	\$232,575

The interfund receivables and payables are advances for deficit cash balances at year end. All interfund balances will be repaid within one year.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers To	Transfer From Governmental Activities
	General
<i>Major Fund:</i>	
General Obligation Bond Retirement	\$249,436
Emergency Fire Equipment	348,555
Total	\$597,991

The general fund transfers to the general obligation bond retirement fund were for debt payment requirements and to the emergency fire equipment fund for current year fire equipment purchases.

Note 21 – Subsequent Event

On July 27, 2005, the City retired \$1,787,000 in general obligation bond anticipation notes and issued \$2,361,000 in new notes with a maturity date of July 25, 2006 and an interest rate of 3.25 percent. The following table summarizes the activity.

Note Issuance	Retired	Issued
State Route 306	\$1,075,000	\$1,075,000
Templeview Sewer	660,000	660,000
Communication Equipment	52,000	26,000
Major Capital Equipment	0	600,000
<i>Total Notes</i>	\$1,787,000	\$2,361,000

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Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, (the City) as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2007, wherein we noted during 2004 the City adopted Governmental Accounting Standards Board Statement No. 34 and during 2005 the City adopted Governmental Accounting Standards Board Statement No. 40 and restated the beginning budgetary fund balance for the general fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-002.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated October 26, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the City's management dated October 26, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and City Council. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

October 26, 2007

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

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

FINDING NUMBER 2005-001

NONCOMPLIANCE CITATION:

EXPENDITURES PLUS ENCUMBRANCES IN EXCESS OF APPROPRIATIONS

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure plus encumbrances unless it has been properly appropriated. Budgetary expenditures as enacted by the City may not exceed appropriations at the legal level of controls for all funds. As of year end the following funds had expenditures plus encumbrances in excess of appropriations at the legal level of control:

<u>Fund/Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
2005			
General Fund			
Judicial			
Services and Supplies	\$25,278	\$33,290	\$8,012
Legal			
Services and Supplies	28,553	31,943	3,390
Municipal Center			
Services and Supplies	58,609	59,355	746
Finance			
Services and Supplies	140,210	147,365	7,155
Police			
Personal Services	569,023	674,272	105,249
Services and Supplies	170,855	174,621	3,766
Fire			
Personal Services	311,208	368,366	57,158
Services and Supplies	103,869	104,888	1,019
Capital Outlay	133,000	420,521	287,521
Public Health			
Services and Supplies	56,900	66,133	9,233
Public Works			
Services and Supplies	301,810	320,383	18,573
Special Revenue Funds			
Fire Emergency Levy			
Personal Services	326,000	410,000	84,000
Street Construction Maintenance			
Services and Supplies	292,092	328,520	36,428
Senior Citizens			
Personal Services	15,000	20,805	5,805
Major Capital Equipment			
Services and Supplies	0	7,804	7,804
General Obligation Bond Retirement			
Debt Service – Principal Retirement	151,360	177,360	26,000

CITY OF KIRTLAND
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND DECEMBER 31, 2004
(Continued)

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

FINDING NUMBER 2005-001 (Continued)

NONCOMPLIANCE CITATION (Continued)

EXPENDITURES PLUS ENCUMBRANCES EXCEEDING APPROPRIATIONS (Continued)

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
2004			
General Fund			
Judicial			
Services and Supplies	19,399	21,686	2,287
Legal			
Services and Supplies	18,380	21,692	3,312
Executive			
Personal Services	79,510	80,101	591
Municipal Center			
Personal Services	11,000	14,601	3,601
Services and Supplies	56,343	57,186	843
Pension and Retirement			
Services and Supplies	452,000	468,849	16,849
Employee Insurance			
Services and Supplies	400,000	400,894	894
Police			
Services and Supplies	175,052	176,160	1,108
Capital Outlay	70,154	70,487	333
Fire			
Capital Outlay	1,900	3,325	1,425
Public Works			
Personal Services	649,740	653,989	4,249
Planning and Zoning			
Personal Services	44,600	46,433	1,833
Special Revenue Funds:			
Senior Citizens and Recreation			
Personal Services	57,000	64,409	7,409
Services and Supplies	75,691	81,073	5,382
Capital Outlay	4,000	4,659	659
Street Construction Maintenance			
Services and Supplies	300,000	309,836	9,836
KDF Capital Improvement			
Capital Outlay	12,000	12,365	365
Capital Project Fund			
Realignment and Signal			
Capital Outlay	0	7,253	7,253

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001 (Continued)

NONCOMPLIANCE CITATIONS (Continued)

EXPENDITURES PLUS ENCUMBRANCES EXCEEDING APPROPRIATIONS (Continued)

We recommend the City verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance with the above requirements.

Officials' Response:

Large differences are due to a reclassification of homestead rollback not reported under intergovernmental income, which was discovered by audit after close of fiscal years. Measures have been taken to avoid discrepancies in the future.

FINDING NUMBER 2005-002

REPORTABLE CONDITION

APPROVAL OF TIMECARDS

A timecard is signed by the employee attesting to the hours worked and is signed by the respective Department Head/Supervisor approving the timecard and verifying its accuracy.

During 2005, it was noted eighteen timecards out of thirty-three timecards tested or 55% were not approved and signed by Department Head/Supervisor and three timecards out of thirty-three timecards tested or 9% were not signed by the employee.

During 2004, it was noted two timecards out of twenty-three timecards tested or 9 % were not approved and signed by Department Head/Supervisor and three timecards out of twenty-three timecards tested or 13% were not signed by the employee.

We recommend the City require all timesheets be signed by the employee and approved by their supervisor. This will provide assurance the employee is properly compensated for actual hours worked.

Officials' Response:

Department heads will sign all timecards in the future and unsigned time cards will be reviewed by the Finance Director.

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC 5705.41 (D) Certification of Availability of Appropriations	No	Partially corrected comment reissued in the management letter.
2003-002	ORC 117.38 Filing of Annual Report	No	Partially corrected comment reissued in the management letter.
2003-003	ORC 5705.39 Appropriations Exceeding Estimated Resources	No	Partially corrected comment reissued in the management letter.



Mary Taylor, CPA
Auditor of State

CITY OF KIRTLAND

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 4, 2007