



Dave Yost • Auditor of State

**CITY OF KIRTLAND
LAKE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio (the City), as of and for the years ended December 31, 2009 and 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, as of December 31, 2009 and 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and the Fire Emergency Levy funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, during 2008, the City had a fund reclassification and restated their governmental activity net assets and business-type net assets as of December 31, 2007, due to a reclassification of capital assets and long-term liabilities.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

February 4, 2011

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2009
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, 2009. 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 2009 are:

- This is the sixth year that the City has reported based on the GASB Statement No. 34 Reporting Model.
- In total, the City's net assets decreased from 2008. The decrease resulted from a reduction in capital assets due to an additional year of depreciation as well as an increase in notes payable.
- In 2009, the City purchased two police vehicles and road service equipment. The City also made highway improvements and is currently in the process of constructing the Templeview waste water treatment plant.
- The general fund had an increase in fund balance due mainly to a reduction in maintenance repairs and contract services.
- Outstanding general obligation bonded debt decreased during 2009 due to annual debt payments.

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
For the Year Ended December 31, 2009
Unaudited

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 2009?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

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

Reporting the City of Kirtland's Most Significant Funds

Fund Financial Statements

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

Government Funds

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

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2009
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 2009 compared to 2008.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$5,005,170	\$4,475,162	\$599,059	\$627,105	\$5,604,229	\$5,102,267
Capital Assets, Net	18,253,353	18,824,341	1,385,665	1,359,574	19,639,018	20,183,915
<i>Total Assets</i>	<u>23,258,523</u>	<u>23,299,503</u>	<u>1,984,724</u>	<u>1,986,679</u>	<u>25,243,247</u>	<u>25,286,182</u>
Current and Other Liabilities	2,282,863	2,228,417	61,153	17,976	2,344,016	2,246,393
Long-Term Liabilities:						
Due Within One Year	240,255	248,529	26,976	26,775	267,231	275,304
Due In More Than One Year	4,634,161	4,251,076	1,328,189	1,357,756	5,962,350	5,608,832
<i>Total Liabilities</i>	<u>7,157,279</u>	<u>6,728,022</u>	<u>1,416,318</u>	<u>1,402,507</u>	<u>8,573,597</u>	<u>8,130,529</u>
Invested in Capital Assets, Net of Related Debt	13,376,893	14,384,561	228,586	236,459	13,605,479	14,621,020
Restricted:						
Capital Projects	964,146	512,722	0	0	964,146	512,722
Other Purposes	728,763	618,740	0	0	728,763	618,740
Unrestricted	1,031,442	1,055,458	339,820	347,713	1,371,262	1,403,171
<i>Total Net Assets</i>	<u>\$16,101,244</u>	<u>\$16,571,481</u>	<u>\$568,406</u>	<u>\$584,172</u>	<u>\$16,669,650</u>	<u>\$17,155,653</u>

Total net assets for governmental activities showed a decrease, however, current and other assets increased significantly due to an increase in cash and cash equivalents. The decrease in capital assets was due to an additional year of depreciation partially offset by current year additions. Current and other liabilities as well as long-term liabilities increased due to the issuance of new bond anticipation notes. The decrease in total net assets for governmental activities was partially offset by the continued pay-down of bonded debt and loans.

Total net assets for business-type activities decreased mainly due to an increase in contracts payable. The decrease in business-type net assets was partially offset by the continued pay-down of business-type bonded debt and loans.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2009
Unaudited

Table 2 shows the changes in net assets for the years ended December 31, 2009, as compared to 2008.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues						
Charges for Services	\$541,238	\$458,093	\$44,855	\$67,429	\$586,093	\$525,522
Operating Grants and Contributions	724,272	612,321	306	6,461	724,578	618,782
Capital Grants	272,979	432,970	0	0	272,979	432,970
Total Program Revenues	1,538,489	1,503,384	45,161	73,890	1,583,650	1,577,274
General Revenues						
Property Taxes	1,725,259	1,451,005	0	0	1,725,259	1,451,005
Municipal Income Taxes	2,700,765	3,128,696	0	0	2,700,765	3,128,696
Grants and Entitlements	639,331	665,179	0	0	639,331	665,179
Interest	6,548	40,262	0	0	6,548	40,262
Miscellaneous	72,971	55,788	0	0	72,971	55,788
Total General Revenues	5,144,874	5,340,930	0	0	5,144,874	5,340,930
Total Revenues	6,683,363	6,844,314	45,161	73,890	6,728,524	6,918,204
Program Expenses						
General Government	(1,757,753)	(1,944,091)	0	0	(1,757,753)	(1,944,091)
Security of Persons and Property	(2,605,218)	(2,492,383)	0	0	(2,605,218)	(2,492,383)
Transportation	(2,035,072)	(2,040,406)	0	0	(2,035,072)	(2,040,406)
Public Health and Welfare	(76,125)	(76,916)	0	0	(76,125)	(76,916)
Community Environment	(72,444)	(72,606)	0	0	(72,444)	(72,606)
Leisure Time Activities	(361,442)	(399,675)	0	0	(361,442)	(399,675)
Interest and Fiscal Charges	(183,134)	(194,075)	(40,815)	(36,139)	(223,949)	(230,214)
Sewer	0	0	(82,524)	(86,415)	(82,524)	(86,415)
Total Program Expenses	(7,091,188)	(7,220,152)	(123,339)	(122,554)	(7,214,527)	(7,342,706)
Excess of Revenues Under Expenses	(407,825)	(375,838)	(78,178)	(48,664)	(486,003)	(424,502)
Transfers	(62,412)	(35,967)	62,412	35,967	0	0
<i>Change in Net Assets</i>	<i>(470,237)</i>	<i>(411,805)</i>	<i>(15,766)</i>	<i>(12,697)</i>	<i>(486,003)</i>	<i>(424,502)</i>
Net Assets						
Beginning of Year	16,571,481	16,983,286	584,172	596,869	17,155,653	17,580,155
Net Assets End of Year	\$16,101,244	\$16,571,481	\$568,406	\$584,172	\$16,669,650	\$17,155,653

City of Kirtland, Ohio
Management's Discussion and Analysis
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The City is very dependent on property taxes and income taxes. The City remained fairly consistent in 2009 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 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 2009, the revenue collected from income taxes was designated for the City's general fund. General revenues from property taxes and charges for services are also significant revenue generators. The City monitors its sources of revenues very closely for any changes or fluctuations.

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

Total revenues for governmental activities decreased in 2009. Revenue consists primarily of property taxes, income taxes and intergovernmental revenues received through operating and capital grants or contributions as well as unrestricted grants and entitlements. The remaining revenues represent charges for services, interest and miscellaneous receipts. Charges for services include non-resident ambulance billing, cemetery fees and recreation fees.

Total governmental activities program expenses decreased in 2009 from tighter spending controls. General government, security of persons and property and transportation expenses are the three main sources of expenses. These activities include police protection, fire protection, road maintenance, planning/zoning, mayoral office and finance office.

City of Kirtland, Ohio
Management's Discussion and Analysis
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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	
	2009	2008	2009	2008
General Government	\$1,757,753	\$1,944,091	\$1,602,971	\$1,821,484
Security of Persons and Property	2,605,218	2,492,383	2,281,406	2,059,690
Transportation	2,035,072	2,040,406	1,145,114	1,216,158
Public Health and Welfare	76,125	76,916	69,135	71,947
Community Environment	72,444	72,606	65,969	67,937
Leisure Time Activities	361,442	399,675	204,970	285,477
Interest and Fiscal Charges	183,134	194,075	183,134	194,075
<i>Total</i>	<u>\$7,091,188</u>	<u>\$7,220,152</u>	<u>\$5,552,699</u>	<u>\$5,716,768</u>

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

BUSINESS-TYPE ACTIVITIES

The charges for services from waste water utility services were not sufficient to cover the total expenses in 2009. Currently, the City operates three waste water treatment plants and is in the process of constructing another waste water treatment plant, which are combined for reporting purposes. Services include monitoring and testing the discharge. The City closely monitors the cost of these services and will adjust the operating and/or capital improvement charges to pay for future development and related costs, as needed.

The City's Funds

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

The City's major governmental funds are the general fund, the fire emergency levy special revenue fund and the State Route 306 and State Route 6 capital projects fund. The general fund had an increase in fund balance due mainly to a decrease in general government and police and fire protection expenditures. The fire emergency levy special revenue fund which is used to operate the fire department also had an increase in fund balance due to increased property tax revenues resulting from the City passing a 2.8 mill replacement fire emergency levy at the end of 2008. State Route 306 and State Route 6 capital projects fund had an increase in fund balance due to the issuance of bond anticipation notes.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2009
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General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2009, the City amended its general fund budget from the original certified revenues. All capital projects and requests for capital type purchases in excess of \$15,000 must be reviewed and approved individually by the Mayor, after which they are sent to the formal Council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, services and supplies, capital outlay object level for each function for all funds. The Finance Director, with approval from the Mayor, has been authorized to allocate appropriations to more detailed function and object levels within each fund.

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

For the general fund, the final budgeted revenues were higher than the original budget estimate. The change was attributed mainly to increases in estimates for taxes and intergovernmental revenues. The final budget appropriations matched the original budget appropriations.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows 2009 balances of capital assets as compared to 2008.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$1,364,602	\$1,364,557	\$124,417	\$124,417	\$1,489,019	\$1,488,974
Construction in Progress	0	0	1,096,742	1,056,007	1,096,742	1,056,007
Buildings and Improvements	3,535,021	3,692,904	36,771	39,763	3,571,792	3,732,667
Machinery and Equipment	1,622,650	1,677,918	28,906	31,572	1,651,556	1,709,490
Infrastructure						
Roads	11,021,263	11,337,846	0	0	11,021,263	11,337,846
Storm Sewers	709,817	751,116	0	0	709,817	751,116
Sewer Lines	0	0	98,829	107,815	98,829	107,815
Total Capital Assets	\$18,253,353	\$18,824,341	\$1,385,665	\$1,359,574	\$19,639,018	\$20,183,915

City of Kirtland, Ohio
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Governmental capital assets decreased due to an additional year of depreciation. This decrease was partially offset by additions to land, machinery and equipment and roads for the governmental activities. Business-type capital assets increased due to additions to construction in progress outpacing current year depreciation.

The City continues to improve the safety and traffic flow on its roads. This has been accomplished by the commitment to continue road resurfacing as well as the installation of storm sewers. In addition to these improvements, the City is currently working on a major capital project for the improvement of the intersection of State Routes 306 and 6. Major future projects are at Route 6 and Sperry Road, and Route 306 at Lakeland Community College.

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 2009, the City's capital asset purchases included additions to land, construction in progress, the purchase of police vehicles and road service equipment and highway improvements.

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

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

Debt

Table 5 summarizes bonds, loans and notes outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activity		Total	
	2009	2008	2009	2008	2009	2008
General Obligation						
Bonds	\$3,158,072	\$3,397,508	\$373,837	\$384,008	\$3,531,909	\$3,781,516
OPWC Loans	41,250	43,750	241,328	255,523	282,578	299,273
Short-Term Notes	250,000	150,000	5,000	5,000	255,000	155,000
Long-Term Notes	1,485,000	910,000	740,000	745,000	2,225,000	1,655,000
Totals	<u>\$4,934,322</u>	<u>\$4,501,258</u>	<u>\$1,360,165</u>	<u>\$1,389,531</u>	<u>\$6,294,487</u>	<u>\$5,890,789</u>

At December 31, 2009, the general obligation bonds outstanding consist of the 1998 fire department, civic center and waste water bonds and the 2006 various purpose bonds. The 1998 bonds are associated with the construction of the fire station, civic center and waste water treatment plants. The 2006 various purpose bonds are for improvements to State Route 306, park and recreational improvements and service facility and senior center improvements. The outstanding OPWC loans are for the State Route 306 widening project and the construction of the Templeview waste water treatment plant. Payments are made from the general fund and the waste water fund. The Templeview sewer loan will be paid from assessments based on benefit units to landowners within the development.

City of Kirtland, Ohio
Management's Discussion and Analysis
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Unaudited

On July, 22, 2009 the City retired \$1,810,000 in general obligation bond anticipation notes and issued \$2,480,000 in notes with a maturity date of July 22, 2010. The City issued the notes for road and sewer improvements and major capital projects throughout the City.

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

Current Financial Related Activities

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

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

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

Contacting the City's Finance Department

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

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City of Kirtland, Ohio

Statement of Net Assets

December 31, 2009

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,816,703	\$599,059	\$2,415,762
Materials and Supplies Inventory	191,170	0	191,170
Accounts Receivable	35,607	0	35,607
Intergovernmental Receivable	541,155	0	541,155
Prepaid Items	148	0	148
Municipal Income Taxes Receivable	719,811	0	719,811
Property Taxes Receivable	1,642,714	0	1,642,714
Deferred Charges	57,862	0	57,862
Non-Depreciable Capital Assets	1,364,602	1,221,159	2,585,761
Depreciable Capital Assets, Net	16,888,751	164,506	17,053,257
<i>Total Assets</i>	<u>23,258,523</u>	<u>1,984,724</u>	<u>25,243,247</u>
Liabilities			
Accounts Payable	36,368	1,005	37,373
Contracts Payable	16,880	40,735	57,615
Accrued Wages and Benefits	165,779	663	166,442
Vacation Benefits Payable	79,197	0	79,197
Intergovernmental Payable	96,411	599	97,010
Deferred Revenue	1,601,223	0	1,601,223
Accrued Interest Payable	37,005	13,151	50,156
Notes Payable	250,000	5,000	255,000
Long-Term Liabilities:			
Due Within One Year	240,255	26,976	267,231
Due In More Than One Year	4,634,161	1,328,189	5,962,350
<i>Total Liabilities</i>	<u>7,157,279</u>	<u>1,416,318</u>	<u>8,573,597</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	13,376,893	228,586	13,605,479
Restricted for:			
Capital Projects	964,146	0	964,146
Fire	89,009	0	89,009
Street Construction, Maintenance and Repair	184,362	0	184,362
Senior Citizens	205,644	0	205,644
Other Purposes	249,748	0	249,748
Unrestricted	1,031,442	339,820	1,371,262
<i>Total Net Assets</i>	<u>\$16,101,244</u>	<u>\$568,406</u>	<u>\$16,669,650</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Activities
For the Year Ended December 31, 2009

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
Governmental Activities				
General Government	\$1,757,753	\$154,782	\$0	\$0
Security of Persons and Property	2,605,218	123,674	192,668	7,470
Transportation	2,035,072	237,773	386,676	265,509
Public Health and Welfare	76,125	6,990	0	0
Community Environment	72,444	6,475	0	0
Leisure Time Activities	361,442	11,544	144,928	0
Interest and Fiscal Charges	183,134	0	0	0
<i>Total Governmental Activities</i>	7,091,188	541,238	724,272	272,979
Business-Type Activities				
Waste Water	123,339	44,855	306	0
<i>Total</i>	\$7,214,527	\$586,093	\$724,578	\$272,979

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net Revenue (Expense) and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$1,602,971)	\$0	(\$1,602,971)
(2,281,406)	0	(2,281,406)
(1,145,114)	0	(1,145,114)
(69,135)	0	(69,135)
(65,969)	0	(65,969)
(204,970)	0	(204,970)
(183,134)	0	(183,134)
(5,552,699)	0	(5,552,699)
<u>0</u>	<u>(78,178)</u>	<u>(78,178)</u>
<u>(5,552,699)</u>	<u>(78,178)</u>	<u>(5,630,877)</u>
646,927	0	646,927
787,889	0	787,889
94,659	0	94,659
71,478	0	71,478
124,306	0	124,306
2,700,765	0	2,700,765
639,331	0	639,331
6,548	0	6,548
72,971	0	72,971
<u>5,144,874</u>	<u>0</u>	<u>5,144,874</u>
<u>(62,412)</u>	<u>62,412</u>	<u>0</u>
<u>5,082,462</u>	<u>62,412</u>	<u>5,144,874</u>
(470,237)	(15,766)	(486,003)
<u>16,571,481</u>	<u>584,172</u>	<u>17,155,653</u>
<u>\$16,101,244</u>	<u>\$568,406</u>	<u>\$16,669,650</u>

City of Kirtland, Ohio

Balance Sheet

Governmental Funds

December 31, 2009

	<u>General</u>	<u>Fire Emergency Levy</u>	<u>State Route 306 and State Route 6</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$414,214	\$22,797	\$974,528	\$405,164	\$1,816,703
Materials and Supplies Inventory	191,170	0	0	0	191,170
Accounts Receivable	20,620	0	0	14,987	35,607
Intergovernmental Receivable	266,219	50,225	0	224,711	541,155
Prepaid Items	148	0	0	0	148
Municipal Income Taxes Receivable	719,811	0	0	0	719,811
Property Taxes Receivable	609,596	631,115	0	402,003	1,642,714
<i>Total Assets</i>	<u>\$2,221,778</u>	<u>\$704,137</u>	<u>\$974,528</u>	<u>\$1,046,865</u>	<u>\$4,947,308</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$30,753	\$0	\$0	\$5,615	\$36,368
Contracts Payable	120	0	16,760	0	16,880
Accrued Wages and Benefits	165,779	0	0	0	165,779
Intergovernmental Payable	96,411	0	0	0	96,411
Deferred Revenue	1,270,349	681,340	0	591,062	2,542,751
Accrued Interest Payable	354	0	1,063	2,125	3,542
Notes Payable	25,000	0	75,000	150,000	250,000
<i>Total Liabilities</i>	<u>1,588,766</u>	<u>681,340</u>	<u>92,823</u>	<u>748,802</u>	<u>3,111,731</u>
Fund Balances					
Reserved for Encumbrances	3,690	0	32,712	4,037	40,439
Unreserved:					
Undesignated, Reported in:					
General Fund	629,322	0	0	0	629,322
Special Revenue Funds	0	22,797	0	287,135	309,932
Capital Projects Funds	0	0	848,993	6,891	855,884
<i>Total Fund Balances</i>	<u>633,012</u>	<u>22,797</u>	<u>881,705</u>	<u>298,063</u>	<u>1,835,577</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,221,778</u>	<u>\$704,137</u>	<u>\$974,528</u>	<u>\$1,046,865</u>	<u>\$4,947,308</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2009*

Total Governmental Fund Balances	\$1,835,577
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,253,353
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent Property Taxes	41,491
Intergovernmental	456,906
Municipal Income Taxes	443,131
Total	941,528
In the statement of activities bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	57,862
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(33,463)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(79,197)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds:	
General Obligation Bonds	(3,158,072)
OPWC Loans	(41,250)
Notes	(825,000)
Refunding Notes	(660,000)
Capital Leases	(416)
Compensated Absences	(189,678)
Total	(4,874,416)
<i>Net Assets of Governmental Activities</i>	\$16,101,244

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, 2009

	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$650,619	\$669,802	\$0	\$414,373	\$1,734,794
Municipal Income Taxes	2,923,619	0	0	0	2,923,619
Charges for Services	113,753	0	0	152,979	266,732
Licenses and Permits	36,118	0	0	0	36,118
Fines and Forfeitures	23,653	0	0	557	24,210
Intergovernmental	676,231	106,875	265,509	611,916	1,660,531
Rentals	214,178	0	0	0	214,178
Interest	6,489	0	0	59	6,548
Contributions and Donations	0	0	0	10,000	10,000
Miscellaneous	72,971	0	0	0	72,971
<i>Total Revenues</i>	<u>4,717,631</u>	<u>776,677</u>	<u>265,509</u>	<u>1,189,884</u>	<u>6,949,701</u>
Expenditures					
Current:					
General Government	1,676,945	0	0	15,988	1,692,933
Security of Persons and Property	1,330,056	765,000	0	348,000	2,443,056
Transportation	905,130	0	0	404,000	1,309,130
Public Health and Welfare	76,125	0	0	0	76,125
Community Environment	71,964	0	0	0	71,964
Leisure Time Activities	126,244	0	0	163,071	289,315
Capital Outlay	0	0	430,492	0	430,492
Debt Service:					
Principal Retirement	624	0	0	238,320	238,944
Principal Retirement - Current Refunding	25,000	0	75,000	150,000	250,000
Interest and Fiscal Charges	3,316	0	15,985	158,352	177,653
<i>Total Expenditures</i>	<u>4,215,404</u>	<u>765,000</u>	<u>521,477</u>	<u>1,477,731</u>	<u>6,979,612</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>502,227</u>	<u>11,677</u>	<u>(255,968)</u>	<u>(287,847)</u>	<u>(29,911)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	11,635	0	0	0	11,635
Proceeds of Notes	165,000	0	660,000	0	825,000
Proceeds of Refunding Notes	100,000	0	560,000	0	660,000
Current Refunding	(100,000)	0	(560,000)	0	(660,000)
Transfers In	50,000	0	14,922	396,555	461,477
Transfers Out	(473,889)	0	0	(50,000)	(523,889)
<i>Total Other Financing Sources (Uses)</i>	<u>(247,254)</u>	<u>0</u>	<u>674,922</u>	<u>346,555</u>	<u>774,223</u>
<i>Net Change in Fund Balances</i>	254,973	11,677	418,954	58,708	744,312
<i>Fund Balances Beginning of Year</i>	<u>378,039</u>	<u>11,120</u>	<u>462,751</u>	<u>239,355</u>	<u>1,091,265</u>
<i>Fund Balances End of Year</i>	<u>\$633,012</u>	<u>\$22,797</u>	<u>\$881,705</u>	<u>\$298,063</u>	<u>\$1,835,577</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2009*

Net Change in Fund Balances - Total Governmental Funds \$744,312

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

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

Capital Asset Additions	599,052	
Current Year Depreciation	<u>(1,156,727)</u>	
Total		(557,675)

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. (13,313)

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

Property Taxes	(9,535)	
Intergovernmental	(33,949)	
Municipal Income Taxes	<u>(222,854)</u>	
Total		(266,338)

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

Accrued Interest	(5,481)	
Amortization of Deferred Charges	(3,616)	
Amortization of Bond Premium	<u>3,616</u>	
Total		(5,481)

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	(42,371)	
Vacation Benefits	<u>6,685</u>	
Total		(35,686)

Repayment of long term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,148,944

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

Notes Issued	(825,000)	
Refunding Notes Issued	<u>(660,000)</u>	
Total		<u>(1,485,000)</u>

Change in Net Assets of Governmental Activities (\$470,237)

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, 2009*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Property Taxes	\$625,994	\$680,165	\$650,619	(\$29,546)
Municipal Income Taxes	2,727,894	2,960,556	2,833,658	(126,898)
Charges for Services	128,663	139,636	133,651	(5,985)
Licenses and Permits	12,026	13,051	12,492	(559)
Fines and Forfeitures	22,719	24,657	23,600	(1,057)
Intergovernmental	685,781	743,491	712,015	(31,476)
Rentals	206,184	223,769	214,178	(9,591)
Interest	6,247	6,780	6,489	(291)
Miscellaneous	69,813	76,760	72,971	(3,789)
<i>Total Revenues</i>	<u>4,485,321</u>	<u>4,868,865</u>	<u>4,659,673</u>	<u>(209,192)</u>
Expenditures				
Current:				
General Government	1,892,077	1,892,077	1,680,182	211,895
Security of Persons and Property	1,497,831	1,497,831	1,315,333	182,498
Transportation	1,042,507	1,042,507	933,048	109,459
Public Health and Welfare	85,528	85,528	76,125	9,403
Community Environment	80,406	80,406	71,566	8,840
Leisure Time Activities	143,083	143,083	126,375	16,708
Debt Service:				
Principal Retirement	125,624	125,624	125,624	0
Interest and Fiscal Charges	2,962	2,962	2,962	0
<i>Total Expenditures</i>	<u>4,870,018</u>	<u>4,870,018</u>	<u>4,331,215</u>	<u>538,803</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(384,697)</u>	<u>(1,153)</u>	<u>328,458</u>	<u>329,611</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	11,635	11,635	11,635	0
Notes Issued	165,000	165,000	165,000	0
Refunding Notes Issued	125,000	125,000	125,000	0
Transfers In	50,000	50,000	50,000	0
Transfers Out	(473,889)	(473,889)	(473,889)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(122,254)</u>	<u>(122,254)</u>	<u>(122,254)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(506,951)	(123,407)	206,204	329,611
<i>Fund Balance Beginning of Year</i>	108,901	108,901	108,901	0
Prior Year Encumbrances Appropriated	61,670	61,670	61,670	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$336,380)</u>	<u>\$47,164</u>	<u>\$376,775</u>	<u>\$329,611</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, 2009*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property Taxes	\$650,059	\$650,059	\$669,802	\$19,743
Intergovernmental	104,045	104,045	106,875	2,830
<i>Total Revenues</i>	754,104	754,104	776,677	22,573
Expenditures				
Current:				
Security of Persons and Property	765,000	765,000	765,000	0
<i>Net Change in Fund Balance</i>	(10,896)	(10,896)	11,677	22,573
<i>Fund Balance Beginning of Year</i>	11,120	11,120	11,120	0
<i>Fund Balance End of Year</i>	\$224	\$224	\$22,797	\$22,573

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2009

	Waste Water
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$599,059
<i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	1,221,159
Depreciable Capital Assets, Net	164,506
<i>Total Noncurrent Assets</i>	1,385,665
<i>Total Assets</i>	1,984,724
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	1,005
Contracts Payable	40,735
Accrued Wages and Benefits	663
Intergovernmental Payable	599
Accrued Interest Payable	13,151
Notes Payable	5,000
Bonds Payable	12,780
OPWC Loans Payable	14,196
<i>Total Current Liabilities</i>	88,129
<i>Long-Term Liabilities (net of current portion)</i>	
Bonds Payable	361,057
OPWC Loans Payable	227,132
Notes Payable	740,000
<i>Total Long-Term Liabilities</i>	1,328,189
<i>Total Liabilities</i>	1,416,318
Net Assets	
Invested in Capital Assets, Net of Related Debt	228,586
Unrestricted	339,820
<i>Total Net Assets</i>	\$568,406

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, 2009

	Waste Water
Operating Revenues	
Charges for Services	\$44,855
Operating Expenses	
Personal Services	17,340
Services and Supplies	50,540
Depreciation	14,644
<i>Total Operating Expenses</i>	82,524
<i>Operating Loss</i>	(37,669)
Non Operating Revenues (Expenses)	
Operating Grants	306
Interest and Fiscal Charges	(40,815)
<i>Total Non Operating Revenues (Expenses)</i>	(40,509)
<i>Loss Before Transfers</i>	(78,178)
Transfers In	62,412
<i>Change in Net Assets</i>	(15,766)
<i>Net Assets Beginning of Year</i>	584,172
<i>Net Assets End of Year</i>	\$568,406

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2009

	Waste Water
Decrease in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$46,003
Cash Payments to Suppliers for Services and Supplies	(10,309)
Cash Payments for Employee Services and Benefits	(17,163)
	18,531
<i>Net Cash Provided by Operating Activities</i>	
Cash Flows from Noncapital Financing Activities	
Grants	306
Transfers In	62,412
	62,718
<i>Net Cash Provided by Noncapital Financing Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(40,735)
Proceeds from Sale of Notes	745,000
Principal Paid on Bonds	(12,580)
Interest Paid on Bonds	(18,012)
Principal Paid on OPWC Loans	(14,195)
Principal Paid on Notes	(750,000)
Interest Paid on Notes	(17,625)
	(108,147)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
Net Decrease in Cash and Cash Equivalents	(26,898)
<i>Cash and Cash Equivalents Beginning of Year</i>	625,957
<i>Cash and Cash Equivalents End of Year</i>	\$599,059
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(\$37,669)
<i>Adjustments:</i>	
Depreciation	14,644
Decrease in Accounts Receivable	1,148
Increase (Decrease) in Liabilities:	
Accounts Payable	(504)
Contracts Payable	40,735
Accrued Wages and Benefits	86
Intergovernmental Payable	91
	56,200
<i>Total Adjustments</i>	
<i>Net Cash Provided by Operating Activities</i>	\$18,531

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2009

	<u>Private Purpose Trust</u>	
	<u>Cemetery</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,386	<u>\$285,731</u>
Liabilities		
Deposits Held and Due to Others	<u>0</u>	<u>\$285,731</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, 2009

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

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 1 – Description of the City and Reporting Entity

Description of the City

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

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Basis of Presentation

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

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

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

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

Fund Accounting

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

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

General Fund This fund accounts for 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, 2009

State Route 306 and State Route 6 Fund This fund accounts for various capital improvements to State Route 306 and State Route 6.

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

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

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

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

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

Measurement Focus

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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

Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 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, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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

Budgetary Process

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

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

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

Cash and Cash Equivalents

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

During 2009, investments were limited to STAR Ohio (State Treasury Asset Reserve of Ohio).

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2009.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2009 amounted to \$6,489, which includes \$5,366 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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

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

Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings 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.

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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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.

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.

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.

Net Assets

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Operating Revenues and Expenses

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

Internal Activity

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

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

Extraordinary and Special Items

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

Estimates

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

Note 3 – Change in Accounting Principles

For fiscal year 2009, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 52, “Land and Other Real Estate Held as Investments by Endowments”, Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, Statement No. 55, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” Statement No. 56, “Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards”, Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change in the City’s financial statements.

City of Kirtland, Ohio
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GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' and auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the City's financial statements.

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).

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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

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

Net Change in Fund Balances		
	General	Fire Emergency Levy
GAAP Basis	\$254,973	\$11,677
Net Adjustment for Revenue Accruals	(32,958)	0
Net Adjustment for Expenditure Accruals	21,628	0
Encumbrances	(37,439)	0
Budget Basis	\$206,204	\$11,677

Note 5 – Accountability and Compliance

Accountability

The major capital equipment special revenue fund had a fund deficit of \$108,140 as of December 31, 2009. The fund deficit resulted from adjustments for accrued liabilities. The general fund is liable for any deficits in this fund and provides operating transfers when cash is required, rather than when accruals occur.

Compliance

The general fund had original appropriations in excess of estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code.

Although these budgetary violations were not corrected by year end, management has indicated that appropriations will be closely monitored to prevent future violations.

Note 6 - Deposits and Investments

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to the market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

1. Bonds of the State of Ohio;

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$1,227,412 of the City's bank balance of \$1,481,303 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, 2009, the City's only investment was in STAR Ohio with a fair value of \$1,222,376 and an average maturity of 61.2 days.

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
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Note 7 – Receivables

Receivables at December 31, 2009, consisted primarily of property taxes, municipal income taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2009 for real and public utility property taxes represents collections of the 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) are for 2009 taxes.

2009 real property taxes are levied after October 1, 2009 on the assessed value as of January 1, 2009, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2009 real property taxes are collected in and intended to finance 2010.

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.

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. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

Tangible personal property tax revenue received during 2009 (other than public utility property tax) represents the collection of 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Payments by multi-county taxpayers are due September 20. Single county 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 full tax rate for all City operations for the year ended December 31, 2009 was \$11.05 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$230,372,980
Other Real Estate	13,645,200
Public Utility Personal Property	7,179,590
Tangible Personal Property	526,213
Total Valuation	<u><u>\$251,723,983</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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, 2009 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 2009 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.

Income Tax

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

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

Intergovernmental Receivable

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

Governmental Activities	Amount
Local Government	\$200,817
Homestead and Rollback	122,554
Gasoline Tax	91,656
Cents Per Gallon	43,304
Motor Vehicle License Tax	31,511
Permissive Tax	24,814
Estate Tax	10,087
Personal Property Tax Reimbursement	6,059
Grants	5,732
Miscellaneous	4,621
Total Intergovernmental Receivables	\$541,155

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 8 - Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Balance 12/31/2008	Additions	Deductions	Balance 12/31/2009
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,364,557	\$45	\$0	\$1,364,602
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	5,963,188	0	0	5,963,188
Machinery and Equipment	3,414,493	176,090	(20,482)	3,570,101
Infrastructure:				
Roads	29,283,652	422,917	0	29,706,569
Storm Sewer	1,032,484	0	0	1,032,484
<i>Total Capital Assets, being depreciated</i>	39,693,817	599,007	(20,482)	40,272,342
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(2,270,284)	(157,883)	0	(2,428,167)
Machinery and Equipment	(1,736,575)	(218,045)	7,169	(1,947,451)
Infrastructure:				
Roads	(17,945,806)	(739,500)	0	(18,685,306)
Storm Sewer	(281,368)	(41,299)	0	(322,667)
<i>Total Accumulated Depreciation</i>	(22,234,033)	(1,156,727) *	7,169	(23,383,591)
<i>Total Capital Assets being depreciated, Net</i>	17,459,784	(557,720)	(13,313)	16,888,751
<i>Governmental Activities Capital Assets, Net</i>	\$18,824,341	(\$557,675)	(\$13,313)	\$18,253,353

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

	Balance 12/31/2008	Additions	Deductions	Balance 12/31/2009
Business-Type Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$124,417	\$0	\$0	\$124,417
Construction in Progress	1,056,007	40,735	0	1,096,742
<i>Total Capital Assets not being depreciated</i>	<u>1,180,424</u>	<u>40,735</u>	<u>0</u>	<u>1,221,159</u>
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	149,654	0	0	149,654
Machinery and Equipment	46,505	0	0	46,505
Infrastructure:				
Sewer Lines	449,314	0	0	449,314
<i>Total Capital Assets, being depreciated</i>	<u>645,473</u>	<u>0</u>	<u>0</u>	<u>645,473</u>
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(109,891)	(2,992)	0	(112,883)
Machinery and Equipment	(14,933)	(2,666)	0	(17,599)
Infrastructure:				
Sewer Lines	(341,499)	(8,986)	0	(350,485)
<i>Total Accumulated Depreciation</i>	<u>(466,323)</u>	<u>(14,644)</u>	<u>0</u>	<u>(480,967)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>179,150</u>	<u>(14,644)</u>	<u>0</u>	<u>164,506</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$1,359,574</u>	<u>\$26,091</u>	<u>\$0</u>	<u>\$1,385,665</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$62,227
Security of Persons and Property	143,711
Transportation	891,213
Community Environment	1,926
Leisure Time Activities	57,650
Total	<u><u>\$1,156,727</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 9 - Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2009, the City contracted with Selective Insurance Company for various types of insurance through Wichert Insurance Agency. The City also contracted with Scottsdale Indemnity Company Insurance for various types of insurance through Love Insurance Agency. The type, coverage, and deductibles for the City's insurance follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Wichert Insurance Agency:		
Commercial Property	\$10,113,702	\$1,000
Earthquake and Flood	500,000	25,000
Boiler Machinery and Machinery	10,113,702	1,000
Inland Marine	869,668	1,000
Commercial General Liability	1,000,000	0
Umbrella Liability	4,000,000	0
Commercial Automotive	1,000,000	500
Uninsured Motorists	25,000	0
Love Insurance Agency:		
Law Enforcement	1,000,000	5,000
Public Officials	1,000,000	5,000
Employment Practices	1,000,000	5,000
Finance Director	100,000	0
City Clerks	100,000	0

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

Workers' Compensation

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 10 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability and survivor benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, members in state and local classifications contributed 10.0 percent of covered payroll while public safety and law enforcement members contributed 10.1 percent.

The City's 2009 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.63 percent of covered payroll. For the period January 1 through March 31, a portion of the City's contribution equal to 7.0 percent of covered payroll was allocated to fund the post-employment health care plan; for the period April 1 through December 31, 2009 this amount was decreased to 5.5 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14.0 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008, and 2007 were \$125,576, \$113,012, and \$130,453, respectively; 96.59 percent has been contributed for 2009 and 100 percent for 2008 and 2007. Contributions to the Member-Directed Plan for 2009 were \$580 made by the City and \$414 made by plan members.

Ohio Police and Fire Pension Fund

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. The City’s contributions to OP&F for police and firefighters were \$74,986 and \$107,082 for the year ended December 31, 2009, \$75,665 and \$105,816 for the year ended December 31, 2008, and \$76,280 and \$101,284 for the year ended December 31, 2007. 96.84 percent for police and 96.51 percent for firefighters has been contributed for 2009. The full amount has been contributed for 2008 and 2007.

Note 11 - Postemployment Benefits

Ohio Public Employees Retirement System

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.63 percent. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The amount of employer contributions which were allocated to fund post-employment health care was 7.0 percent from January 1 through March 31, 2009, and 5.5 percent from April 1 through December 31, 2009.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008, and 2007 were \$90,801, \$113,012, and \$85,927, respectively; 96.59 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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

Ohio Police and Firemen Pension Fund

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$39,699 and \$41,902 for the year ended December 31, 2009, \$40,058 and \$41,406 for the year ended December 31, 2008, and \$40,384 and \$39,633 for the year ended December 31, 2007. 96.84 percent has been contributed for police and 96.51 percent has been contributed for firefighters for 2009. The full amount has been contributed for 2008 and 2007.

Note 12 – Other Employee Benefits

Compensated Absences

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

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

Health Insurance

The City provides hospitalization, medical, dental, vision and life insurance for all full time employees. United Health Care provided the hospitalization and medical insurance in 2008. Employees pay ten percent of the premium up to a maximum of \$130 per month effective January 2010. 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.

Note 13 - Operating Leases

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 14 – Capital Leases

Prior to 2009, the City entered into a capital lease for a copier. During 2009, the City did not have any new capital leases. 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 \$3,240, the present value of the minimum lease payments at the inception of the leases. Accumulated depreciation on the equipment was \$2,592, with a book value of \$648 as of December 31, 2009.

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, 2009:

Year Ending December 31,	Governmental Activities
2010	\$432
Less: Amount Representing Interest	(16)
Present Value of Minimum Lease Payments	\$416

Note 15 – Note Debt

A summary of note transactions for the year ended December 31, 2009 follows:

	Balance 12/31/08	Additions	Reductions	Balance 12/31/09
Governmental Activities				
2008 - 2.35% Various Purpose Notes	\$150,000	\$0	(\$150,000)	\$0
2009 - 2.50% Various Purpose Notes	0	250,000	0	250,000
Total Governmental Activities	\$150,000	\$250,000	(\$150,000)	\$250,000
Business-Type Activities				
2008 - 2.35% Various Purpose Notes	\$5,000	\$0	(\$5,000)	\$0
2009 - 2.50% Various Purpose Notes	0	5,000	0	5,000
Total Business-Type Activities	\$5,000	\$5,000	(\$5,000)	\$5,000

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 22, 2010. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended. The notes will be paid from transfers from the general obligation bond retirement fund.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 16 - Long-Term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Enterprise General Obligation Bonds:</i>			
Waste Water Refunding - 1998	4.50 - 5.00 %	\$173,000	December 1, 2016
Templeview Sewer Project Bond - 2006	4.375	323,000	June 1, 2046
<i>Enterprise Ohio Public Works Commission Loans:</i>			
Templeview Sewer - 2003	0.00	283,915	July 1, 2026
<i>Enterprise Long-term Notes Payable:</i>			
Templeview Sewer	2.50	740,000	July 22, 2010
<i>General Obligation Bonds:</i>			
Fire Department and Civic Center - 1998	4.50 - 5.00	2,667,000	December 1, 2016
<i>Various Purpose Bonds - 2006:</i>			
State Route 306 Improvement	3.75 - 5.00	1,055,000	December 1, 2026
Parks and Recreation Purposes	3.75 - 5.00	650,000	December 1, 2026
Service Facility	3.75 - 5.00	200,000	December 1, 2026
Senior Center	3.75 - 5.00	100,000	December 1, 2026
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 2005	0.00	50,000	July 1, 2026
<i>Long-term Notes Payable:</i>			
2009 Various Purpose	2.50	1,485,000	July 22, 2010

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

	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009	Amounts Due in One Year
Business-Type Activities					
<i>General Obligation Bonds</i>					
Waste Water Refunding	\$83,970	\$0	(\$9,180)	\$74,790	\$9,180
Unamortized Loss on Refunding	(16,862)	0	2,409	(14,453)	0
Total Waste Water Refunding	67,108	0	(6,771)	60,337	9,180
Templeview Sewer Project	316,900	0	(3,400)	313,500	3,600
Total General Obligation Bonds	384,008	0	(10,171)	373,837	12,780
<i>OPWC Loan</i>					
Templeview Sewer	255,523	0	(14,195)	241,328	14,196
<i>Other Long-term Obligations</i>					
Notes Payable	745,000	740,000	(745,000)	740,000	0
Total Business-Type Activities	\$1,384,531	\$740,000	(\$769,366)	\$1,355,165	\$26,976

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

	Balance 12/31/08	Additions	Reductions	Balance 12/31/09	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
Fire Department and Civic Center 1998 Refunding Bonds	\$1,471,030	\$0	(\$160,820)	\$1,310,210	\$160,820
Various Purpose Bonds 2006:					
State Route 306 Improvement	981,334	0	(39,464)	941,870	39,464
Parks and Recreation Purposes	604,614	0	(24,314)	580,300	24,314
Service Facility	186,035	0	(7,481)	178,554	7,481
Senior Center	93,017	0	(3,741)	89,276	3,741
Unamortized Premium	61,478	0	(3,616)	57,862	0
Total Various Purpose Bonds	1,926,478	0	(78,616)	1,847,862	75,000
Total General Obligation Bonds	3,397,508	0	(239,436)	3,158,072	235,820
OPWC Loan					
Route 306 Widening, Phase II	43,750	0	(2,500)	41,250	2,500
Other Long-term Obligations					
Notes Payable	910,000	1,485,000	(910,000)	1,485,000	0
Capital Lease Obligation	1,040	0	(624)	416	416
Compensated Absences	147,307	54,681	(12,310)	189,678	1,519
Total Other Long-term Obligations	1,058,347	1,539,681	(922,934)	1,675,094	1,935
Total Governmental Activities	\$4,499,605	\$1,539,681	(\$1,164,870)	\$4,874,416	\$240,255

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

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

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

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

The fire department and civic center general obligation bonds will be paid from the debt retirement fund. Compensated absences will be paid from the general fund which is the fund the employees are paid from. The 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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

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

The City's overall legal debt margin was \$21,554,558 with an unvoted debt margin of \$8,968,359 at December 31, 2009. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009 are as follows:

	Governmental Activities			Business-Type Activities		
	General Obligation Bonds		OPWC Loan	General Obligation Bonds		OPWC Loan
	Principal	Interest	Principal	Principal	Interest	Principal
2010	\$235,820	\$149,086	\$2,500	\$12,780	\$18,608	\$14,196
2011	245,280	138,523	2,500	13,420	18,001	14,196
2012	259,740	127,009	2,500	14,060	17,340	14,195
2013	269,470	114,822	2,500	14,530	16,645	14,196
2014	283,930	102,112	2,500	15,270	15,929	14,196
2015-2019	905,970	329,049	12,500	48,030	69,511	70,979
2020-2024	610,000	167,250	12,500	29,600	61,480	70,978
2025-2029	290,000	22,000	3,750	36,600	53,818	28,392
2030-2034	0	0	0	45,500	44,318	0
2035-2039	0	0	0	56,400	32,520	0
2040-2044	0	0	0	69,800	17,898	0
2045-2046	0	0	0	32,300	2,318	0
Total	<u>\$3,100,210</u>	<u>\$1,149,851</u>	<u>\$41,250</u>	<u>\$388,290</u>	<u>\$368,386</u>	<u>\$241,328</u>

Note 17 – Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 126 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 2009. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Suite 20, Solon, Ohio 44139.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 18 – Interfund Transfers

The general fund transferred \$389,505 to the general obligation bond retirement fund for debt payment requirements. The general fund transferred \$7,050 and \$14,922 respectively, to the major capital equipment special revenue fund and the State Route 306 and State Route 6 capital projects fund for debt payment requirements. The general fund transferred \$62,412 to the waste water fund for debt payment requirements. The FEMA fire grant project capital projects funds transferred \$50,000 to the general fund due to the completion of one of the grants. Transfer activity is shown in the following table.

Transfers To	Transfers From		Totals
	General	FEMA Fire Grant Project	
<i>Major Funds:</i>			
General	\$0	\$50,000	\$50,000
State Route 306 & State Route 6	14,922	0	14,922
Waste Water	62,412	0	62,412
Total Major Funds	<u>77,334</u>	<u>50,000</u>	<u>127,334</u>
<i>Nonmajor Funds:</i>			
Debt Service	389,505	0	389,505
Major Capital Equipment	7,050	0	7,050
Total Nonmajor Funds	<u>396,555</u>	<u>0</u>	<u>396,555</u>
Totals	<u>\$473,889</u>	<u>\$50,000</u>	<u>\$523,889</u>

Note 19 - Contingencies

Grants

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

Litigation

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 20 – Subsequent Event

On July 21, 2010, the City reissued the various purpose notes in the amount of \$2,360,000 at a rate of 1.25 percent. This amount includes the reissuance of \$2,225,000 of existing notes and \$135,000 of new note liability. The notes mature on July 21, 2011.

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City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008
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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, 2008. 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 2008 are:

- This is the fifth year that the City has reported based on the GASB Statement No. 34 Reporting Model.
- Total assets increased by \$371,157 or 1.49 percent from \$24,915,025 in 2007 to \$25,286,182 in 2008.
- Total liabilities increased by \$795,659 or 10.85 percent from \$7,334,870 in 2007 to \$8,130,529 in 2008.
- Total net assets decreased \$424,502 or 2.41 percent from \$17,580,155 in 2007 to \$17,155,653 in 2008.
- Total capital assets decreased \$467,370 or 2.26 percent from \$20,651,285 in 2007 to \$20,183,915 in 2008.

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 2008?" 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 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 fund, the fire emergency levy special revenue fund, the State Route 306 and State Route 6 capital projects fund and the waste water enterprise fund.

Government Funds

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

City of Kirtland, Ohio
Management's Discussion and Analysis
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Proprietary Funds

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

The City of Kirtland as a Whole

The *Statement of Net Assets* looks at the City as a whole. Table I provides a summary of the City's net assets for 2008 compared to 2007.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$4,475,162	\$4,106,082	\$627,105	\$157,658	\$5,102,267	\$4,263,740
Capital Assets, Net	18,824,341	19,428,676	1,359,574	1,222,609	20,183,915	20,651,285
<i>Total Assets</i>	23,299,503	23,534,758	1,986,679	1,380,267	25,286,182	24,915,025
Current and Other Liabilities	2,228,417	2,019,973	17,976	9,160	2,246,393	2,029,133
Long-Term Liabilities:						
Due Within One Year	248,529	265,246	26,775	27,116	275,304	292,362
Due In More Than One Year	4,251,076	4,266,253	1,357,756	747,122	5,608,832	5,013,375
<i>Total Liabilities</i>	6,728,022	6,551,472	1,402,507	783,398	8,130,529	7,334,870
Invested in Capital Assets, Net of Related Debt	14,384,561	15,001,116	236,459	443,371	14,621,020	15,444,487
Restricted:						
Capital Projects	512,722	471,632	0	0	512,722	471,632
Other Purposes	618,740	629,692	0	0	618,740	629,692
Unrestricted	1,055,458	880,846	347,713	153,498	1,403,171	1,034,344
<i>Total Net Assets</i>	\$16,571,481	\$16,983,286	\$584,172	\$596,869	\$17,155,653	\$17,580,155

Total assets increased by \$371,157 from 2007 to 2008. The biggest increase in assets was due to overall increases in property values resulting in an increase in property tax receivable.

Total liabilities increased by \$795,659 from 2007 to 2008. This increase was due to the issuance of new bond anticipation notes offset by the continued pay-down of bonded debt and loans.

Total net assets decreased by \$424,502 comprised of governmental net assets decreasing by \$411,805 and business-type activities decreasing by \$12,697. Net assets decreased mainly due to an increase in notes payable and a decrease in capital assets resulting from an additional year of depreciation.

City of Kirtland, Ohio
Management's Discussion and Analysis
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Table 2 shows the changes in net assets for the years ended December 31, 2008, as compared to 2007.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues						
Charges for Services	\$458,093	\$426,480	\$67,429	\$75,970	\$525,522	\$502,450
Operating Grants and Contributions	612,321	557,188	6,461	0	618,782	557,188
Capital Grants and Contributions	432,970	350,382	0	0	432,970	350,382
Total Program Revenues	1,503,384	1,334,050	73,890	75,970	1,577,274	1,410,020
General Revenues						
Property Taxes	1,451,005	1,485,453	0	0	1,451,005	1,485,453
Municipal Income Taxes	3,128,696	2,931,172	0	0	3,128,696	2,931,172
Grants and Entitlements	665,179	680,137	0	0	665,179	680,137
Interest	40,262	111,072	0	0	40,262	111,072
Miscellaneous	55,788	106,577	0	0	55,788	106,577
Total General Revenues	5,340,930	5,314,411	0	0	5,340,930	5,314,411
Total Revenues	6,844,314	6,648,461	73,890	75,970	6,918,204	6,724,431
Program Expenses						
General Government	(1,944,091)	(1,982,854)	0	0	(1,944,091)	(1,982,854)
Security of Persons and Property	(2,492,383)	(2,450,431)	0	0	(2,492,383)	(2,450,431)
Transportation	(2,040,406)	(2,151,427)	0	0	(2,040,406)	(2,151,427)
Public Health and Welfare	(76,916)	(74,289)	0	0	(76,916)	(74,289)
Community Environment	(72,606)	(77,395)	0	0	(72,606)	(77,395)
Leisure Time Activities	(399,675)	(460,008)	0	0	(399,675)	(460,008)
Interest and Fiscal Charges	(194,075)	(225,359)	(36,139)	(8,194)	(230,214)	(233,553)
Sewer	0	0	(86,415)	(73,534)	(86,415)	(73,534)
Total Program Expenses	(7,220,152)	(7,421,763)	(122,554)	(81,728)	(7,342,706)	(7,503,491)
Excess of Revenues						
Under Expenses	(375,838)	(773,302)	(48,664)	(5,758)	(424,502)	(779,060)
Transfers	(35,967)	0	35,967	0	0	0
<i>Change in Net Assets</i>	<i>(411,805)</i>	<i>(773,302)</i>	<i>(12,697)</i>	<i>(5,758)</i>	<i>(424,502)</i>	<i>(779,060)</i>
Net Assets Beginning of Year - Restated						
	16,983,286	17,756,588	596,869	602,627	17,580,155	18,359,215
Net Assets End of Year	\$16,571,481	\$16,983,286	\$584,172	\$596,869	\$17,155,653	\$17,580,155

The City is very dependent on property taxes and income taxes, which account for 66.20 percent of total revenues. The City remained consistent in 2008 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.

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Security of persons and property represents the largest governmental program expense, 34.52 percent of governmental expenses. General government represents 26.93 percent and transportation represents 28.26 percent of total governmental expenses. These three expenses cover most of the services and programs offered by the City. The remaining 10.29 percent of governmental expenses are for public health and welfare, 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 2008, the revenue collected from income taxes was \$3,128,696 and was designated for the City's general fund. General revenues from property taxes and charges for services are also significant revenue generators. The City monitors its sources of revenues very closely for any changes or fluctuations.

Overall, the City has 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.

Total revenues for governmental activities for 2008 were \$6,844,314. Revenue consists primarily of property taxes of \$1,451,005 and income taxes of \$3,128,696 representing 21.20 and 45.71 percent, respectively, of total revenues. Intergovernmental revenues received through operating and capital grants or contributions as well as unrestricted grants and entitlements make up \$1,710,470 or 24.99 percent of revenues. The remaining 8.10 percent of revenues represents 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 2008 were \$7,220,152. General government, security of persons and property and transportation expenses are the three main sources of expenses, representing 89.71 percent of all governmental expenses. These activities include police protection, fire protection, road maintenance, planning/zoning, mayoral office and finance office.

City of Kirtland, Ohio
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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	
	2008	2007	2008	2007
General Government	\$1,944,091	\$1,982,854	\$1,821,484	\$1,833,114
Security of Persons and Property	2,492,383	2,450,431	2,059,690	2,236,384
Transportation	2,040,406	2,151,427	1,216,158	1,295,214
Public Health and Welfare	76,916	74,289	71,947	68,585
Community Environment	72,606	77,395	67,937	71,560
Leisure Time Activities	399,675	460,008	285,477	357,497
Interest and Fiscal Charges	194,075	225,359	194,075	225,359
<i>Total</i>	<u>\$7,220,152</u>	<u>\$7,421,763</u>	<u>\$5,716,768</u>	<u>\$6,087,713</u>

The dependence on general revenues for governmental activities is apparent. Approximately 79.18 percent of total expenses are supported through taxes and other general revenue.

BUSINESS-TYPE ACTIVITIES

Utility services for waste water had \$67,429 in charges for services which were not sufficient to cover the \$122,554 in total expenses in 2008. Currently, the City operates three waste water treatment plants and is in the process of constructing another waste water treatment plant, which are combined for reporting purposes. Services include monitoring and testing the discharge. The City closely monitors the cost of these services and will adjust the operating and/or capital improvement charges to pay for future development and related costs, as needed.

The City's Funds

All governmental funds had total expenditures of \$6,959,754 and revenues of \$6,745,906. The most significant fund is the general fund with a year-end fund balance of \$378,039, which included an unreserved fund balance of \$333,131 compared to annual expenditures of \$4,509,360. Revenues exceeded expenditures by \$97,024 due partially to an increase in income tax revenues. For all governmental funds, expenditures exceeded revenues by \$213,848 due to retirement of debt and capital projects.

The fire emergency levy special revenue fund is used to operate the fire department. Total property tax revenues of \$375,723 along with \$52,329 in intergovernmental revenues were under total expenditures of \$445,000 by \$16,948 due to increased expenditures in 2008. The fire emergency levy ended the year with an \$11,120 fund balance. The fire department services will be continuing at the current level of service.

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General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2008, the City amended its general fund budget from the original certified revenues to final certified revenues in the amount of \$269,472. 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 function for all funds. The Finance Director, with approval from the Mayor, has been authorized to allocate appropriations to more detailed function and object levels within each fund.

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

For the general fund, the original budgeted revenues were \$4,587,570, the final budgeted amount was \$4,857,042 and the actual amount was \$4,821,462. The \$35,580 decrease from the final budgeted amount to the actual amount was due primarily to the City receiving less property and income tax revenues than anticipated. Original appropriations of \$4,793,669 were increased during the year by \$138,559 to establish final appropriations of \$4,932,228 for the year. The actual expenditures of \$4,796,112 decreased from the final budget by \$136,116 primarily due to less than anticipated personnel and equipment costs in the general government, police, fire and transportation departments.

Capital Assets and Debt Administration

Capital Assets

Total capital assets for the City of Kirtland as of December 31, 2008 were \$20,183,915. The \$557,579 in additions to land, buildings, structures and improvements, machinery and equipment and roads for the governmental activities capital assets were offset by the \$1,148,350 in current year depreciation. Business-type activities capital assets increased by \$136,965 in 2008. This increase was due to \$151,610 in additions to construction in progress which was partially offset by an additional year of depreciation which is \$14,645.

City of Kirtland, Ohio
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Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$1,364,557	\$1,247,890	\$124,417	\$124,417	\$1,488,974	\$1,372,307
Construction in Progress	0	0	1,056,007	904,397	1,056,007	904,397
Buildings and Improvements	3,692,904	3,838,216	39,763	42,756	3,732,667	3,880,972
Machinery and Equipment	1,677,918	1,893,823	31,572	34,238	1,709,490	1,928,061
Infrastructure						
Roads	11,337,846	11,656,332	0	0	11,337,846	11,656,332
Storm Sewers	751,116	792,415	0	0	751,116	792,415
Sewer Lines	0	0	107,815	116,801	107,815	116,801
<i>Total Capital Assets</i>	\$18,824,341	\$19,428,676	\$1,359,574	\$1,222,609	\$20,183,915	\$20,651,285

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 these improvements, the City is currently working on a major capital project for the improvement of the intersection of State Routes 306 and 6. Major future projects are at Route 6 and Sperry Road, and Route 306 at Lakeland Community College.

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 2008, the City's capital asset purchases included additions to land, construction in progress and buildings, the purchase of a police vehicle, and highway improvements.

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

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

City of Kirtland, Ohio
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Debt

On December 31, 2008, the City of Kirtland had \$5,890,789 in bonds, loans and notes outstanding, with \$265,095 due within one year. Table 5 summarizes bonds, loans and notes outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activity		Total	
	2008	2007	2008	2007	2008	2007
General Obligation						
Bonds	\$3,397,508	\$3,646,404	\$384,008	\$394,519	\$3,781,516	\$4,040,923
OPWC Loans	43,750	46,250	255,523	269,719	299,273	315,969
Short-Term Notes	150,000	100,000	5,000	5,000	155,000	105,000
Long-Term Notes	910,000	700,000	745,000	110,000	1,655,000	810,000
Totals	<u>\$4,501,258</u>	<u>\$4,492,654</u>	<u>\$1,389,531</u>	<u>\$779,238</u>	<u>\$5,890,789</u>	<u>\$5,271,892</u>

The general obligation bonds include a fire department and civic center bond of \$1,471,030. This was originally a \$2,667,000 bond 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 the Route 306 Widening and portions of sanitary sewers for the Templeview Sewer Rehabilitation. The Templeview Sewer loan will be paid from assessments based on benefit units to landowners within the development.

On July 14, 2008 the City retired \$915,000 in general obligation bond anticipation notes and issued \$1,810,000 in notes with a maturity date of July 23, 2009. The City issued the notes for road and sewer improvements and major capital projects throughout the City.

The City's overall legal debt margin on December 31, 2008 was \$24,182,317 with an unvoted debt margin of \$10,552,747.

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

Current Financial Related Activities

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

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

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

Contacting the City's Finance Department

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

City of Kirtland, Ohio

Statement of Net Assets

December 31, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$962,249	\$625,957	\$1,588,206
Materials and Supplies Inventory	160,600	0	160,600
Accounts Receivable	46,991	1,148	48,139
Intergovernmental Receivable	628,835	0	628,835
Prepaid Items	742	0	742
Municipal Income Taxes Receivable	852,704	0	852,704
Property Taxes Receivable	1,761,563	0	1,761,563
Deferred Charges	61,478	0	61,478
Non-Depreciable Capital Assets	1,364,557	1,180,424	2,544,981
Depreciable Capital Assets, Net	17,459,784	179,150	17,638,934
<i>Total Assets</i>	<u>23,299,503</u>	<u>1,986,679</u>	<u>25,286,182</u>
Liabilities			
Accounts Payable	28,609	1,509	30,118
Contracts Payable	3,725	0	3,725
Accrued Wages and Benefits	144,919	577	145,496
Vacation Benefits Payable	85,882	0	85,882
Intergovernmental Payable	74,755	508	75,263
Deferred Revenue	1,710,537	0	1,710,537
Accrued Interest Payable	29,990	10,382	40,372
Notes Payable	150,000	5,000	155,000
Long-Term Liabilities:			
Due Within One Year	248,529	26,775	275,304
Due In More Than One Year	4,251,076	1,357,756	5,608,832
<i>Total Liabilities</i>	<u>6,728,022</u>	<u>1,402,507</u>	<u>8,130,529</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	14,384,561	236,459	14,621,020
Restricted for:			
Capital Projects	512,722	0	512,722
Fire	58,209	0	58,209
Street Construction, Maintenance and Repair	201,998	0	201,998
Senior Citizens	121,725	0	121,725
Other Purposes	236,808	0	236,808
Unrestricted	1,055,458	347,713	1,403,171
<i>Total Net Assets</i>	<u>\$16,571,481</u>	<u>\$584,172</u>	<u>\$17,155,653</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Activities
For the Year Ended December 31, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$1,944,091	\$122,607	\$0	\$0
Security of Persons and Property	2,492,383	203,474	124,248	104,971
Transportation	2,040,406	110,414	385,835	327,999
Public Health and Welfare	76,916	4,969	0	0
Community Environment	72,606	4,669	0	0
Leisure Time Activities	399,675	11,960	102,238	0
Interest and Fiscal Charges	194,075	0	0	0
<i>Total Governmental Activities</i>	7,220,152	458,093	612,321	432,970
Business-Type Activities				
Waste Water	122,554	67,429	6,461	0
<i>Total</i>	\$7,342,706	\$525,522	\$618,782	\$432,970

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

*Net Assets Beginning of Year -
Restated (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
(\$1,821,484)	\$0	(\$1,821,484)
(2,059,690)	0	(2,059,690)
(1,216,158)	0	(1,216,158)
(71,947)	0	(71,947)
(67,937)	0	(67,937)
(285,477)	0	(285,477)
(194,075)	0	(194,075)
(5,716,768)	0	(5,716,768)
0	(48,664)	(48,664)
(5,716,768)	(48,664)	(5,765,432)
643,013	0	643,013
512,608	0	512,608
96,188	0	96,188
74,635	0	74,635
124,561	0	124,561
3,128,696	0	3,128,696
665,179	0	665,179
40,262	0	40,262
55,788	0	55,788
5,340,930	0	5,340,930
(35,967)	35,967	0
5,304,963	35,967	5,340,930
(411,805)	(12,697)	(424,502)
16,983,286	596,869	17,580,155
\$16,571,481	\$584,172	\$17,155,653

City of Kirtland, Ohio

Balance Sheet

Governmental Funds

December 31, 2008

	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$170,571	\$11,120	\$462,751	\$317,807	\$962,249
Materials and Supplies Inventory	160,600	0	0	0	160,600
Accounts Receivable	19,898	0	0	27,093	46,991
Intergovernmental Receivable	335,844	27,290	0	265,701	628,835
Prepaid Items	742	0	0	0	742
Municipal Income Taxes Receivable	852,704	0	0	0	852,704
Property Taxes Receivable	653,793	679,692	0	428,078	1,761,563
<i>Total Assets</i>	<u>\$2,194,152</u>	<u>\$718,102</u>	<u>\$462,751</u>	<u>\$1,038,679</u>	<u>\$4,413,684</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$18,766	\$0	\$0	\$9,843	\$28,609
Contracts Payable	3,725	0	0	0	3,725
Accrued Wages and Benefits	144,919	0	0	0	144,919
Intergovernmental Payable	74,403	0	0	352	74,755
Deferred Revenue	1,574,300	706,982	0	637,121	2,918,403
Accrued Interest Payable	0	0	0	2,008	2,008
Notes Payable	0	0	0	150,000	150,000
<i>Total Liabilities</i>	<u>1,816,113</u>	<u>706,982</u>	<u>0</u>	<u>799,324</u>	<u>3,322,419</u>
Fund Balances					
Reserved for Encumbrances	44,908	0	0	0	44,908
Unreserved:					
Undesignated, Reported in:					
General Fund	333,131	0	0	0	333,131
Special Revenue Funds	0	11,120	0	214,355	225,475
Capital Projects Funds	0	0	462,751	25,000	487,751
<i>Total Fund Balances</i>	<u>378,039</u>	<u>11,120</u>	<u>462,751</u>	<u>239,355</u>	<u>1,091,265</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,194,152</u>	<u>\$718,102</u>	<u>\$462,751</u>	<u>\$1,038,679</u>	<u>\$4,413,684</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2008*

Total Governmental Fund Balances	\$1,091,265
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,824,341
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent Property Taxes	51,026
Intergovernmental	490,855
Municipal Income Taxes	665,985
Total	1,207,866
In the statement of activities bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	61,478
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.	(27,982)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(85,882)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds.	
General Obligation Bonds	(3,397,508)
OPWC Loans	(43,750)
Notes	(360,000)
Refunding Notes	(550,000)
Capital Leases	(1,040)
Compensated Absences	(147,307)
Total	(4,499,605)
<i>Net Assets of Governmental Activities</i>	\$16,571,481

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, 2008

	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$637,117	\$375,723	\$0	\$416,848	\$1,429,688
Municipal Income Taxes	3,058,415	0	0	0	3,058,415
Charges for Services	122,960	0	0	155,921	278,881
Licenses and Permits	15,132	0	0	0	15,132
Fines and Forfeitures	23,694	0	0	628	24,322
Intergovernmental	683,184	52,329	215,318	742,829	1,693,660
Rentals	139,758	0	0	0	139,758
Interest	40,099	0	0	163	40,262
Contributions and Donations	0	0	0	10,000	10,000
Miscellaneous	55,788	0	0	0	55,788
<i>Total Revenues</i>	<u>4,776,147</u>	<u>428,052</u>	<u>215,318</u>	<u>1,326,389</u>	<u>6,745,906</u>
Expenditures					
Current:					
General Government	1,894,090	0	0	0	1,894,090
Security of Persons and Property	1,508,321	445,000	0	350,000	2,303,321
Transportation	777,951	0	0	427,350	1,205,301
Public Health and Welfare	76,916	0	0	0	76,916
Community Environment	68,725	0	0	0	68,725
Leisure Time Activities	179,717	0	0	163,619	343,336
Capital Outlay	0	0	347,067	117,490	464,557
Debt Service:					
Principal Retirement	3,495	0	0	247,780	251,275
Principal Retirement - Current Refunding	0	0	0	150,000	150,000
Interest and Fiscal Charges	145	0	18,382	183,706	202,233
<i>Total Expenditures</i>	<u>4,509,360</u>	<u>445,000</u>	<u>365,449</u>	<u>1,639,945</u>	<u>6,959,754</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>266,787</u>	<u>(16,948)</u>	<u>(150,131)</u>	<u>(313,556)</u>	<u>(213,848)</u>
Other Financing Sources (Uses)					
Proceeds of Notes	125,000	0	235,000	0	360,000
Proceeds of Refunding Notes	0	0	400,000	150,000	550,000
Current Refunding	0	0	(400,000)	(150,000)	(550,000)
Transfers In	91,462	0	18,382	431,876	541,720
Transfers Out	(386,225)	0	0	(191,462)	(577,687)
<i>Total Other Financing Sources (Uses)</i>	<u>(169,763)</u>	<u>0</u>	<u>253,382</u>	<u>240,414</u>	<u>324,033</u>
<i>Net Change in Fund Balances</i>	97,024	(16,948)	103,251	(73,142)	110,185
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>281,015</u>	<u>28,068</u>	<u>359,500</u>	<u>312,497</u>	<u>981,080</u>
<i>Fund Balances End of Year</i>	<u>\$378,039</u>	<u>\$11,120</u>	<u>\$462,751</u>	<u>\$239,355</u>	<u>\$1,091,265</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2008*

Net Change in Fund Balances - Total Governmental Funds \$110,185

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

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

Capital Asset Additions	557,579	
Current Year Depreciation	<u>(1,148,350)</u>	
Total		(590,771)

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. (13,564)

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

Property Taxes	21,317	
Intergovernmental	6,810	
Municipal Income Taxes	<u>70,281</u>	
Total		98,408

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

Accrued Interest	8,158	
Amortization of Deferred Charges	(3,616)	
Amortization of Bond Premium	<u>3,616</u>	
Total		8,158

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

Compensated Absences	(12,997)	
Vacation Benefits	<u>(52,499)</u>	
Total		<u>(65,496)</u>

Repayment of long term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 951,275

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

Notes Issued	(360,000)	
Refunding Notes Issued	<u>(550,000)</u>	
Total		<u>(910,000)</u>

Change in Net Assets of Governmental Activities (\$411,805)

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, 2008*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Property Taxes	\$607,387	\$643,064	\$637,117	(\$5,947)
Municipal Income Taxes	2,960,561	3,134,463	3,105,475	(28,988)
Charges for Services	125,532	132,906	131,677	(1,229)
Licenses and Permits	14,426	15,273	15,132	(141)
Fines and Forfeitures	23,857	25,259	25,025	(234)
Intergovernmental	640,061	677,658	671,391	(6,267)
Rentals	133,236	141,063	139,758	(1,305)
Interest	38,228	40,473	40,099	(374)
Miscellaneous	44,282	46,883	55,788	8,905
<i>Total Revenues</i>	<u>4,587,570</u>	<u>4,857,042</u>	<u>4,821,462</u>	<u>(35,580)</u>
Expenditures				
Current:				
General Government	1,924,480	1,980,526	1,912,689	67,837
Security of Persons and Property	1,582,678	1,629,080	1,606,165	22,915
Transportation	949,272	977,057	941,989	35,068
Public Health and Welfare	77,785	80,063	76,916	3,147
Community Environment	72,250	74,364	71,444	2,920
Leisure Time Activities	183,564	187,498	183,269	4,229
Debt Service:				
Principal Retirement	3,495	3,495	3,495	0
Interest and Fiscal Charges	145	145	145	0
<i>Total Expenditures</i>	<u>4,793,669</u>	<u>4,932,228</u>	<u>4,796,112</u>	<u>136,116</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(206,099)</u>	<u>(75,186)</u>	<u>25,350</u>	<u>100,536</u>
Other Financing Sources (Uses)				
Notes Issued	125,000	125,000	125,000	0
Transfers In	90,264	102,909	91,462	(11,447)
Transfers Out	(390,589)	(402,030)	(386,225)	15,805
<i>Total Other Financing Sources (Uses)</i>	<u>(175,325)</u>	<u>(174,121)</u>	<u>(169,763)</u>	<u>4,358</u>
<i>Net Change in Fund Balance</i>	(381,424)	(249,307)	(144,413)	104,894
<i>Fund Balance Beginning of Year</i>	190,051	190,051	190,051	0
Prior Year Encumbrances Appropriated	63,263	63,263	63,263	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$128,110)</u>	<u>\$4,007</u>	<u>\$108,901</u>	<u>\$104,894</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, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property Taxes	\$369,261	\$369,261	\$375,723	\$6,462
Intergovernmental	51,429	51,429	52,329	900
<i>Total Revenues</i>	420,690	420,690	428,052	7,362
Expenditures				
Current:				
Security of Persons and Property	445,000	445,000	445,000	0
<i>Net Change in Fund Balance</i>	(24,310)	(24,310)	(16,948)	7,362
<i>Fund Balance Beginning of Year</i>	28,068	28,068	28,068	0
<i>Fund Balance End of Year</i>	<u>\$3,758</u>	<u>\$3,758</u>	<u>\$11,120</u>	<u>\$7,362</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2008

	Waste Water
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$625,957
Accounts Receivable	1,148
<i>Total Current Assets</i>	627,105
<i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	1,180,424
Depreciable Capital Assets, Net	179,150
<i>Total Noncurrent Assets</i>	1,359,574
<i>Total Assets</i>	1,986,679
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	1,509
Accrued Wages and Benefits	577
Intergovernmental Payable	508
Accrued Interest Payable	10,382
Notes Payable	5,000
Bonds Payable	12,580
OPWC Loans Payable	14,195
<i>Total Current Liabilities</i>	44,751
<i>Long-Term Liabilities (net of current portion)</i>	
Bonds Payable	371,428
OPWC Loans Payable	241,328
Notes Payable	745,000
<i>Total Long-Term Liabilities</i>	1,357,756
<i>Total Liabilities</i>	1,402,507
Net Assets	
Invested in Capital Assets, Net of Related Debt	236,459
Unrestricted	347,713
<i>Total Net Assets</i>	\$584,172

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, 2008*

	Waste Water
Operating Revenues	
Charges for Services	\$67,429
Operating Expenses	
Personal Services	17,819
Services and Supplies	53,951
Depreciation	14,645
<i>Total Operating Expenses</i>	86,415
<i>Operating Loss</i>	(18,986)
Non Operating Revenues (Expenses)	
Operating Grants	6,461
Interest and Fiscal Charges	(36,139)
<i>Total Non Operating Revenues (Expenses)</i>	(29,678)
<i>Loss Before Transfers</i>	(48,664)
Transfers In	35,967
<i>Change in Net Assets</i>	(12,697)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	596,869
<i>Net Assets End of Year</i>	\$584,172

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2008

	Waste Water
Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$66,888
Cash Payments to Suppliers for Services and Supplies	(54,875)
Cash Payments for Employee Services and Benefits	(17,958)
	(5,945)
<i>Net Cash Used for Operating Activities</i>	<i>(5,945)</i>
Cash Flows from Noncapital Financing Activities	
Grants	6,461
Transfers In	35,967
	42,428
<i>Net Cash Provided by Noncapital Financing Activities</i>	<i>42,428</i>
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(151,610)
Proceeds from Sale of Notes	750,000
Principal Paid on Bonds	(12,920)
Interest Paid on Bonds	(18,599)
Principal Paid on OPWC Loans	(14,196)
Principal Paid on Notes	(115,000)
Interest Paid on Notes	(5,252)
	432,423
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<i>432,423</i>
Net Increase in Cash and Cash Equivalents	468,906
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>157,051</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$625,957</i>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$18,986)
<i>Adjustments:</i>	
Depreciation	14,645
Increase in Accounts Receivable	(541)
Increase (Decrease) in Liabilities:	
Accounts Payable	(41)
Accrued Wages and Benefits	62
Intergovernmental Payable	(1,084)
	13,041
<i>Total Adjustments</i>	<i>13,041</i>
<i>Net Cash Used for Operating Activities</i>	<i>(\$5,945)</i>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2008

	<u>Private Purpose Trust</u>	
	<u>Cemetery</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,386	<u>\$334,639</u>
Liabilities		
Deposits Held and Due to Others	<u>0</u>	<u>\$334,639</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, 2008

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

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 1 – Description of the City and Reporting Entity

Description of the City

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

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Basis of Presentation

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

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

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

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

Fund Accounting

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

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

General Fund This fund accounts for 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, 2008

State Route 306 and State Route 6 Fund This fund accounts for various capital improvements to State Route 306 and State Route 6.

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

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

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

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

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

Measurement Focus

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 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, 2008, but which were levied to finance year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Budgetary Process

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

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

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

Cash and Cash Equivalents

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

During 2008, investments were limited to STAR Ohio (State Treasury Asset Reserve of Ohio).

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2008.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2008 amounted to \$40,099, which includes \$35,775 assigned from other City funds.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2008, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

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

Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings 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, 2008

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.

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.

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.

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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Net Assets

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

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

Operating Revenues and Expenses

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

Internal Activity

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

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

Extraordinary and Special Items

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

Estimates

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 3 – Change in Accounting Principle and Restatement of Net Assets

Change in Accounting Principle

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations”. GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of this Statement did not result in any change to the City’s financial statements.

Restatement of Prior Year’s Balances and Net Assets

In prior years, the City reported the templeview sewer enterprise fund as a capital projects fund and classified its activity under other governmental funds on the Balance Sheet and as part of governmental activities on the Statement of Net Assets. In 2008, the templeview sewer fund was combined with the Waste Water fund and reported as a business-type fund on the Statement of Net Assets.

	General	Fire Emergency Levy	Other Governmental Funds	Total Governmental Funds
Fund Balance,				
December 31, 2007	\$281,015	\$28,068	\$754,421	\$1,063,504
Fund Reclassification	<u>0</u>	<u>0</u>	<u>(82,424)</u>	<u>(82,424)</u>
Restated Fund Balance,				
December 31, 2007	<u><u>\$281,015</u></u>	<u><u>\$28,068</u></u>	<u><u>\$671,997</u></u>	<u><u>\$981,080</u></u>

During 2008, it was determined that in addition to the fund reclassification, governmental capital assets and long-term liabilities were overstated at December 31, 2007. These restatements had the following effects on governmental net assets as they were previously reported.

	Governmental Activities
Net Assets, December 31, 2007	\$17,298,969
Fund Reclassification	(82,424)
Nondepreciable Capital Assets	(438,006)
Depreciable Capital Assets, Net	(595,072)
General Obligation Bonds Payable	320,100
OPWC Loans Payable	369,719
Notes Payable	<u>110,000</u>
Restated Net Assets, December 31, 2007	<u><u>\$16,983,286</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

During 2008, it was determined that in addition to the fund reclassification, business-type capital assets and long-term liabilities were understated at December 31, 2007. These restatements had the following effects on business-type net assets as they were previously reported.

	Business-type Activities
Net Assets, December 31, 2007	\$781,100
Fund Reclassification	82,424
Nondepreciable Capital Assets	904,397
Depreciable Capital Assets, Net	(471,233)
General Obligation Bonds Payable	(320,100)
OPWC Loans Payable	(269,719)
Notes Payable	(110,000)
Restated Net Assets, December 31, 2007	\$596,869

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) Unreported cash represents amounts received but not included as revenue on the budgetary statements, but which are reported on the operating statements prepared using GAAP.
- d) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Net Change in Fund Balances

	General	Fire Emergency Levy
GAAP Basis	\$97,024	(\$16,948)
Net Adjustment for Revenue Accruals	39,346	0
Beginning Unrecorded Cash	5,969	0
Net Adjustment for Expenditure Accruals	(225,082)	0
Encumbrances	(61,670)	0
Budget Basis	(\$144,413)	(\$16,948)

Note 5 – Accountability and Compliance

Accountability

The major capital equipment special revenue fund had a fund deficit of \$111,002 as of December 31, 2008. The fund deficit resulted from adjustments for accrued liabilities. The general fund is liable for any deficits in this fund and provides operating transfers when cash is required, rather than when accruals occur.

Compliance

The general fund had original appropriations in excess of estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code.

Although these budgetary violations were not corrected by year end, management has indicated that appropriations will be closely monitored to prevent future violations.

Note 6 - Deposits and Investments

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

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to the market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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, \$188,715 of the City's bank balance of \$442,604 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, 2008, the City's only investment was in STAR Ohio with a fair value of \$1,618,769 and an average maturity of 55 days.

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

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

Note 7 – Receivables

Receivables at December 31, 2008, consisted primarily of property taxes, municipal income taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 2008 for real and public utility property taxes represents collections of the 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) are for 2008 taxes.

2008 real property taxes are levied after October 1, 2008 on the assessed value as of January 1, 2008, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2008 real property taxes are collected in and intended to finance 2009.

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.

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. 2008 public utility property taxes became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 with real property taxes.

2008 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. Tangible personal property assessments were phased out-the assessment percentage for all property including inventory for 2008 is 6.25 percent and is zero for 2009. Payments by multi-county taxpayers are due September 20. Single county 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 full tax rate for all City operations for the year ended December 31, 2008 was \$11.05 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$251,127,020
Other Real Estate	13,527,980
Public Utility Personal Property	6,883,970
Tangible Personal Property	<u>1,052,427</u>
Total Valuation	<u><u>\$272,591,397</u></u>

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, 2008 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 2008 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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Income Tax

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

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

Intergovernmental Receivable

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

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$229,432
Homestead and Rollback	98,238
Gasoline Tax	89,762
Estate Tax	55,098
Grants	52,469
Cents Per Gallon	41,997
Motor Vehicle License Tax	28,010
Permissive Tax	26,890
Miscellaneous	6,939
Total Intergovernmental Receivables	<u><u>\$628,835</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 8 - Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance 12/31/2007	Additions	Deductions	Balance 12/31/2008
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,247,890	\$116,667	\$0	\$1,364,557
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	5,958,729	13,600	(9,141)	5,963,188
Machinery and Equipment	3,445,140	17,482	(48,129)	3,414,493
Infrastructure:				
Roads	28,873,822	409,830	0	29,283,652
Storm Sewer	1,032,484	0	0	1,032,484
<i>Total Capital Assets, being depreciated</i>	<u>39,310,175</u>	<u>440,912</u>	<u>(57,270)</u>	<u>39,693,817</u>
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(2,120,513)	(158,511)	8,740	(2,270,284)
Machinery and Equipment	(1,551,317)	(220,224)	34,966	(1,736,575)
Infrastructure:				
Roads	(17,217,490)	(728,316)	0	(17,945,806)
Storm Sewer	(240,069)	(41,299)	0	(281,368)
<i>Total Accumulated Depreciation</i>	<u>(21,129,389)</u>	<u>(1,148,350) *</u>	<u>43,706</u>	<u>(22,234,033)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>18,180,786</u>	<u>(707,438)</u>	<u>(13,564)</u>	<u>17,459,784</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$19,428,676</u>	<u>(\$590,771)</u>	<u>(\$13,564)</u>	<u>\$18,824,341</u>

City of Kirtland, Ohio
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For the Year Ended December 31, 2008

	Balance 12/31/2007	Additions	Deductions	Balance 12/31/2008
Business-Type Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$124,417	\$0	\$0	\$124,417
Construction in Progress	904,397	151,610	0	1,056,007
<i>Total Capital Assets not being depreciated</i>	<u>1,028,814</u>	<u>151,610</u>	<u>0</u>	<u>1,180,424</u>
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	149,654	0	0	149,654
Machinery and Equipment	46,505	0	0	46,505
Infrastructure:				
Sewer Lines	449,314	0	0	449,314
<i>Total Capital Assets, being depreciated</i>	<u>645,473</u>	<u>0</u>	<u>0</u>	<u>645,473</u>
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(106,898)	(2,993)	0	(109,891)
Machinery and Equipment	(12,267)	(2,666)	0	(14,933)
Infrastructure:				
Sewer Lines	(332,513)	(8,986)	0	(341,499)
<i>Total Accumulated Depreciation</i>	<u>(451,678)</u>	<u>(14,645)</u>	<u>0</u>	<u>(466,323)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>193,795</u>	<u>(14,645)</u>	<u>0</u>	<u>179,150</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$1,222,609</u>	<u>\$136,965</u>	<u>\$0</u>	<u>\$1,359,574</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$63,106
Security of Persons and Property	147,076
Transportation	877,872
Community Environment	2,647
Leisure Time Activities	57,649
Total	<u>\$1,148,350</u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 9 - Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2008, the City contracted with Selective Insurance Company for various types of insurance through Wichert Insurance Agency. The City also contracted with Scottsdale Indemnity Company Insurance for various types of insurance through Love Insurance Agency. The type, coverage, and deductibles for the City's insurance follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Wichert Insurance Agency:		
Commercial Property	\$9,867,023	\$1,000
Earthquake and Flood	500,000	25,000
Boiler Machinery and Machinery	9,867,023	1,000
Inland Marine	869,728	1,000
Commercial General Liability	1,000,000	0
Umbrella Liability	4,000,000	0
Commercial Automotive	1,000,000	500
Uninsured Motorists	25,000	0
Love Insurance Agency:		
Law Enforcement	1,000,000	5,000
Public Officials	1,000,000	5,000
Employment Practices	1,000,000	5,000
Finance Director	100,000	0
City Clerks	100,000	0

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

Workers' Compensation

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 10 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional pension and combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 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, 2008, 2007, and 2006 were \$113,012, \$130,453, and \$132,091, respectively; 97.43 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the Member-Directed Plan for 2008 were \$414 made by the City and \$579 made by plan members.

Ohio Police and Fire Pension Fund

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

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24.0 percent for firefighters. Contribution rates are established by State statute. For 2008, a portion of the City's contributions equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

plan. The City's contributions to OP&F for police and firefighters were \$75,665 and \$105,816 for the year ended December 31, 2008, \$76,280 and \$101,284 for the year ended December 31, 2007, and \$64,577 and \$93,219 for the year ended December 31, 2006. 97.18 percent for police and 96.77 percent for firefighters has been contributed for 2008. The full amount has been contributed for 2007 and 2006.

Note 11 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age-and-service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State Statute requires that public employers fund post-employment health care through their contributions to OPERS. A portion of each employer's contribution to the traditional and combined plans is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.0 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$113,012, \$85,927, and \$64,610, respectively; 97.43 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Ohio Police and Firemen Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person.

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

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

Funding Policy – OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 410(h) account within the defined benefit plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$40,058 and \$41,406 for the year ended December 31, 2008, \$40,384 and \$39,633 for the year ended December 31, 2007, and \$42,594 and \$44,458 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 97.18 percent has been contributed for police and 96.77 percent has been contributed for firefighters for 2008.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 12 – Other Employee Benefits

Compensated Absences

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

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

Health Insurance

The City provides hospitalization, medical, dental, vision and life insurance for all full time employees. United Health Care provided the hospitalization and medical insurance in 2008. Employees pay ten percent of the premium up to a maximum of \$110 per month effective January 2008. 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.

Note 13 - Operating Leases

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

Note 14 – Capital Leases

Prior to 2008, the City entered into two capital leases for a copier and a vehicle. During 2008, the City did not have any new capital leases. 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 \$13,032, the present value of the minimum lease payments at the inception of the leases. Accumulated depreciation on the equipment was \$7,818, with a book value of \$5,214 as of December 31, 2008.

City of Kirtland, Ohio
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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, 2008:

Year Ending December 31,	Governmental Activities
2009	\$648
2010	432
Total Minimum Lease Payments	1,080
Less: Amount Representing Interest	(40)
Present Value of Minimum Lease Payments	\$1,040

Note 15 – Note Debt

A summary of note transactions for the year ended December 31, 2008 follows:

	Balance 12/31/07	Additions	Reductions	Balance 12/31/08
Governmental Activities				
2007 - 4.10% Various Purpose Notes	\$100,000	\$0	(\$100,000)	\$0
2008 - 2.35% Various Purpose Notes	0	150,000	0	150,000
Total Governmental Activities	\$100,000	\$150,000	(\$100,000)	\$150,000
Business-Type Activities				
2007 - 4.10% Various Purpose Notes	\$5,000	\$0	(\$5,000)	\$0
2008 - 2.35% Various Purpose Notes	0	5,000	0	5,000
Total Business-Type Activities	\$5,000	\$5,000	(\$5,000)	\$5,000

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 23, 2009. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended. The notes will be paid from transfers from the general obligation bond retirement fund.

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

City of Kirtland, Ohio
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For the Year Ended December 31, 2008

Note 16 - Long-Term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Enterprise General Obligation Bonds:</i>			
Waste Water Refunding - 1998	4.50-5.00 %	\$173,000	December 1, 2016
Templeview Sewer Project Bond - 2006	4.375	323,000	June 1, 2046
<i>Enterprise Ohio Public Works Commission Loans:</i>			
Templeview Sewer - 2003	0.00	283,915	July 1, 2026
<i>Enterprise Long-term Notes Payable</i>			
Templeview Sewer	2.35	745,000	July 23, 2009
<i>General Obligation Bonds:</i>			
Fire Department and Civic Center - 1998	4.50-5.00	2,667,000	December 1, 2016
<i>Various Purpose Bonds - 2006:</i>			
State Route 306 Improvement	3.75-5.00	1,055,000	December 1, 2026
Parks and Recreation Purposes	3.75-5.00	650,000	December 1, 2026
Service Facility	3.75-5.00	200,000	December 1, 2026
Senior Center	3.75-5.00	100,000	December 1, 2026
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 2005	0.00	50,000	July 1, 2026
<i>Long-term Notes Payable</i>			
2008 Various Purpose	2.35	910,000	July 23, 2009

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

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008	Amounts Due in One Year
Business-Type Activities					
<i>General Obligation Bonds</i>					
Waste Water Refunding	\$93,690	\$0	(\$9,720)	\$83,970	\$9,180
Unamortized Loss on Refunding	(19,271)	0	2,409	(16,862)	0
<i>Total Waste Water Refunding</i>	74,419	0	(7,311)	67,108	9,180
Templeview Sewer Project	320,100	0	(3,200)	316,900	3,400
Total General Obligation Bonds	394,519	0	(10,511)	384,008	12,580
<i>OPWC Loan</i>					
Templeview Sewer	269,719	0	(14,196)	255,523	14,195
<i>Other Long-term Obligations</i>					
Notes Payable	110,000	745,000	(110,000)	745,000	0
Total Business-Type Activities	\$774,238	\$745,000	(\$134,707)	\$1,384,531	\$26,775

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

	Balance 12/31/07	Additions	Reductions	Balance 12/31/08	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
Fire Department and Civic Center 1998 Refunding Bonds	\$1,641,310	\$0	(\$170,280)	\$1,471,030	\$160,820
Various Purpose Bonds 2006:					
State Route 306 Improvement	1,020,798	0	(39,464)	981,334	39,464
Parks and Recreation Purposes	628,928	0	(24,314)	604,614	24,314
Service Facility	193,516	0	(7,481)	186,035	7,481
Senior Center	96,758	0	(3,741)	93,017	3,741
Unamortized Premium	65,094	0	(3,616)	61,478	0
Total Various Purpose Bonds	2,005,094	0	(78,616)	1,926,478	75,000
Total General Obligation Bonds	3,646,404	0	(248,896)	3,397,508	235,820
OPWC Loan					
Route 306 Widening, Phase II	46,250	0	(2,500)	43,750	2,500
Other Long-term Obligations					
Notes Payable	700,000	910,000	(700,000)	910,000	0
Capital Lease Obligation	4,535	0	(3,495)	1,040	624
Compensated Absences	134,310	26,968	(13,971)	147,307	9,585
Total Other Long-term Obligations	838,845	936,968	(717,466)	1,058,347	10,209
Total Governmental Activities	\$4,531,499	\$936,968	(\$968,862)	\$4,499,605	\$248,529

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

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

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

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

The fire department and civic center general obligation bonds will be paid from the debt retirement fund. Compensated absences will be paid from the general fund which is the fund the employees are paid from. The 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, 2008

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

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

The City's overall legal debt margin was \$24,182,317 with an unvoted debt margin of \$10,552,747 at December 31, 2008. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2008 are as follows:

	Governmental Activities			Business-Type Activities		
	General Obligation		OPWC	General Obligation		OPWC
	Bonds		Loan	Bonds		Loan
	Principal	Interest	Principal	Principal	Interest	Principal
2009	\$235,820	\$159,532	\$2,500	\$12,580	\$19,201	\$14,195
2010	235,820	149,086	2,500	12,780	18,608	14,196
2011	245,280	138,523	2,500	13,420	18,001	14,196
2012	259,740	127,009	2,500	14,060	17,340	14,196
2013	269,470	114,822	2,500	14,530	16,645	14,195
2014-2018	1,084,900	380,911	12,500	58,100	72,358	70,979
2019-2023	580,000	196,250	12,500	28,400	62,829	70,979
2024-2028	425,000	43,250	6,250	35,000	55,481	42,587
2029-2033	0	0	0	43,600	46,389	0
2034-2038	0	0	0	54,000	35,085	0
2039-2043	0	0	0	66,900	21,076	0
2044-2046	0	0	0	47,500	4,574	0
Total	<u>\$3,336,030</u>	<u>\$1,309,383</u>	<u>\$43,750</u>	<u>\$400,870</u>	<u>\$387,587</u>	<u>\$255,523</u>

Note 17 – Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 126 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 2008. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Suite 20, Solon, Ohio 44139 .

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 18 – Interfund Transfers

The general fund and the major capital equipment special revenue fund transferred \$317,995 and \$100,000 respectively, to the general obligation bond retirement fund for debt payment requirements. The general fund transferred \$13,881 and \$18,382 respectively, to the major capital equipment special revenue fund and the SR 306 and SR 6 intersection capital projects fund for debt payment requirements. The general fund transferred \$35,967 to the waste water fund for debt payment requirements. The FEMA heath road project capital projects fund transferred \$36,462 to the general fund due to the completion of the heath road project. The FEMA fire grant project capital projects funds transferred \$55,000 to the general fund due to the completion of one of the grants. Transfer activity is shown in the following table.

Transfers To	Transfers From				Totals
	General	Major Capital Equipment	FEMA Heath Road Project	FEMA Fire Grant Project	
<i>Major Funds:</i>					
General	\$0	\$0	\$36,462	\$55,000	\$91,462
Waste Water	35,967	0	0	0	35,967
Total Major Funds	35,967	0	36,462	55,000	127,429
<i>Nonmajor Funds:</i>					
Debt Service	317,995	100,000	0	0	417,995
State Route 306 & State Route 6	18,382	0	0	0	18,382
Major Capital Equipment	13,881	0	0	0	13,881
Total Nonmajor Funds	350,258	100,000	0	0	450,258
Totals	\$386,225	\$100,000	\$36,462	\$55,000	\$577,687

Note 19 - Contingencies

Grants

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

Litigation

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 20 – Subsequent Event

On July 22, 2009, the City reissued the various purpose notes in the amount of \$2,480,000 at a rate of 2.5 percent. This amount includes the reissuance of \$1,655,000 of existing notes and \$825,000 of new note liability. The notes mature on July 22, 2010.



Dave Yost • Auditor of State

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

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio (the City), as of and for the years ended December 31, 2009 and 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 4, 2011, wherein we noted the City had a fund reclassification and restated their governmental activity net assets and business-type net assets as of December 31, 2007, due to a reclassification of capital assets and long-term liabilities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

We also noted a matter not requiring inclusion in this report that we reported to the City's management in a separate letter dated February 4, 2011.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

February 4, 2011

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008**

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

FINDING NUMBER 2009-001

Material Noncompliance

Appropriations Exceeding Estimated Resources

Ohio Revised Code Section 5705.39 states in part that the total appropriations from each fund should not exceed the total estimated revenue.

The General Obligation Bond Retirement Debt Service Fund had appropriations exceeding estimated receipts by \$1,637,616 at December 31, 2009.

Appropriating more money than expected to be received could lead to negative fund balances and monies being used to cover expenses being charged to inappropriate funds or lines items. It also could lead to commitments being made without appropriate funds to cover the expenses.

We recommend the City monitor and amend the certificate of estimated resources to ensure the appropriations do not exceed estimated resources.

Officials' Response:

In the future, the City will amend the certificate of estimated resources with the Lake County Auditor's office to reflect the proceeds from the rollover of debt issuances.

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	ORC 5705.41(B) Expenditures Plus Encumbrances in Excess of Appropriations	Yes	
2007-002	ORC 5705.41(D)(1) Certification of Availability of Appropriations	Yes	
2007-003	ORC 5705.39 Appropriations Exceeding Estimated Resources	No	Partially corrected, violations reduced to one fund and reissued as Finding 2009-001



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CITY OF KIRTLAND

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 10, 2011