



Dave Yost • Auditor of State



**CITY OF KIRTLAND  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of City Council:

### ***Report on the Financial Statements***

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

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, 2013 and 2012 and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the General and Fire Emergency Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

June 18, 2014

**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

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The discussion and analysis of the City of Kirtland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2013. 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 2013 are:

- In 2013, the City received a \$142,500 grant from the Federal Emergency Management Agency (FEMA) to purchase several breathing apparatus for the City's fire department.
- Total governmental program expenses increased slightly as the City continues to provide the services our residents expect while staying carefully within the City's revenues.
- During 2013, the City issued \$1,180,000 in general obligation notes which was used to retire the 2012 \$1,435,000 in general obligation notes and for the purchase of a service truck.

**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 Position* 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.

**The City of Kirtland as a Whole**

**Statement of Net Position 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 2013?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources 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 position and the changes in net position. The changes in net position 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.

**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
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In the *Statement of Net Position* 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 Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

#### ***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, only in more detail.



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

The *Statement of Net Position* looks at the City as a whole. Table I provides a summary of the City's net position for 2013 compared to 2012.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activity		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$4,264,876	\$4,532,224	\$519,003	\$442,344	\$4,783,879	\$4,974,568
Capital Assets, Net	16,476,220	17,356,110	2,499,845	2,560,808	18,976,065	19,916,918
<i>Total Assets</i>	<u>20,741,096</u>	<u>21,888,334</u>	<u>3,018,848</u>	<u>3,003,152</u>	<u>23,759,944</u>	<u>24,891,486</u>
Current and Other Liabilities	1,726,013	895,179	10,397	10,924	1,736,410	906,103
Long-Term Liabilities:						
Due Within One Year	315,727	306,456	18,396	18,196	334,123	324,652
Due In More Than One Year	2,224,503	3,521,183	464,549	482,945	2,689,052	4,004,128
<i>Total Liabilities</i>	<u>4,266,243</u>	<u>4,722,818</u>	<u>493,342</u>	<u>512,065</u>	<u>4,759,585</u>	<u>5,234,883</u>
Deferred Inflows of Resources	1,482,565	1,475,297	0	0	1,482,565	1,475,297
Net Investment in Capital Assets	13,378,772	13,582,231	2,016,900	2,059,667	15,395,672	15,641,898
Restricted:						
Capital Projects	0	577,953	0	0	0	577,953
Fire Emergency Levy	86,826	95,970	0	0	86,826	95,970
Street Construction,						
Maintenance and Repair	187,717	195,038	0	0	187,717	195,038
Senior Citizens	171,695	185,744	0	0	171,695	185,744
Other Purposes	99,423	153,129	0	0	99,423	153,129
Unrestricted	1,067,855	900,154	508,606	431,420	1,576,461	1,331,574
<i>Total Net Position</i>	<u>\$14,992,288</u>	<u>\$15,690,219</u>	<u>\$2,525,506</u>	<u>\$2,491,087</u>	<u>\$17,517,794</u>	<u>\$18,181,306</u>

Net position may serve as a useful indicator of a government's financial position over time. In the case of the City of Kirtland, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17,517,794 at year-end. By far the largest portion of the City's net position (87.89 percent) is its investment in capital assets including land, buildings, machinery and equipment, roads, storm sewer lines, and sewer lines net of related debt. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Kirtland's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The decrease in governmental net position was due to further cuts in State funding, and the decrease in property tax receivable is due to the general devaluation of properties within the entire northeast Ohio region. Total liabilities decreased mainly due to the paying down of long-term debt obligations.

Total net position for business-type activities increased due to a reduction in long-term debt from the continued pay-down of business-type notes and loans.

**City of Kirtland, Ohio**  
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Table 2 shows the changes in net position for the years ended December 31, 2013, as compared to 2012.

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activity		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$671,046	\$616,244	\$130,531	\$99,894	\$801,577	\$716,138
Operating Grants and Contributions	637,393	675,188	0	0	637,393	675,188
Capital Grants	340,452	173,728	114,416	923,309	454,868	1,097,037
<b>Total Program Revenues</b>	<b>1,648,891</b>	<b>1,465,160</b>	<b>244,947</b>	<b>1,023,203</b>	<b>1,893,838</b>	<b>2,488,363</b>
<b>General Revenues</b>						
Property Taxes	1,524,863	1,605,251	0	0	1,524,863	1,605,251
Municipal Income Taxes	3,280,170	3,464,662	0	0	3,280,170	3,464,662
Grants and Entitlements	474,935	272,077	0	0	474,935	272,077
Interest	137	556	0	0	137	556
Gain on Sale of Capital Assets	4,656	3,560	0	0	4,656	3,560
Miscellaneous	68,893	62,474	0	0	68,893	62,474
<b>Total General Revenues</b>	<b>5,353,654</b>	<b>5,408,580</b>	<b>0</b>	<b>0</b>	<b>5,353,654</b>	<b>5,408,580</b>
<b>Total Revenues</b>	<b>7,002,545</b>	<b>6,873,740</b>	<b>244,947</b>	<b>1,023,203</b>	<b>7,247,492</b>	<b>7,896,943</b>
<b>Program Expenses</b>						
General Government	1,959,802	1,987,001	0	0	1,959,802	1,987,001
Security of Persons and Property	2,811,912	2,565,328	0	0	2,811,912	2,565,328
Transportation	2,323,359	2,224,027	0	0	2,323,359	2,224,027
Public Health and Welfare	68,785	73,037	0	0	68,785	73,037
Community Environment	62,917	101,227	0	0	62,917	101,227
Leisure Time Activities	374,278	369,146	0	0	374,278	369,146
Interest and Fiscal Charges	99,423	190,035	0	0	99,423	190,035
Sewer	0	0	210,528	109,099	210,528	109,099
<b>Total Program Expenses</b>	<b>7,700,476</b>	<b>7,509,801</b>	<b>210,528</b>	<b>109,099</b>	<b>7,911,004</b>	<b>7,618,900</b>
<i>Increase (Decrease) in Net Position</i>						
<i>Before Transfers</i>	(697,931)	(636,061)	34,419	914,104	(663,512)	278,043
Transfers	0	(97,441)	0	97,441	0	0
<i>Change in Net Position</i>	(697,931)	(733,502)	34,419	1,011,545	(663,512)	278,043
<b>Net Position</b>						
Beginning of Year	15,690,219	16,423,721	2,491,087	1,479,542	18,181,306	17,903,263
<b>Net Position End of Year</b>	<b>\$14,992,288</b>	<b>\$15,690,219</b>	<b>\$2,525,506</b>	<b>\$2,491,087</b>	<b>\$17,517,794</b>	<b>\$18,181,306</b>

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

Security of persons and property include the police and fire departments, accounted for program expenses of \$2,811,912 which is 36.52 percent of total expenses. Our police and fire departments continue to improve their equipment to better serve our community and at the same time provide extra safety for our officers. We continue to strive to provide better police and fire service at a lower cost per man-hour. The City has been recognized as one of the safest cities in Northeast Ohio by Cleveland Magazine for two years in a row.

**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 2013, 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 increased in 2013 due to the City receiving a FEMA grant for the purchase of breathing apparatus for the fire department. 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 increased in 2013 compared to 2012 due to annual depreciation outpacing capital asset additions by \$879,890. This increase was offset by the City's concerted effort to keep expenses low while still providing the services the residents have come to expect. General government, security of persons and property and transportation expenses are the three main sources of expenses. These activities include police protection, fire protection, road maintenance, planning/zoning, mayoral office and finance office.

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*Unaudited*

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	
	2013	2012	2013	2012
General Government	\$1,959,802	\$1,987,001	\$1,784,678	\$1,816,530
Security of Persons and Property	2,811,912	2,565,328	2,169,279	2,099,192
Transportation	2,323,359	2,224,027	1,624,956	1,517,975
Public Health and Welfare	68,785	73,037	62,407	66,748
Community Environment	62,917	101,227	56,432	92,625
Leisure Time Activities	374,278	369,146	254,410	261,536
Interest and Fiscal Charges	99,423	190,035	99,423	190,035
<i>Total</i>	<u>\$7,700,476</u>	<u>\$7,509,801</u>	<u>\$6,051,585</u>	<u>\$6,044,641</u>

The negative amounts indicated in Table 3 should not be construed as something bad; they are merely indicative of whether a particular function of government relies on general revenues for financing or is a net contributor of resources to the general government. The total cost of services and the net cost of services increased in 2013.

Security of persons and property expenses account for approximately 36.5 percent of total 2013 expenses. A significant portion of these expenses can be attributed to salaries, wages and employee benefits. As of December 31, 2013, the City employed 14 full time police officers and 10 full time firefighters. Other significant expenses include transportation expenses which make up approximately 30.17 percent of total expenses. The majority of transportation expenses include salaries, benefits and infrastructure depreciation.

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

***BUSINESS-TYPE ACTIVITIES***

The charges for services from waste water utility services along with capital grants received were sufficient to cover the total expenses in 2013. 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.

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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 increase in general fund revenues was mainly due to increases in income tax collections as the City aggressively collects delinquencies. The increase is also due to the increase in fines and forfeitures as well as licenses and permits.

The fire emergency levy special revenue fund which is used to operate the fire department had a slight decrease in fund balance due to a reduction of property tax collections. The State Route 306 and State Route 6 capital projects fund had a decrease in fund balance due to the payment of debt.

***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 2013, the City amended its general fund budget from the original certified revenues. All capital projects and requests for capital type purchases in excess of \$25,000 must be reviewed and approved individually by the Mayor, after which they are sent to the formal Council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, contractual services/supplies and capital outlay object levels for each function for all funds. The Finance Director, with approval from the Mayor or City Council, 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.

**Capital Assets and Debt Administration**

***Capital Assets***

Table 4 shows 2013 balances of capital assets as compared to 2012.

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

	Governmental Activities		Business-Type Activity		Total	
	2013	2012	2013	2012	2013	2012
Land	\$1,364,602	\$1,364,602	\$124,417	\$124,417	\$1,489,019	\$1,489,019
Construction in Progress	0	0	0	2,315,820	0	2,315,820
Buildings, Structures and Improvements	3,123,893	3,208,957	24,796	27,790	3,148,689	3,236,747
Machinery and Equipment	1,516,857	1,621,882	18,243	20,909	1,535,100	1,642,791
Infrastructure						
Roads	9,805,004	10,483,502	0	0	9,805,004	10,483,502
Storm Sewers	665,864	677,167	0	0	665,864	677,167
Sewer Lines	0	0	2,332,389	71,872	2,332,389	71,872
<b><i>Total Capital Assets</i></b>	<b>\$16,476,220</b>	<b>\$17,356,110</b>	<b>\$2,499,845</b>	<b>\$2,560,808</b>	<b>\$18,976,065</b>	<b>\$19,916,918</b>

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Governmental capital assets decreased due to annual depreciation exceeding additions to building improvements, machinery and equipment and roads.

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

City Council is committed along with the Administration to maintain its capital assets at a condition acceptable to provide the best possible service for all residents. 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 10 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	
	2013	2012	2013	2012	2013	2012
General Obligation						
Bonds	\$2,177,398	\$2,476,764	\$298,400	\$302,400	\$2,475,798	\$2,779,164
OPWC Loans	75,986	81,118	184,545	198,741	260,531	279,859
Short-Term Notes	1,180,000	425,000	0	0	1,180,000	425,000
Long-Term Notes	0	1,010,000	0	0	0	1,010,000
Totals	<u>\$3,433,384</u>	<u>\$3,992,882</u>	<u>\$482,945</u>	<u>\$501,141</u>	<u>\$3,916,329</u>	<u>\$4,494,023</u>

In 2012, the City issued general obligation bonds, in the amount of \$869,750, to currently refund bonds previously issued in 1998. The current refunding was undertaken to take advantage of lower interest rates. The bonds were issued with an interest rate of 1.80 percent and were issued for a four year period with final maturity on December 1, 2016. The City decreased its aggregated debt service payments by \$44,303 over the next four years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$42,375.

In 2013, the City issued \$1,180,000 in general obligation notes which were used to retire the 2012 \$1,435,000 in general obligation notes and for the purchase of a service truck. The City was able to retire \$425,000 of the 2012 notes. See Notes 16 and 17 of the Notes to the Basic Financial Statements for additional information on the City's outstanding debt obligations.

**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

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***Current Financial Related Activities***

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

City health care costs for employees have been increasing every year; however, the City found ways to keep the costs at reasonable levels while providing the best possible insurance coverage. Starting September 1, 2011 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 City also took pride in being ranked the third safest city, out of seventy-seven cities in Northeast Ohio. The ranking was featured in the June 2012 edition of Cleveland Magazine. The City ranked in the top fifteen cities for safety, median home sale price and ten year median home sale price increases. These statistics illustrate the commitment of our safety forces, engineering department, public works department and our residents to work together to maintain a community where people are proud to live and work.

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 44094, telephone 440-256-3332, or at the website at [www.kirtlandohio.com](http://www.kirtlandohio.com).

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**City of Kirtland, Ohio***Statement of Net Position**December 31, 2013*

	Governmental Activities	Business-Type Activity	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,112,944	\$404,587	\$1,517,531
Materials and Supplies Inventory	74,080	0	74,080
Accounts Receivable	75,556	0	75,556
Intergovernmental Receivable	531,192	114,416	645,608
Municipal Income Taxes Receivable	937,821	0	937,821
Property Taxes Receivable	1,533,283	0	1,533,283
Non-Depreciable Capital Assets	1,364,602	124,417	1,489,019
Depreciable Capital Assets, Net	15,111,618	2,375,428	17,487,046
<i>Total Assets</i>	<u>20,741,096</u>	<u>3,018,848</u>	<u>23,759,944</u>
<b>Liabilities</b>			
Accounts Payable	38,463	647	39,110
Accrued Wages and Benefits	221,927	775	222,702
Vacation Benefits Payable	145,941	0	145,941
Intergovernmental Payable	127,830	1,360	129,190
Accrued Interest Payable	11,852	7,615	19,467
Notes Payable	1,180,000	0	1,180,000
Long-Term Liabilities:			
Due Within One Year	315,727	18,396	334,123
Due In More Than One Year	2,224,503	464,549	2,689,052
<i>Total Liabilities</i>	<u>4,266,243</u>	<u>493,342</u>	<u>4,759,585</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	1,482,565	0	1,482,565
<b>Net Position</b>			
Net Investment in Capital Assets	13,378,772	2,016,900	15,395,672
Restricted for:			
Fire Emergency Levy	86,826	0	86,826
Street Construction, Maintenance and Repair	187,717	0	187,717
Senior Citizens	171,695	0	171,695
Other Purposes	99,423	0	99,423
Unrestricted	1,067,855	508,606	1,576,461
<i>Total Net Position</i>	<u>\$14,992,288</u>	<u>\$2,525,506</u>	<u>\$17,517,794</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2013

	Program Revenues			
	Expenses	Charges for Services	Operating Grants	Capital Grants
<b>Governmental Activities</b>				
General Government	\$1,959,802	\$175,124	\$0	\$0
Security of Persons and Property	2,811,912	380,471	119,662	142,500
Transportation	2,323,359	93,033	407,418	197,952
Public Health and Welfare	68,785	6,378	0	0
Community Environment	62,917	6,485	0	0
Leisure Time Activities	374,278	9,555	110,313	0
Interest and Fiscal Charges	99,423	0	0	0
<i>Total Governmental Activities</i>	7,700,476	671,046	637,393	340,452
<b>Business-Type Activity</b>				
Waste Water	210,528	130,531	0	114,416
<i>Total</i>	\$7,911,004	\$801,577	\$637,393	\$454,868

**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  
Gain on the Sale of Capital Assets  
Miscellaneous

*Total General Revenues*

*Change in Net Position*

*Net Position Beginning of Year*

*Net Position End of Year*

See accompanying notes to the basic financial statements

Net Revenue (Expense) and Changes in Net Position		
Governmental Activities	Business-Type Activiy	Total
(\$1,784,678)	\$0	(\$1,784,678)
(2,169,279)	0	(2,169,279)
(1,624,956)	0	(1,624,956)
(62,407)	0	(62,407)
(56,432)	0	(56,432)
(254,410)	0	(254,410)
(99,423)	0	(99,423)
(6,051,585)	0	(6,051,585)
0	34,419	34,419
(6,051,585)	34,419	(6,017,166)
552,275	0	552,275
693,629	0	693,629
92,169	0	92,169
61,351	0	61,351
125,439	0	125,439
3,280,170	0	3,280,170
474,935	0	474,935
137	0	137
4,656	0	4,656
68,893	0	68,893
5,353,654	0	5,353,654
(697,931)	34,419	(663,512)
15,690,219	2,491,087	18,181,306
<u>\$14,992,288</u>	<u>\$2,525,506</u>	<u>\$17,517,794</u>

**City of Kirtland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2013*

	<u>General</u>	<u>Fire Emergency Levy</u>	<u>State Route 306 and State Route 6</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and					
Cash Equivalents	\$398,871	\$24,573	\$272,250	\$417,250	\$1,112,944
Materials and Supplies Inventory	74,080	0	0	0	74,080
Accounts Receivable	30,558	0	0	44,998	75,556
Interfund Receivable	244,047	0	0	0	244,047
Intergovernmental Receivable	194,004	43,100	66,231	227,857	531,192
Municipal Income Taxes Receivable	937,821	0	0	0	937,821
Property Taxes Receivable	554,545	575,067	0	403,671	1,533,283
<i>Total Assets</i>	<u>\$2,433,926</u>	<u>\$642,740</u>	<u>\$338,481</u>	<u>\$1,093,776</u>	<u>\$4,508,923</u>
<b>Liabilities</b>					
Accounts Payable	\$34,471	\$0	\$0	\$3,992	\$38,463
Accrued Wages and Benefits	221,927	0	0	0	221,927
Interfund Payable	0	0	0	244,047	244,047
Intergovernmental Payable	127,830	0	0	0	127,830
Accrued Interest Payable	1,917	0	2,604	396	4,917
Notes Payable	460,000	0	625,000	95,000	1,180,000
<i>Total Liabilities</i>	<u>846,145</u>	<u>0</u>	<u>627,604</u>	<u>343,435</u>	<u>1,817,184</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes	536,076	555,914	0	390,575	1,482,565
Unavailable Revenue	875,305	62,253	0	203,678	1,141,236
<i>Total Deferred Inflows of Resources</i>	<u>1,411,381</u>	<u>618,167</u>	<u>0</u>	<u>594,253</u>	<u>2,623,801</u>
<b>Fund Balances</b>					
Nonspendable	74,080	0	0	0	74,080
Restricted	0	24,573	0	255,157	279,730
Assigned	102,320	0	0	0	102,320
Unassigned (Deficit)	0	0	(289,123)	(99,069)	(388,192)
<i>Total Fund Balances (Deficit)</i>	<u>176,400</u>	<u>24,573</u>	<u>(289,123)</u>	<u>156,088</u>	<u>67,938</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$2,433,926</u>	<u>\$642,740</u>	<u>\$338,481</u>	<u>\$1,093,776</u>	<u>\$4,508,923</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2013*

<b>Total Governmental Fund Balances</b>	<b>\$67,938</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	16,476,220
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	50,718
Intergovernmental	378,769
Municipal Income Taxes	711,749
Total	1,141,236
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(6,935)
Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(145,941)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds:	
General Obligation Bonds	(2,177,398)
OPWC Loans	(75,986)
Compensated Absences	(286,846)
Total	(2,540,230)
<i>Net Position of Governmental Activities</i>	<b>\$14,992,288</b>

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, 2013*

	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$552,460	\$572,791	\$0	\$400,121	\$1,525,372
Municipal Income Taxes	3,344,069	0	0	0	3,344,069
Charges for Services	159,927	0	0	230,215	390,142
Licenses and Permits	25,486	0	0	0	25,486
Fines and Forfeitures	25,363	0	0	590	25,953
Intergovernmental	443,779	86,200	158,626	730,046	1,418,651
Rentals	229,465	0	0	0	229,465
Interest	127	0	0	10	137
Miscellaneous	68,893	0	0	0	68,893
<i>Total Revenues</i>	<u>4,849,569</u>	<u>658,991</u>	<u>158,626</u>	<u>1,360,982</u>	<u>7,028,168</u>
<b>Expenditures</b>					
Current:					
General Government	1,885,267	0	0	20,000	1,905,267
Security of Persons and Property	1,583,949	665,000	0	457,500	2,706,449
Transportation	987,783	0	0	420,000	1,407,783
Public Health and Welfare	68,785	0	0	0	68,785
Community Environment	70,091	0	0	0	70,091
Leisure Time Activities	102,587	0	0	249,801	352,388
Capital Outlay	0	0	99,348	59,986	159,334
Debt Service:					
Principal Retirement	290,000	0	625,000	395,882	1,310,882
Interest and Fiscal Charges	5,651	0	10,209	91,973	107,833
<i>Total Expenditures</i>	<u>4,994,113</u>	<u>665,000</u>	<u>734,557</u>	<u>1,695,142</u>	<u>8,088,812</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(144,544)</u>	<u>(6,009)</u>	<u>(575,931)</u>	<u>(334,160)</u>	<u>(1,060,644)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	3,225	0	0	0	3,225
Transfers In	0	0	8,855	392,605	401,460
Transfers Out	(251,460)	0	0	(150,000)	(401,460)
<i>Total Other Financing Sources (Uses)</i>	<u>(248,235)</u>	<u>0</u>	<u>8,855</u>	<u>242,605</u>	<u>3,225</u>
<i>Net Change in Fund Balances</i>	<u>(392,779)</u>	<u>(6,009)</u>	<u>(567,076)</u>	<u>(91,555)</u>	<u>(1,057,419)</u>
<i>Fund Balances Beginning of Year</i>	<u>569,179</u>	<u>30,582</u>	<u>277,953</u>	<u>247,643</u>	<u>1,125,357</u>
<i>Fund Balances End of Year</i>	<u>\$176,400</u>	<u>\$24,573</u>	<u>(\$289,123)</u>	<u>\$156,088</u>	<u>\$67,938</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, 2013*

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**Net Change in Fund Balances - Total Governmental Funds** (\$1,057,419)

*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	455,831	
Current Year Depreciation	(1,335,721)	
Total		(879,890)

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

Delinquent Property Taxes	(509)	
Intergovernmental	34,129	
Municipal Income Taxes	(63,899)	
Total		(30,279)

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.

Accrued Interest	4,794	
Amortization of Bond Premium	3,616	
Total		8,410

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	(27,089)	
Vacation Benefits	(22,546)	
Total		(49,635)

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

1,310,882

*Change in Net Position of Governmental Activities*

(\$697,931)

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, 2013*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues</b>				
Property Taxes	\$575,898	\$575,898	\$552,460	(\$23,438)
Municipal Income Taxes	3,343,812	3,343,812	3,349,119	5,307
Charges for Services	463,052	463,052	435,048	(28,004)
Licenses and Permits	245,142	245,142	203,691	(41,451)
Fines and Forfeitures	52,060	52,060	25,572	(26,488)
Intergovernmental	20,902	20,902	21,773	871
Rentals	231,322	231,322	224,911	(6,411)
Interest	1,005	1,005	127	(878)
Miscellaneous	31,004	31,004	72,478	41,474
<i>Total Revenues</i>	<u>4,964,197</u>	<u>4,964,197</u>	<u>4,885,179</u>	<u>(79,018)</u>
<b>Expenditures</b>				
Current:				
General Government	2,024,780	2,024,780	1,884,835	139,945
Security of Persons and Property	1,558,708	1,558,708	1,560,211	(1,503)
Transportation	1,126,181	1,126,181	856,416	269,765
Public Health and Welfare	68,785	68,785	68,785	0
Community Environment	106,867	106,867	68,918	37,949
Leisure Time Activities	109,754	109,754	101,330	8,424
Debt Service:				
Principal Retirement - Refunded Notes Redeemed	380,000	380,000	380,000	0
Interest and Fiscal Charges	4,109	4,109	4,109	0
<i>Total Expenditures</i>	<u>5,379,184</u>	<u>5,379,184</u>	<u>4,924,604</u>	<u>454,580</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(414,987)</u>	<u>(414,987)</u>	<u>(39,425)</u>	<u>375,562</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	3,225	3,225
General Obligation Notes Issued	290,000	290,000	290,000	0
Transfers In	175,000	175,000	0	(175,000)
Transfers Out	(255,124)	(255,124)	(251,460)	3,664
<i>Total Other Financing Sources (Uses)</i>	<u>209,876</u>	<u>209,876</u>	<u>41,765</u>	<u>(168,111)</u>
<i>Net Change in Fund Balance</i>	<u>(205,111)</u>	<u>(205,111)</u>	<u>2,340</u>	<u>207,451</u>
<i>Fund Balance Beginning of Year</i>	<u>408,249</u>	<u>408,249</u>	<u>408,249</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>30,410</u>	<u>30,410</u>	<u>30,410</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$233,548</u></u>	<u><u>\$233,548</u></u>	<u><u>\$440,999</u></u>	<u><u>\$207,451</u></u>

See accompanying notes to the basic financial statements



**City of Kirtland, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
Fire Emergency Levy Fund  
For the Year Ended December 31, 2013*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues</b>				
Property Taxes	\$637,203	\$637,203	\$572,791	(\$64,412)
Intergovernmental	0	0	86,200	86,200
<i>Total Revenues</i>	637,203	637,203	658,991	21,788
<b>Expenditures</b>				
Current:				
Security of Persons and Property	665,000	665,000	665,000	0
<i>Net Change in Fund Balance</i>	(27,797)	(27,797)	(6,009)	21,788
<i>Fund Balance Beginning of Year</i>	30,582	30,582	30,582	0
<i>Fund Balance End of Year</i>	<u>\$2,785</u>	<u>\$2,785</u>	<u>\$24,573</u>	<u>\$21,788</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Fund*  
*December 31, 2013*

	Waste Water
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$404,587
Intergovernmental Receivable	114,416
<i>Total Current Assets</i>	519,003
<i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	124,417
Depreciable Capital Assets, Net	2,375,428
<i>Total Noncurrent Assets</i>	2,499,845
<i>Total Assets</i>	3,018,848
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	647
Accrued Wages and Benefits	775
Intergovernmental Payable	1,360
Accrued Interest Payable	7,615
Bonds Payable	4,200
OPWC Loans Payable	14,196
<i>Total Current Liabilities</i>	28,793
<i>Long-Term Liabilities (net of current portion)</i>	
Bonds Payable	294,200
OPWC Loans Payable	170,349
<i>Total Long-Term Liabilities</i>	464,549
<i>Total Liabilities</i>	493,342
<b>Net Position</b>	
Net Investment in Capital Assets	2,016,900
Unrestricted	508,606
<i>Total Net Position</i>	\$2,525,506

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Revenues, Expenses  
and Changes in Fund Net Position  
Enterprise Fund  
For the Year Ended December 31, 2013*

	Waste Water
<b>Operating Revenues</b>	
Charges for Services	\$130,531
<b>Operating Expenses</b>	
Personal Services	19,147
Services and Supplies	117,291
Depreciation	60,963
<i>Total Operating Expenses</i>	197,401
<i>Operating Loss</i>	(66,870)
<b>Non Operating Expenses</b>	
Interest and Fiscal Charges	(13,127)
<i>Loss Before Capital Contributions</i>	(79,997)
Capital Contributions	114,416
<i>Change in Net Position</i>	34,419
<i>Net Position Beginning of Year</i>	2,491,087
<i>Net Position End of Year</i>	\$2,525,506

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Cash Flows*  
*Enterprise Fund*  
For the Year Ended December 31, 2013

	Waste Water
<b>Increases (Decreases) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers	\$130,531
Cash Payments to Suppliers for Services and Supplies	(118,640)
Cash Payments for Employee Services and Benefits	(18,222)
	(6,331)
<i>Net Cash Used for Operating Activities</i>	<i>(6,331)</i>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal Paid on Bonds	(4,000)
Interest Paid on Bonds	(13,230)
Principal Paid on OPWC Loans	(14,196)
	(31,426)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<i>(31,426)</i>
Net Decrease in Cash and Cash Equivalents	(37,757)
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>442,344</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$404,587</i>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$66,870)
<i>Adjustments:</i>	
Depreciation	60,963
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,349)
Accrued Wages and Benefits	118
Intergovernmental Payable	807
	60,539
<i>Total Adjustments</i>	<i>60,539</i>
<i>Net Cash Used for Operating Activities</i>	<i>(\$6,331)</i>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*December 31, 2013*

	Private Purpose Trust	
	Cemetery	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$2,386	\$330,135
<b>Liabilities</b>		
Deposits Held and Due to Others	0	\$330,135
<b>Net Position</b>		
Held in Trust for Perpetual Care	\$2,386	

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Year Ended December 31, 2013*

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	<u>Cemetery</u>
<b>Additions</b>	\$0
<b>Deductions</b>	<u>0</u>
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	<u>2,386</u>
<i>Net Position 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, 2013*

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

***Description of the City***

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

***Reporting Entity***

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

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

The City participates in one jointly governed organization, the Northeast Ohio Public Energy Council. This organization is presented in Note 18 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 more significant of the City's accounting policies are described below.

***Basis of Presentation***

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2013*

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**Government-wide Financial Statements** The statement of net position 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 position 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 and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

**Fire Emergency Levy Fund** This fund accounts for and reports property tax revenues restricted for the payment of salaries and related expenditures and capital purposes of the fire department.

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

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



**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2013*

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**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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 position and changes in net position. 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

**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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2013*

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***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 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, in the recording of deferred outflows/inflows of resources, 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 9). 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 Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2013*

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

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

***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".

The City of Kirtland has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2013. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at December 31, 2013.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2013 amounted to \$127, which includes \$27 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, 2013*

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

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

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

***Interfund Balances***

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

***Compensated Absences***

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2013*

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

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

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

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

***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on their use either through constitutional provisions on enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position 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 position is available.

***Fund Balance***

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

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

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2013*

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

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

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2014's appropriated budget.

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

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

### ***Operating Revenues and Expenses***

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

### ***Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, contributions of resources restricted to capital acquisition and construction and tap-in fees to the extent they exceed the cost of connection to the system.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2013*

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***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.

***Bond Premium***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued.

***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 – Changes in Accounting Principles**

For 2013, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 61, “The Financial Reporting Entity: Omnibus.” GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. These changes were incorporated in 2013; however, there was no effect on beginning net position/fund balance.

**Note 4 – Compliance**

The City had a negative cash balance in the Tibbetts road resurfacing capital projects fund and the storm improvement fund in the amounts of \$54,294 and \$19,753, respectively. This indicates that revenue from other sources was used to pay obligations of this fund contrary to Ohio Revised Code Section 5705.10(H). Although this cash deficit was not corrected by year end, management has indicated that cash will be closely monitored to prevent future violations.

**Note 5 – Fund Balances**

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2013

Fund Balances	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable:</u>					
Inventory	\$74,080	\$0	\$0	\$0	\$74,080
<u>Restricted for:</u>					
Police Department Operations	0	0	0	11,444	11,444
Fire Department Operations	0	24,573	0	6,009	30,582
Senior Citizen Recreation	0	0	0	158,177	158,177
Street and Highway Construction, Maintenance and Repair	0	0	0	45,847	45,847
Emergency Medical Services	0	0	0	33,680	33,680
<i>Total Restricted</i>	<u>0</u>	<u>24,573</u>	<u>0</u>	<u>255,157</u>	<u>279,730</u>
<u>Assigned to:</u>					
Year 2014 Appropriations	99,833	0	0	0	99,833
Purchases on Order	2,487	0	0	0	2,487
<i>Total Assigned</i>	<u>102,320</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>102,320</u>
Unassigned (Deficit)	<u>0</u>	<u>0</u>	<u>(289,123)</u>	<u>(99,069)</u>	<u>(388,192)</u>
Total Fund Balances (Deficit)	<u>\$176,400</u>	<u>\$24,573</u>	<u>(\$289,123)</u>	<u>\$156,088</u>	<u>\$67,938</u>

**Note 6 - Budgetary Basis of Accounting**

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

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



**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2013*

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.

	General	Fire Emergency Levy
GAAP Basis	(\$392,779)	(\$6,009)
Net Adjustment for Revenue Accruals	325,610	0
Net Adjustment for Expenditure Accruals	101,428	0
Encumbrances	(31,919)	0
Budget Basis	\$2,340	(\$6,009)

**Note 7 – Fund Deficits**

The major capital equipment fund, Tibbetts road resurfacing fund, State Route 306 and State Route 6 and the storm improvement fund had fund deficits of \$26,542, \$54,294, \$289,123 and \$18,233, respectively. The general fund is liable for any deficits in these funds and provides transfers when cash is required, rather than when accruals occur.

**Note 8 - 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 monies 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 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;

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed on hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

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

The City has passed an ordinance allowing the City to invest 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.

### **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, \$1,367,266 of the City's bank balance of \$1,617,266 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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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, 2013, the City's only investment was in STAR Ohio with a fair value of \$325,054 and an average maturity of 53.4 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.

**Concentration of Credit Risk** The City places no limit on the amount it may invest in any one issuer.

**Note 9 – Receivables**

Receivables at December 31, 2013, consisted primarily of property taxes, municipal income taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

**Property Taxes**

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2013 for real and public utility property taxes represents collections of 2012 taxes.

2013 real property taxes were levied after October 1, 2013, on the assessed value as of January 1, 2013, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2013 real property taxes are collected in and intended to finance 2014.

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

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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. 2013 public utility property taxes which became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2013, was \$11.05 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2013 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$215,584,330
Other Real Estate	12,908,710
Public Utility Personal Property	8,561,360
Total Valuation	\$237,054,400

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2013, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2013 operations is offset to deferred inflows of resources – property taxes. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***Income Taxes***

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 100 percent of the tax paid to another municipality, not to exceed 1.75 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	\$114,118
Homestead and Rollback	112,063
Gasoline Excise Tax	91,622
State of Ohio	69,271
Gasoline Tax	46,983
Estate Tax	32,315
Motor Vehicle License Tax	29,485
Permissive Tax	29,266
Other	6,069
Total Intergovernmental Receivables	\$531,192

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**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/2012	Additions	Deductions	Balance 12/31/2013
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,364,602	\$0	\$0	\$1,364,602
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	6,102,893	78,621	(18,913)	6,162,601
Machinery and Equipment	4,165,385	179,171	(26,050)	4,318,506
Infrastructure:				
Roads	31,475,505	168,043	0	31,643,548
Storm Sewer	1,123,732	29,996	0	1,153,728
<i>Total Capital Assets, being depreciated</i>	<u>42,867,515</u>	<u>455,831</u>	<u>(44,963)</u>	<u>43,278,383</u>
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(2,893,936)	(163,685)	18,913	(3,038,708)
Machinery and Equipment	(2,543,503)	(284,196)	26,050	(2,801,649)
Infrastructure:				
Roads	(20,992,003)	(846,541)	0	(21,838,544)
Storm Sewer	(446,565)	(41,299)	0	(487,864)
<i>Total Accumulated Depreciation</i>	<u>(26,876,007)</u>	<u>(1,335,721)</u>	<u>44,963</u>	<u>(28,166,765)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>15,991,508</u>	<u>(879,890)</u>	<u>0</u>	<u>15,111,618</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$17,356,110</u>	<u>(\$879,890)</u>	<u>\$0</u>	<u>\$16,476,220</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$59,697
Security of Persons and Property	180,391
Transportation	1,028,791
Community Environment	2,019
Leisure Time Activities	64,823
<b>Total</b>	<u>\$1,335,721</u>

**City of Kirtland, Ohio**  
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	Balance 12/31/2012	Additions	Deductions	Balance 12/31/2013
<b>Business-Type Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$124,417	\$0	\$0	\$124,417
<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	2,765,134	0	0	2,765,134
<i>Total Capital Assets, being depreciated</i>	2,961,293	0	0	2,961,293
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(121,864)	(2,994)	0	(124,858)
Machinery and Equipment	(25,596)	(2,666)	0	(28,262)
Infrastructure:				
Sewer Lines	(377,442)	(55,303)	0	(432,745)
<i>Total Accumulated Depreciation</i>	(524,902)	(60,963)	0	(585,865)
<i>Total Capital Assets being depreciated, Net</i>	2,436,391	(60,963)	0	2,375,428
<i>Business-Type Activities Capital Assets, Net</i>	\$2,560,808	(\$60,963)	\$0	\$2,499,845

**Note 11 - Risk Management**

***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**  
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***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 2013, the City contracted with various insurance agencies for various types of insurance. The type, coverage, and deductibles for the City's insurance follows:

<b>Type</b>	<b>Coverage</b>	<b>Deductible</b>
Wichert Insurance Agency:		
Commercial Property	\$11,120,789	\$1,000
Earthquake and Flood	500,000	25,000
Boiler Machinery and Machinery	10,855,080	1,000
Inland Marine	864,915	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.

**Note 12 - 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, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

**City of Kirtland, Ohio**  
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Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2013, members in state and local divisions contributed 10.0 percent of covered. Members in the state and local divisions may participate in all three plans. For 2013, member and employer contribution rates were consistent across all three plans.

The City's 2013 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. For 2013, the portion of employer contribution allocated to health care was 1.00 percent for members in the Traditional Plan and the Combined Plan. Effective January 1, 2014, the portion of employer contributions allocated to health care increased to 2 percent. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012 and 2011 were \$209,372, \$160,276 and \$158,063, respectively. For 2013, 95.89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011. There were no contributions to the Member-Directed Plan for 2013 by the City or by the plan members.

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

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publically 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 – Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2013 thru July 1, 2013, plan members were required to contribute 10 percent of their annual covered salary. From July 2, 2013, thru December 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, employers were required to contribute 19.5 percent and 24 percent respectively for police officers and firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. For January 1, 2013, thru May 31, 2013, the portion of employer contributions used to fund pension benefits was 14.81 percent of covered payroll for police officers and 19.31 percent of covered payroll for firefighters. For June 1, 2013, thru December 31, 2013, the portion of employer contributions used to fund pension benefits was 16.65 percent of covered payroll for police officers and 21.15 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$101,153 and \$134,593 for the year ended December 31, 2013, \$77,947 and \$111,076 for the year ended December 31, 2012, and \$77,576 and \$112,970 for the year ended December 31, 2011, respectively. For 2013, 89.63 percent for police and 94.08 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.



**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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***Social Security System***

As of December 31, 2013, thirty part-time firefighters have elected to be covered by Social Security rather than OPERS or Ohio Police and Fire Pension Fund. The part-time firefighters' liability is 6.2 percent of wages paid.

**Note 13 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

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

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

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local government employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2013, the portion of the employer contributions allocated to health care for members in the Traditional Plan and the Combined Plan was 1.0 percent. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2 percent for both plans, as recommended by the OPERS Actuary.

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.

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The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012 and 2011 were \$16,106, \$64,283 and \$63,225, respectively. For 2013, 95.89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

Changes to health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approval health care changes, OPERS expects to consistently allocate four percent of the employer contributions toward the health care fund after the end of the transition period.

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

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available of OP&F's website at [www.op-f.org](http://www.op-f.org).

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For January 1, 2013, thru May 31, 2013, the employer contribution allocated to the health care plan was 4.69 percent of covered payroll. For June 1, 2013, thru December 31, 2013, the employer contributions allocated to the health care plan was 2.85 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 115 and 401(h).

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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 \$23,059 and \$23,907 for the year ended December 31, 2012, \$41,266 and \$43,465 for the year ended December 31, 2011, and \$41,070 and \$44,206 for the year ended December 31, 2010. For 2013, 89.63 percent has been contributed for police and 94.08 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

#### **Note 14 – 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. Starting September 1, 2011 the City entered into a three year contract with the Lake County Board of Commissioners to participate in their group health plan. Anthem provided the hospitalization and medical insurance in 2013. Employees pay ten percent of the premium up to a maximum of \$140 per month effective January 2012. Principal provides the dental insurance which is paid entirely by the City. EyeMed Vision Care provides vision insurance which is paid entirely by the City. The plan covers lenses, contacts and routine office exams. Principal 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 15 - Operating Lease**

The City of Kirtland entered into an operating lease with Pitney Bowes for a postage meter. This is a five-year lease with a payment of \$52 per month.

**City of Kirtland, Ohio**  
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**Note 16 – Note Debt**

A summary of note transactions for the year ended December 31, 2013 follows:

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13
1.00% General Fund				
2007 Plow Truck	\$25,000	\$25,000	(\$25,000)	\$25,000
2010 Plow Truck	25,000	85,000	(25,000)	85,000
Emergency Radio Equipment	15,000	45,000	(15,000)	45,000
Service Plow Truck	25,000	135,000	(25,000)	135,000
Service Plow Truck	0	170,000	0	170,000
Total General Fund	<u>90,000</u>	<u>460,000</u>	<u>(90,000)</u>	<u>460,000</u>
1.00% Major Capital Equipment Fund				
Ambulance	<u>35,000</u>	<u>95,000</u>	<u>(35,000)</u>	<u>95,000</u>
1.00% State Route 306 and 6 Fund				
State Route 306 and 6 Intersection	225,000	95,000	(225,000)	95,000
State Route 6 and Sperry Road	25,000	110,000	(25,000)	110,000
State Route 6 Resurfacing	20,000	180,000	(20,000)	180,000
Lakeland Traffic Signal/306	10,000	80,000	(10,000)	80,000
Lakeland Turn Lanes/306	20,000	160,000	(20,000)	160,000
Total State Route 306 and 6 Fund	<u>300,000</u>	<u>625,000</u>	<u>(300,000)</u>	<u>625,000</u>
Total	<u>\$425,000</u>	<u>\$1,180,000</u>	<u>(\$425,000)</u>	<u>\$1,180,000</u>

All the notes are backed by the full faith and credit of the City of Kirtland and mature within one year. The maturity date for all outstanding notes is July 2, 2014. 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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**Note 17 - 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>			
Templeview Sewer Project Bond - 2006	4.375%	\$323,000	June 1, 2046
<i>Enterprise Ohio Public Works Commission Loans:</i>			
Templeview Sewer - 2003	0.00	283,915	July 1, 2026
<i>General Obligation Bonds:</i>			
Various Purpose Bonds - 2006:			
State Route 306 Improvement	3.75 - 5.00	1,055,000	December 1, 2026
Parks and Recreation Purposes		650,000	December 1, 2026
Service Facility		200,000	December 1, 2026
Senior Center		100,000	December 1, 2026
Various Purpose Bonds - 2012:			
Civic Center	1.80	603,780	December 1, 2016
Fire Department		219,003	December 1, 2016
Waste Water		46,967	December 1, 2016
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 205	0.00	50,000	January 31, 2016
Route 306 and Route 6 Intersection	0.00	50,000	July 1, 2030

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

	Balance 12/31/2012	Additions	Reductions	Balance 12/31/2013	Amounts Due in One Year
<b>Business-Type Activities</b>					
<i>General Obligation Bonds</i>					
Templeview Sewer Project	\$302,400	\$0	(\$4,000)	\$298,400	\$4,200
<i>OPWC Loan</i>					
Templeview Sewer	198,741	0	(14,196)	184,545	14,196
<b>Total Business-Type Activities</b>	<b>\$501,141</b>	<b>\$0</b>	<b>(\$18,196)</b>	<b>\$482,945</b>	<b>\$18,396</b>

**City of Kirtland, Ohio**  
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For the Year Ended December 31, 2013

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
Various Purpose Bonds 2006:					
State Route 306 Improvement	\$820,847	\$0	(\$44,726)	\$776,121	\$47,356
Parks and Recreation Purposes	505,737	0	(27,556)	478,181	29,177
Service Facility	155,612	0	(8,479)	147,133	8,978
Senior Center	77,804	0	(4,239)	73,565	4,489
Unamortized Premium	47,014	0	(3,616)	43,398	0
Total Various Purpose Bonds	<u>1,607,014</u>	<u>0</u>	<u>(88,616)</u>	<u>1,518,398</u>	<u>90,000</u>
Various Purpose Bonds 2012:					
Civic Center	603,780	0	(146,303)	457,477	149,253
Fire Department	219,003	0	(53,067)	165,936	54,137
Waste Water	46,967	0	(11,380)	35,587	11,610
Total Various Purpose Bonds	<u>869,750</u>	<u>0</u>	<u>(210,750)</u>	<u>659,000</u>	<u>215,000</u>
<i>Total General Obligation Bonds</i>	<u>2,476,764</u>	<u>0</u>	<u>(299,366)</u>	<u>2,177,398</u>	<u>305,000</u>
<b>OPWC Loan</b>					
Route 306 Widening, Phase II	33,750	0	(2,500)	31,250	2,500
Route 306 and Route 6 Intersection	47,368	0	(2,632)	44,736	2,632
<i>Total OPWC Loans</i>	<u>81,118</u>	<u>0</u>	<u>(5,132)</u>	<u>75,986</u>	<u>5,132</u>
<b>Other Long-term Obligations</b>					
Notes Payable	1,010,000	0	(1,010,000)	0	0
Compensated Absences	259,757	32,664	(5,575)	286,846	5,595
<i>Total Other Long-term Obligations</i>	<u>1,269,757</u>	<u>32,664</u>	<u>(1,015,575)</u>	<u>286,846</u>	<u>5,595</u>
<i>Total Governmental Activities</i>	<u>\$3,827,639</u>	<u>\$32,664</u>	<u>(\$1,320,073)</u>	<u>\$2,540,230</u>	<u>\$315,727</u>

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. The various purpose general obligation bonds will be paid from the debt retirement fund.

In 2012, the City issued general obligation bonds, in the amount of \$869,750, to currently refund bonds previously issued in 1998. The current refunding was undertaken to take advantage of lower interest rates. The bonds were issued with an interest rate of 1.80 percent and were issued for a four year period with final maturity on December 1, 2016. The bonds will be retired through the general obligation bond retirement debt service fund.

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

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

Compensated absences will be paid from the general fund.

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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 waste water refunding bonds will be paid from collections in the waste water fund.

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

The City's overall legal debt margin was \$21,500,726 with an unvoted debt margin of \$9,648,006 at December 31, 2013. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2013 are as follows:

	<b>Governmental Activities</b>			<b>Business-Type Activities</b>		
	General Obligation		OPWC	General Obligation		OPWC
	Bonds		Loan	Bonds		Loan
	Principal	Interest	Principal	Principal	Interest	Principal
2014	\$305,000	\$83,230	\$5,132	\$4,200	\$14,174	\$14,196
2015	308,000	75,670	5,131	4,400	13,975	14,196
2016	321,000	68,011	5,132	4,600	13,766	14,195
2017	95,000	60,000	5,131	4,800	13,547	14,196
2018	100,000	55,250	5,132	5,000	13,319	14,196
2019-2023	580,000	196,250	25,657	28,400	62,829	70,979
2024-2028	425,000	43,250	19,408	35,000	55,481	42,587
2029-2033	0	0	5,263	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>\$2,134,000</u>	<u>\$581,661</u>	<u>\$75,986</u>	<u>\$298,400</u>	<u>\$294,215</u>	<u>\$184,545</u>

**Note 18 – Jointly Governed Organization**

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of 164 communities who have been authorized by ballot to purchase electricity on behalf of their citizens and 125 communities who have been authorized by ballot to purchase natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the nine-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation programs. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2013. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Suite 20, Solon, Ohio 44139.

**City of Kirtland, Ohio**  
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For the Year Ended December 31, 2013

**Note 19 – Interfund Transactions**

***Interfund Transfers***

The general fund and the major capital equipment special revenue fund transferred \$241,259 and \$150,000, respectively, to the general obligation bond retirement fund for debt payment requirements. The general fund transferred \$1,346 and \$8,885, 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. Transfer activity is shown in the following table.

Transfers To	Transfers From		Totals
	General	Other Governmental Funds	
<i>Major Funds:</i>			
State Route 306 & State Route 6	\$8,855	\$0	\$8,855
<i>Other Governmental Funds:</i>			
Bond Retirement	241,259	150,000	391,259
Major Capital Equipment	1,346	0	1,346
Total Other Governmental Funds	242,605	150,000	392,605
Totals	\$251,460	\$150,000	\$401,460

***Interfund Balances***

At December 31, 2013, the general fund had an interfund receivable of \$74,047 and the Tibbetts road resurfacing capital projects fund and the storm improvement fund had an interfund payable of \$54,294 and \$19,753, respectively. Also, at December 31, 2013, the general fund had an interfund receivable of \$170,000 and the general obligation bond retirement fund had an interfund payable of \$170,000 for debt issued for a service plow truck

**Note 20 - 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*  
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**Note 21 – Significant Commitments**

***Encumbrances***

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

	<u>Amount</u>		<u>Amount</u>
Governmental Funds:		Proprietary Fund:	
General	\$31,919	Waste Water	<u>\$283,766</u>
Other Governmental Funds	<u>68,098</u>		
Total Governmental Funds	<u>\$100,017</u>		

**City of Kirtland, Ohio**  
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**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
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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, 2012. 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 2012 are:

- This is the ninth year that the City has reported based on the GASB Statement No. 34 Reporting Model.
- The City's governmental activities net position decreased from 2011. The decrease in net position resulted mainly from decreases in grants and State funding as well as depreciation of capital assets.
- In 2012, the City made building improvements and purchased police and recreation equipment and vehicles. The City also made street and highway improvements to State Route 306 at Lakeland Community College and has completed the Templeview waste water treatment connections.
- In 2012, the City issued general obligation bonds, in the amount of \$869,750, to currently refund bonds previously issued in 1998. The current refunding was undertaken to take advantage of lower interest rates.

### **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 Position* 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.

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

#### **Statement of Net Position 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 2012?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources 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.

**City of Kirtland, Ohio**  
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These two statements report the City's net position and the changes in net position. The changes in net position 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 Position* 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 Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

### ***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, only in more detail.

**City of Kirtland, Ohio**  
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**The City of Kirtland as a Whole**

The *Statement of Net Position* looks at the City as a whole. Table I provides a summary of the City's net position for 2012 compared to 2011.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$4,532,224	\$4,860,955	\$442,344	\$847,038	\$4,974,568	\$5,707,993
Capital Assets, Net	17,356,110	18,129,991	2,560,808	1,945,220	19,916,918	20,075,211
<i>Total Assets</i>	<u>21,888,334</u>	<u>22,990,946</u>	<u>3,003,152</u>	<u>2,792,258</u>	<u>24,891,486</u>	<u>25,783,204</u>
Deferred Outflows of Resources	0	0	0	9,635	0	9,635
Current and Other Liabilities	895,179	739,694	10,924	747,325	906,103	1,487,019
Long-Term Liabilities:						
Due Within One Year	306,456	276,407	18,196	28,255	324,652	304,662
Due In More Than One Year	3,521,183	3,996,329	482,945	546,771	4,004,128	4,543,100
<i>Total Liabilities</i>	<u>4,722,818</u>	<u>5,012,430</u>	<u>512,065</u>	<u>1,322,351</u>	<u>5,234,883</u>	<u>6,334,781</u>
Deferred Inflows of Resources	1,475,297	1,554,795	0	0	1,475,297	1,554,795
Net Investment in Capital Assets	13,582,231	13,834,631	2,059,667	644,829	15,641,898	14,479,460
Restricted:						
Capital Projects	577,953	780,916	0	0	577,953	780,916
Fire Emergency Levy	95,970	83,903	0	0	95,970	83,903
Street Construction, Maintenance and Repair	195,038	180,172	0	0	195,038	180,172
Senior Citizens	185,744	193,069	0	0	185,744	193,069
Other Purposes	153,129	194,979	0	0	153,129	194,979
Unrestricted	900,154	1,156,051	431,420	834,713	1,331,574	1,990,764
<i>Total Net Position</i>	<u>\$15,690,219</u>	<u>\$16,423,721</u>	<u>\$2,491,087</u>	<u>\$1,479,542</u>	<u>\$18,181,306</u>	<u>\$17,903,263</u>

Total net position for governmental activities decreased mainly due to a decrease in net capital assets resulting from annual depreciation which was partially offset by current year additions to streets and highways and various equipment and vehicle purchases. The decrease in total net position was also due to decreases in cash on hand, intergovernmental and property tax receivables. The decrease in intergovernmental receivables is due to further cuts in state funding, and the decrease in property tax receivable is due to the general devaluation of properties within the entire northeast Ohio region. Total liabilities decreased mainly due to the paying down of long-term debt obligations.

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

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Table 2 shows the changes in net position for the years ended December 31, 2012, as compared to 2011.

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$616,244	\$625,096	\$99,894	\$48,220	\$716,138	\$673,316
Operating Grants and Contributions	675,188	649,412	0	0	675,188	649,412
Capital Grants	173,728	382,110	923,309	661,059	1,097,037	1,043,169
<b>Total Program Revenues</b>	<b>1,465,160</b>	<b>1,656,618</b>	<b>1,023,203</b>	<b>709,279</b>	<b>2,488,363</b>	<b>2,365,897</b>
<b>General Revenues</b>						
Property Taxes	1,605,251	1,613,641	0	0	1,605,251	1,613,641
Municipal Income Taxes	3,464,662	3,244,018	0	0	3,464,662	3,244,018
Grants and Entitlements	272,077	619,339	0	0	272,077	619,339
Interest	556	2,043	0	0	556	2,043
Gain on Sale of Capital Assets	3,560	0	0	0	3,560	0
Miscellaneous	62,474	65,706	0	0	62,474	65,706
<b>Total General Revenues</b>	<b>5,408,580</b>	<b>5,544,747</b>	<b>0</b>	<b>0</b>	<b>5,408,580</b>	<b>5,544,747</b>
<b>Total Revenues</b>	<b>6,873,740</b>	<b>7,201,365</b>	<b>1,023,203</b>	<b>709,279</b>	<b>7,896,943</b>	<b>7,910,644</b>
<b>Program Expenses</b>						
General Government	1,987,001	1,812,035	0	0	1,987,001	1,812,035
Security of Persons and Property	2,565,328	2,510,527	0	0	2,565,328	2,510,527
Transportation	2,224,027	2,223,914	0	0	2,224,027	2,223,914
Public Health and Welfare	73,037	74,939	0	0	73,037	74,939
Community Environment	101,227	72,907	0	0	101,227	72,907
Leisure Time Activities	369,146	343,902	0	0	369,146	343,902
Interest and Fiscal Charges	190,035	153,019	0	0	190,035	153,019
Sewer	0	0	109,099	99,500	109,099	99,500
<b>Total Program Expenses</b>	<b>7,509,801</b>	<b>7,191,243</b>	<b>109,099</b>	<b>99,500</b>	<b>7,618,900</b>	<b>7,290,743</b>
<i>Increase (Decrease) in Net Position</i>						
<i>Before Transfers</i>	(636,061)	10,122	914,104	609,779	278,043	619,901
Transfers	(97,441)	(53,704)	97,441	53,704	0	0
<i>Change in Net Position</i>	<i>(733,502)</i>	<i>(43,582)</i>	<i>1,011,545</i>	<i>663,483</i>	<i>278,043</i>	<i>619,901</i>
<b>Net Position</b>						
Beginning of Year	16,423,721	16,467,303	1,479,542	816,059	17,903,263	17,283,362
<b>Net Position End of Year</b>	<b>\$15,690,219</b>	<b>\$16,423,721</b>	<b>\$2,491,087</b>	<b>\$1,479,542</b>	<b>\$18,181,306</b>	<b>\$17,903,263</b>

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

Governmental capital grants decreased in 2012 due to the completion of the prior's year large reimbursement grant from the Ohio Department of Transportation for road resurfacing projects.

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. The City's expenses increased over the prior year for governmental activities in most of these areas.

***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 2012, 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 2012 due to reductions in capital grants and grants and entitlements. 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 increased in 2012 compared to 2011 due to increases in costs for healthcare, pension and workers' compensation. 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.

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.

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

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
General Government	\$1,987,001	\$1,812,035	\$1,816,530	\$1,602,757
Security of Persons and Property	2,565,328	2,510,527	2,099,192	2,066,168
Transportation	2,224,027	2,223,914	1,517,975	1,359,659
Public Health and Welfare	73,037	74,939	66,748	67,810
Community Environment	101,227	72,907	92,625	66,098
Leisure Time Activities	369,146	343,902	261,536	219,114
Interest and Fiscal Charges	190,035	153,019	190,035	153,019
<i>Total</i>	<u>\$7,509,801</u>	<u>\$7,191,243</u>	<u>\$6,044,641</u>	<u>\$5,534,625</u>

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

***BUSINESS-TYPE ACTIVITIES***

The charges for services from waste water utility services along with capital grants received were sufficient to cover the total expenses in 2012. 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 68 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 decrease in general fund revenues was mainly due to decreases in intergovernmental revenue, rentals and fines and forfeitures. The increase in general fund expenditures was due to increases in general government, transportation and community environment caused by increased healthcare, pension and workers' compensation costs. The fire emergency levy special revenue fund which is used to operate the fire department had a slight increase in fund balance due to a reduction in the expenditures. The State Route 306 and State Route 6 capital projects fund had a decrease in fund balance due to a decrease in grant monies. The decrease in fund balance was partially offset by a reduction in capital outlay expenditures.

***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 2012, 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



**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

be reviewed and approved individually by the Mayor, after which they are sent to the formal Council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, contractual services/supplies and capital outlay object levels for each function for all funds. The Finance Director, with approval from the Mayor or City Council, 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 and final budgeted revenues were \$5,089,779, and \$4,496,922, respectively. Actual revenues of \$4,679,605 were \$182,683 higher than the final projections. This variance is primarily due to a conservative approach of estimated revenue receipts. The final budget appropriations matched the original budget appropriations.

**Capital Assets and Debt Administration**

*Capital Assets*

Table 4 shows 2012 balances of capital assets as compared to 2011.

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

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
Land	\$1,364,602	\$1,364,602	\$124,417	\$124,417	\$1,489,019	\$1,489,019
Construction in Progress	0	0	0	1,685,587	0	1,685,587
Buildings, Structures and Improvements	3,208,957	3,367,332	27,790	30,784	3,236,747	3,398,116
Machinery and Equipment	1,621,882	1,796,169	20,909	23,575	1,642,791	1,819,744
Infrastructure						
Roads	10,483,502	10,974,670	0	0	10,483,502	10,974,670
Storm Sewers	677,167	627,218	0	0	677,167	627,218
Sewer Lines	0	0	2,387,692	80,857	2,387,692	80,857
<i>Total Capital Assets</i>	<u>\$17,356,110</u>	<u>\$18,129,991</u>	<u>\$2,560,808</u>	<u>\$1,945,220</u>	<u>\$19,916,918</u>	<u>\$20,075,211</u>

Governmental capital assets decreased due to annual depreciation exceeding additions to building improvements, machinery and equipment and roads. Business-type capital assets increased due to additions to construction in progress outpacing current year depreciation.

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

**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

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 2012, the City's capital asset purchases included additions to construction in progress, building improvements, the purchase of police and recreation equipment and vehicles and highway improvements.

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

See Note 10 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	
	2012	2011	2012	2011	2012	2011
General Obligation						
Bonds	\$2,476,764	\$2,669,740	\$302,400	\$362,090	\$2,779,164	\$3,031,830
OPWC Loans	81,118	86,250	198,741	212,936	279,859	299,186
Short-Term Notes	425,000	315,000	0	735,000	425,000	1,050,000
Long-Term Notes	1,010,000	1,275,000	0	0	1,010,000	1,275,000
Totals	\$3,992,882	\$4,345,990	\$501,141	\$1,310,026	\$4,494,023	\$5,656,016

At December 31, 2012, the general obligation bonds outstanding consist of the 2006 various purpose bonds and 2012 various purpose bonds. The 2006 various purpose bonds are for improvements to State Route 306, park and recreational improvements and service facility and senior center improvements. The 2012 various purpose bonds were issued to refund the 1998 general obligation bonds. The outstanding OPWC loans are for the State Route 306 widening project, the State Route 306 and Route 6 intersection/signal replacement project and the construction of the Templeview waste water treatment plant. Payments are made from the general obligation bond retirement fund. The Templeview sewer loan will be paid from assessments based on benefit units to landowners within the development.

On July 19, 2012 the City retired \$2,325,000 in general obligation bond anticipation notes and issued \$1,435,000 in notes with a maturity date of July 17, 2013. The City issued the notes for road and sewer improvements and major capital projects throughout the City.

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

**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

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***Current Financial Related Activities***

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

City health care costs for employees have been increasing every year; however, the City found ways to keep the costs at reasonable levels while providing the best possible insurance coverage. Starting September 1, 2011 the City entered into a three year contract with the Lake County Board of Commissioners to participate in their group health plan. In addition to the savings from joining the County plan, the City has a negotiated cost sharing plan with bargaining units.

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

**Contacting the City's Finance Department**

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

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**City of Kirtland, Ohio**

*Statement of Net Position*

*December 31, 2012*

	Governmental Activities	Business-Type Activity	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,253,917	\$442,344	\$1,696,261
Materials and Supplies Inventory	202,140	0	202,140
Accounts Receivable	40,996	0	40,996
Intergovernmental Receivable	536,054	0	536,054
Municipal Income Taxes Receivable	972,593	0	972,593
Property Taxes Receivable	1,526,524	0	1,526,524
Non-Depreciable Capital Assets	1,364,602	2,440,237	3,804,839
Depreciable Capital Assets, Net	15,991,508	120,571	16,112,079
<i>Total Assets</i>	<u>21,888,334</u>	<u>3,003,152</u>	<u>24,891,486</u>
<b>Liabilities</b>			
Accounts Payable	36,716	1,996	38,712
Accrued Wages and Benefits	196,894	657	197,551
Vacation Benefits Payable	123,395	0	123,395
Intergovernmental Payable	99,674	553	100,227
Accrued Interest Payable	13,500	7,718	21,218
Notes Payable	425,000	0	425,000
Long-Term Liabilities:			
Due Within One Year	306,456	18,196	324,652
Due In More Than One Year	3,521,183	482,945	4,004,128
<i>Total Liabilities</i>	<u>4,722,818</u>	<u>512,065</u>	<u>5,234,883</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	1,475,297	0	1,475,297
<b>Net Position</b>			
Net Investment in Capital Assets	13,582,231	2,059,667	15,641,898
Restricted for:			
Capital Projects	577,953	0	577,953
Fire Emergency Levy	95,970	0	95,970
Street Construction, Maintenance and Repair	195,038	0	195,038
Senior Citizens	185,744	0	185,744
Other Purposes	153,129	0	153,129
Unrestricted	900,154	431,420	1,331,574
<i>Total Net Position</i>	<u>\$15,690,219</u>	<u>\$2,491,087</u>	<u>\$18,181,306</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2012

	Program Revenues			
	Expenses	Charges for Services	Operating Grants	Capital Grants
<b>Governmental Activities</b>				
General Government	\$1,987,001	\$162,984	\$7,487	\$0
Security of Persons and Property	2,565,328	332,683	133,453	0
Transportation	2,224,027	98,020	434,304	173,728
Public Health and Welfare	73,037	6,289	0	0
Community Environment	101,227	8,602	0	0
Leisure Time Activities	369,146	7,666	99,944	0
Interest and Fiscal Charges	190,035	0	0	0
<i>Total Governmental Activities</i>	7,509,801	616,244	675,188	173,728
<b>Business-Type Activity</b>				
Waste Water	109,099	99,894	0	923,309
<i>Total</i>	<u>\$7,618,900</u>	<u>\$716,138</u>	<u>\$675,188</u>	<u>\$1,097,037</u>

**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  
Gain on the Sale of Capital Assets  
Miscellaneous

*Total General Revenues before Transfers*

Transfers

*Total General Revenues and Transfers*

*Change in Net Position*

*Net Position Beginning of Year*

*Net Position End of Year*

See accompanying notes to the basic financial statements

Net Revenue (Expense) and Changes in Net Position		
Governmental Activities	Business-Type Activity	Total
(\$1,816,530)	\$0	(\$1,816,530)
(2,099,192)	0	(2,099,192)
(1,517,975)	0	(1,517,975)
(66,748)	0	(66,748)
(92,625)	0	(92,625)
(261,536)	0	(261,536)
(190,035)	0	(190,035)
(6,044,641)	0	(6,044,641)
0	914,104	914,104
(6,044,641)	914,104	(5,130,537)
592,919	0	592,919
732,982	0	732,982
89,724	0	89,724
65,810	0	65,810
123,816	0	123,816
3,464,662	0	3,464,662
272,077	0	272,077
556	0	556
3,560	0	3,560
62,474	0	62,474
5,408,580	0	5,408,580
(97,441)	97,441	0
5,311,139	97,441	5,408,580
(733,502)	1,011,545	278,043
16,423,721	1,479,542	17,903,263
<u>\$15,690,219</u>	<u>\$2,491,087</u>	<u>\$18,181,306</u>

**City of Kirtland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2012*

	<u>General</u>	<u>Fire Emergency Levy</u>	<u>State Route 306 and State Route 6</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and					
Cash Equivalents	\$362,047	\$30,582	\$571,876	\$289,412	\$1,253,917
Materials and Supplies Inventory	202,140	0	0	0	202,140
Accounts Receivable	25,171	0	0	15,825	40,996
Interfund Receivable	76,612	0	0	0	76,612
Intergovernmental Receivable	232,972	46,044	10,113	246,925	536,054
Municipal Income Taxes Receivable	972,593	0	0	0	972,593
Property Taxes Receivable	553,118	573,581	0	399,825	1,526,524
<i>Total Assets</i>	<u>\$2,424,653</u>	<u>\$650,207</u>	<u>\$581,989</u>	<u>\$951,987</u>	<u>\$4,608,836</u>
<b>Liabilities</b>					
Accounts Payable	\$26,238	\$0	\$2,786	\$7,692	\$36,716
Accrued Wages and Benefits	196,894	0	0	0	196,894
Interfund Payable	0	0	0	76,612	76,612
Intergovernmental Payable	99,270	0	0	404	99,674
Accrued Interest Payable	375	0	1,250	146	1,771
Notes Payable	90,000	0	300,000	35,000	425,000
<i>Total Liabilities</i>	<u>412,777</u>	<u>0</u>	<u>304,036</u>	<u>119,854</u>	<u>836,667</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes	534,464	554,237	0	386,596	1,475,297
Unavailable Revenue	908,233	65,388	0	197,894	1,171,515
<i>Total Deferred Inflows of Resources</i>	<u>1,442,697</u>	<u>619,625</u>	<u>0</u>	<u>584,490</u>	<u>2,646,812</u>
<b>Fund Balances</b>					
Nonspendable	202,140	0	0	0	202,140
Restricted	0	30,582	277,953	301,017	609,552
Assigned	179,956	0	0	0	179,956
Unassigned (Deficit)	187,083	0	0	(53,374)	133,709
<i>Total Fund Balances</i>	<u>569,179</u>	<u>30,582</u>	<u>277,953</u>	<u>247,643</u>	<u>1,125,357</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$2,424,653</u>	<u>\$650,207</u>	<u>\$581,989</u>	<u>\$951,987</u>	<u>\$4,608,836</u>

See accompanying notes to the basic financial statements



**City of Kirtland, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2012*

<b>Total Governmental Fund Balances</b>	<b>\$1,125,357</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,356,110
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	51,227
Intergovernmental	344,640
Municipal Income Taxes	775,648
Total	1,171,515
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(11,729)
Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(123,395)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds:	
General Obligation Bonds	(2,476,764)
OPWC Loans	(81,118)
Notes	(1,010,000)
Compensated Absences	(259,757)
Total	(3,827,639)
 <i>Net Position of Governmental Activities</i>	 <b>\$15,690,219</b>

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, 2012*

	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$593,396	\$614,632	\$0	\$397,700	\$1,605,728
Municipal Income Taxes	3,180,550	0	0	0	3,180,550
Charges for Services	145,409	0	0	208,628	354,037
Licenses and Permits	18,925	0	0	0	18,925
Fines and Forfeitures	18,158	0	0	550	18,708
Intergovernmental	432,936	92,629	144,199	561,605	1,231,369
Rentals	224,574	0	0	0	224,574
Interest	548	0	0	8	556
Miscellaneous	62,474	0	0	0	62,474
<i>Total Revenues</i>	<u>4,676,970</u>	<u>707,261</u>	<u>144,199</u>	<u>1,168,491</u>	<u>6,696,921</u>
<b>Expenditures</b>					
Current:					
General Government	1,886,313	0	0	70,630	1,956,943
Security of Persons and Property	1,421,083	695,000	0	304,854	2,420,937
Transportation	1,133,899	0	0	385,000	1,518,899
Public Health and Welfare	73,037	0	0	0	73,037
Community Environment	100,055	0	0	0	100,055
Leisure Time Activities	87,474	0	0	226,131	313,605
Capital Outlay	0	0	131,808	32,929	164,737
Debt Service:					
Principal Retirement	0	0	0	264,872	264,872
Refunded Notes Redeemed	65,000	0	300,000	35,000	400,000
Interest and Fiscal Charges	2,947	0	11,721	128,765	143,433
Bond Issuance Cost	0	0	0	20,994	20,994
<i>Total Expenditures</i>	<u>4,769,808</u>	<u>695,000</u>	<u>443,529</u>	<u>1,469,175</u>	<u>7,377,512</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(92,838)</u>	<u>12,261</u>	<u>(299,330)</u>	<u>(300,684)</u>	<u>(680,591)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	6,988	0	0	0	6,988
General Obligation Bonds Issued	0	0	0	869,750	869,750
General Obligation Notes Issued	135,000	0	0	0	135,000
General Obligation Refunding Notes Issued	155,000	0	625,000	95,000	875,000
Payment to Refunded Bond Escrow Account	0	0	0	(803,126)	(803,126)
Current Refunding	(155,000)	0	(625,000)	(95,000)	(875,000)
Transfers In	30,000	0	11,367	393,491	434,858
Transfers Out	(311,669)	0	0	(175,000)	(486,669)
<i>Total Other Financing Sources (Uses)</i>	<u>(139,681)</u>	<u>0</u>	<u>11,367</u>	<u>285,115</u>	<u>156,801</u>
<i>Net Change in Fund Balances</i>	<u>(232,519)</u>	<u>12,261</u>	<u>(287,963)</u>	<u>(15,569)</u>	<u>(523,790)</u>
<i>Fund Balances Beginning of Year</i>	<u>801,698</u>	<u>18,321</u>	<u>565,916</u>	<u>263,212</u>	<u>1,649,147</u>
<i>Fund Balances End of Year</i>	<u>\$569,179</u>	<u>\$30,582</u>	<u>\$277,953</u>	<u>\$247,643</u>	<u>\$1,125,357</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, 2012*

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**Net Change in Fund Balances - Total Governmental Funds** (\$523,790)

*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	525,618	
Current Year Depreciation	(1,296,071)	
Total		(770,453)

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. (3,428)

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

Delinquent Property Taxes	(477)	
Intergovernmental	(110,376)	
Municipal Income Taxes	284,112	
Total		173,259

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.

Accrued Interest	(50,218)	
Amortization of Bond Premium	3,616	
Total		(46,602)

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	(18,011)	
Vacation Benefits	(7,725)	
Total		(25,736)

Repayment of long term obligations is an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the statement of net position. 2,342,998

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

General Obligation Bonds Issued	(869,750)	
General Obligation Notes Issued	(135,000)	
General Obligation Refunding Notes Issued	(875,000)	
Total		(1,879,750)

*Change in Net Position of Governmental Activities* (\$733,502)

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, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues</b>				
Property Taxes	\$664,839	\$589,821	\$593,396	\$3,575
Municipal Income Taxes	3,552,949	3,151,940	3,172,013	20,073
Charges for Services	171,771	158,921	101,645	(57,276)
Licenses and Permits	17,754	15,498	17,839	2,341
Fines and Forfeitures	22,277	19,893	18,862	(1,031)
Intergovernmental	381,817	319,045	493,584	174,539
Rentals	237,202	208,927	223,662	14,735
Interest	1,566	1,500	548	(952)
Miscellaneous	39,604	31,377	58,056	26,679
<i>Total Revenues</i>	<u>5,089,779</u>	<u>4,496,922</u>	<u>4,679,605</u>	<u>182,683</u>
<b>Expenditures</b>				
Current:				
General Government	1,937,458	1,937,458	1,890,941	46,517
Security of Persons and Property	1,457,499	1,457,499	1,405,532	51,967
Transportation	1,225,030	1,225,030	1,141,886	83,144
Public Health and Welfare	73,037	73,037	73,037	0
Community Environment	100,700	100,700	98,911	1,789
Leisure Time Activities	88,459	88,459	88,459	0
Debt Service:				
Principal Retirement - Refunded Notes Redeemed	130,000	130,000	130,000	0
Interest and Fiscal Charges	2,843	2,843	2,843	0
<i>Total Expenditures</i>	<u>5,015,026</u>	<u>5,015,026</u>	<u>4,831,609</u>	<u>183,417</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>74,753</u>	<u>(518,104)</u>	<u>(152,004)</u>	<u>366,100</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	6,988	6,988
General Obligation Notes Issued	160,000	160,000	160,000	0
General Obligation Refunding Notes Issued	220,000	220,000	220,000	0
Current Refunding	(155,000)	(155,000)	(155,000)	0
Transfers In	0	0	30,000	30,000
Transfers Out	(263,529)	(313,529)	(311,669)	1,860
<i>Total Other Financing Sources (Uses)</i>	<u>(38,529)</u>	<u>(88,529)</u>	<u>(49,681)</u>	<u>38,848</u>
<i>Net Change in Fund Balance</i>	36,224	(606,633)	(201,685)	404,948
<i>Fund Balance Beginning of Year</i>	491,376	491,376	491,376	0
Prior Year Encumbrances Appropriated	118,558	118,558	118,558	0
<i>Fund Balance End of Year</i>	<u>\$646,158</u>	<u>\$3,301</u>	<u>\$408,249</u>	<u>\$404,948</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, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues</b>				
Property Taxes	\$683,470	\$683,470	\$615,172	(\$68,298)
Intergovernmental	0	0	92,089	92,089
<i>Total Revenues</i>	683,470	683,470	707,261	23,791
<b>Expenditures</b>				
Current:				
Security of Persons and Property	695,000	695,000	695,000	0
<i>Net Change in Fund Balance</i>	(11,530)	(11,530)	12,261	23,791
<i>Fund Balance Beginning of Year</i>	18,321	18,321	18,321	0
<i>Fund Balance End of Year</i>	<u>\$6,791</u>	<u>\$6,791</u>	<u>\$30,582</u>	<u>\$23,791</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Fund*  
*December 31, 2012*

	Waste Water
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$442,344
<i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	2,440,237
Depreciable Capital Assets, Net	120,571
<i>Total Noncurrent Assets</i>	2,560,808
<i>Total Assets</i>	3,003,152
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	1,996
Accrued Wages and Benefits	657
Intergovernmental Payable	553
Accrued Interest Payable	7,718
Bonds Payable	4,000
OPWC Loans Payable	14,196
<i>Total Current Liabilities</i>	29,120
<i>Long-Term Liabilities (net of current portion)</i>	
Bonds Payable	298,400
OPWC Loans Payable	184,545
<i>Total Long-Term Liabilities</i>	482,945
<i>Total Liabilities</i>	512,065
<b>Net Position</b>	
Net Investment in Capital Assets	2,059,667
Unrestricted	431,420
<i>Total Net Position</i>	\$2,491,087

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Revenues, Expenses  
and Changes in Fund Net Position*  
*Enterprise Fund*  
For the Year Ended December 31, 2012

	Waste Water
<b>Operating Revenues</b>	
Charges for Services	\$99,894
<b>Operating Expenses</b>	
Personal Services	17,829
Services and Supplies	46,847
Depreciation	14,645
<i>Total Operating Expenses</i>	79,321
<i>Operating Income</i>	20,573
<b>Non Operating Expenses</b>	
Operating Grants	45,630
Interest and Fiscal Charges	(29,778)
<i>Loss Before Capital Contributions and Transfers</i>	36,425
Capital Contributions	923,309
Transfers In	51,811
<i>Change in Net Position</i>	1,011,545
<i>Net Position Beginning of Year</i>	1,479,542
<i>Net Position End of Year</i>	\$2,491,087

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Cash Flows*  
*Enterprise Fund*  
For the Year Ended December 31, 2012

	Waste Water
<b>Increases (Decreases) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers	\$99,894
Cash Payments to Suppliers for Services and Supplies	(44,862)
Cash Payments for Employee Services and Benefits	(17,802)
	37,230
<i>Net Cash Provided by Operating Activities</i>	
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers In	97,441
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	(630,233)
Grants	1,392,356
Principal Paid on Bonds	(59,690)
Interest Paid on Bonds	(16,227)
Principal Paid on OPWC Loans	(14,195)
Principal Paid on Notes	(735,000)
Interest Paid on Notes	(7,329)
	(70,318)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
Net Increase in Cash and Cash Equivalents	64,353
<i>Cash and Cash Equivalents Beginning of Year</i>	377,991
<i>Cash and Cash Equivalents End of Year</i>	\$442,344
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$20,573
<i>Adjustments:</i>	
Depreciation	14,645
<i>Increase (Decrease) in Liabilities:</i>	
Accounts Payable	1,985
Accrued Wages and Benefits	(64)
Intergovernmental Payable	91
	16,657
<i>Total Adjustments</i>	
<i>Net Cash Provided by Operating Activities</i>	\$37,230

See accompanying notes to the basic financial statements



**City of Kirtland, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*December 31, 2012*

	Private Purpose Trust	
	Cemetery	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$2,386	\$311,317
<b>Liabilities</b>		
Deposits Held and Due to Others	0	\$311,317
<b>Net Position</b>		
Held in Trust for Perpetual Care	\$2,386	

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Year Ended December 31, 2012*

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	<u>Cemetery</u>
<b>Additions</b>	\$0
<b>Deductions</b>	<u>0</u>
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	<u>2,386</u>
<i>Net Position 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, 2012*

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

***Description of the City***

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

***Reporting Entity***

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

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

The City participates in one jointly governed organization, the Northeast Ohio Public Energy Council. This organization is presented in Note 18 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 more significant of the City's accounting policies are described below.

***Basis of Presentation***

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***Government-wide Financial Statements*** The statement of net position 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 position 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 and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

***Fire Emergency Levy Fund*** This fund accounts for and reports property tax revenues restricted for the payment of salaries and related expenditures and capital purposes of the fire department.

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

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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 position and changes in net position. 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

**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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***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 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, in the recording of deferred inflows of resources, 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 9). 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 Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

***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, 2012*

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

***Budgetary Process***

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

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

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

***Cash and Cash Equivalents***

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

The City of Kirtland has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at December 31, 2012.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2012 amounted to \$548, which includes \$448 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, 2012*

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***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 position 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 position and in the fund.

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

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

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

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

***Interfund Balances***

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

***Compensated Absences***

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



**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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

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

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

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

***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on their use either through constitutional provisions on enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position 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 position is available.

***Fund Balance***

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

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

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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

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

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2013's appropriated budget.

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

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

### ***Operating Revenues and Expenses***

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, contributions of resources restricted to capital acquisition and construction and tap-in fees to the extent they exceed the cost of connection to the system.

***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.

***Bond Premium***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued.

***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 – Changes in Accounting Principles**

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,” Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53,” Statement No. 65, “Items Previously Reported as Assets and Liabilities” and Statement No. 66, “Technical Corrections–2012—an amendment of GASB Statements No. 10 and No. 62.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. 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. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

#### **Note 4 – Compliance**

The City had a negative cash balance in the Tibbetts road resurfacing capital projects fund in the amount of \$76,612. This indicates that revenue from other sources was used to pay obligations of this fund contrary to Ohio Revised Code Section 5705.10(H). Although this cash deficit was not corrected by year end, management has indicated that cash will be closely monitored to prevent future violations.

#### **Note 5 – Fund Balances**

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

**City of Kirtland, Ohio**  
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Fund Balances	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable:</u>					
Inventory	\$202,140	\$0	\$0	\$0	\$202,140
<u>Restricted for:</u>					
Police Department Operations	0	0	0	32,157	32,157
Fire Department Operations	0	30,582	0	8,574	39,156
Senior Citizen Recreation	0	0	0	172,366	172,366
Street and Highway Construction, Maintenance and Repair	0	0	0	64,240	64,240
Emergency Medical Services	0	0	0	23,680	23,680
Capital Improvements	0	0	277,953	0	277,953
<i>Total Restricted</i>	<u>0</u>	<u>30,582</u>	<u>277,953</u>	<u>301,017</u>	<u>609,552</u>
<u>Assigned to:</u>					
Year 2013 Appropriations	174,699	0	0	0	174,699
Purchases on Order	5,257	0	0	0	5,257
<i>Total Assigned</i>	<u>179,956</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>179,956</u>
Unassigned (Deficit)	187,083	0	0	(53,374)	133,709
<b>Total Fund Balances</b>	<u><u>\$569,179</u></u>	<u><u>\$30,582</u></u>	<u><u>\$277,953</u></u>	<u><u>\$247,643</u></u>	<u><u>\$1,125,357</u></u>

**Note 6 - Budgetary Basis of Accounting**

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

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c) Encumbrances are treated as expenditures (budget basis) rather than restricted, committed or assigned 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**  
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Net Change in Fund Balances		
	General	Fire Emergency Levy
GAAP Basis	(\$232,519)	\$12,261
Net Adjustment for Revenue Accruals	92,635	0
Net Adjustment for Expenditure Accruals	(31,391)	0
Encumbrances	(30,410)	0
Budget Basis	(\$201,685)	\$12,261

**Note 7 – Fund Deficits**

The major capital equipment special revenue fund and the Tibbetts road resurfacing capital projects fund had fund deficits of \$1,507 and \$51,867, respectively. The general fund is liable for any deficits in these funds and provides operating transfers when cash is required, rather than when accruals occur.

**Note 8 - Deposits and Investments**

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

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

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

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

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

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

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

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.

### **Investments**

Investments are reported at fair value. As of December 31, 2012, the City's only investment was in STAR Ohio with a fair value of \$324,927 and an average maturity of 55.4 days.

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

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

**Concentration of Credit Risk** The City places no limit on the amount it may invest in any one issuer.

**Note 9 – Receivables**

Receivables at December 31, 2012, consisted primarily of property taxes, municipal income taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

**Property Taxes**

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes were levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$11.05 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2012 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$232,786,840
Other Real Estate	13,467,670
Public Utility Personal Property	8,049,970
Total Valuation	<u><u>\$254,304,480</u></u>



**City of Kirtland, Ohio**  
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The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2012, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***Income Taxes***

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 100 percent of the tax paid to another municipality, not to exceed 1.75 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
Homestead and Rollback	\$117,749
Local Government	117,389
Gasoline Tax	89,943
Other	48,728
Cents Per Gallon	44,224
OPWC Reimbursement Grant	38,887
Permissive Tax	28,419
Motor Vehicle License Tax	28,260
Estate Tax	20,496
State of Ohio	1,959
Total Intergovernmental Receivables	\$536,054

**City of Kirtland, Ohio**  
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**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,364,602	\$0	\$0	\$1,364,602
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	6,100,333	2,560	0	6,102,893
Machinery and Equipment	4,084,745	80,640	0	4,165,385
Infrastructure:				
Roads	31,248,052	351,170	(123,717)	31,475,505
Storm Sewer	1,032,484	91,248	0	1,123,732
<i>Total Capital Assets, being depreciated</i>	<u>42,465,614</u>	<u>525,618</u>	<u>(123,717)</u>	<u>42,867,515</u>
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(2,733,001)	(160,935)	0	(2,893,936)
Machinery and Equipment	(2,288,576)	(254,927)	0	(2,543,503)
Infrastructure:				
Roads	(20,273,382)	(838,910)	120,289	(20,992,003)
Storm Sewer	(405,266)	(41,299)	0	(446,565)
<i>Total Accumulated Depreciation</i>	<u>(25,700,225)</u>	<u>(1,296,071)</u>	<u>120,289</u>	<u>(26,876,007)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>16,765,389</u>	<u>(770,453)</u>	<u>(3,428)</u>	<u>15,991,508</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$18,129,991</u>	<u>(\$770,453)</u>	<u>(\$3,428)</u>	<u>\$17,356,110</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$59,800
Security of Persons and Property	167,571
Transportation	1,004,400
Community Environment	1,324
Leisure Time Activities	62,976
<b>Total</b>	<u>\$1,296,071</u>

**City of Kirtland, Ohio**  
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	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<b>Business-Type Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$124,417	\$0	\$0	\$124,417
Construction in Progress	1,685,587	630,233	(2,315,820)	0
<i>Total Capital Assets not being depreciated</i>	<u>1,810,004</u>	<u>630,233</u>	<u>(2,315,820)</u>	<u>124,417</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	2,315,820	0	2,765,134
<i>Total Capital Assets, being depreciated</i>	<u>645,473</u>	<u>2,315,820</u>	<u>0</u>	<u>2,961,293</u>
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(118,870)	(2,994)	0	(121,864)
Machinery and Equipment	(22,930)	(2,666)	0	(25,596)
Infrastructure:				
Sewer Lines	(368,457)	(8,985)	0	(377,442)
<i>Total Accumulated Depreciation</i>	<u>(510,257)</u>	<u>(14,645)</u>	<u>0</u>	<u>(524,902)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>135,216</u>	<u>2,301,175</u>	<u>0</u>	<u>2,436,391</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$1,945,220</u>	<u>\$2,931,408</u>	<u>(\$2,315,820)</u>	<u>\$2,560,808</u>

**Note 11 - Risk Management**

***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.

***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 2012, the City contracted with Wichert Insurance Agency for various types of insurance. The City also contracted with Love Insurance Agency for various types of insurance. The type, coverage, and deductibles for the City's insurance follows:

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<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Wichert Insurance Agency:		
Commercial Property	\$10,625,712	\$1,000
Earthquake and Flood	500,000	25,000
Boiler Machinery and Machinery	11,050,739	1,000
Inland Marine	819,668	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.

**Note 12 - 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, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions. For the year ended December 31, 2012, members in state and local classifications contributed 10.0 percent of covered payroll. For 2012, member and employer contribution rates were consistent across all three plans.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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The City's 2012 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011 and 2010 were \$160,276, \$158,063 and \$143,018, respectively. For 2012, 94.95 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$431 made by the City and \$308 made by the plan members.

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

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

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

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$77,947 and \$111,076 for the year ended December 31, 2012, \$77,576 and \$112,970 for the year ended December 31, 2011, and \$71,454 and \$110,702 for the year ended December 31, 2010, respectively. For 2012, 94.29 percent for police and 93.93 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

***Social Security System***

As of December 31, 2012, thirty one part-time firefighters have elected to be covered by Social Security rather than OPERS or Ohio Police and Fire Pension Fund. The part-time firefighters' liability is 6.2 percent of wages paid.

**Note 13 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local government employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for the year ended December 31, 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year ended December 31, 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

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, 2012, 2011 and 2010 were \$64,283, \$63,225 and \$81,533, respectively. For 2012, 94.95 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

**City of Kirtland, Ohio**  
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Changes to health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approval health care changes, OPERS expects to consistently allocate four percent of the employer contributions toward the health care fund after the end of the transition period.

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

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available of OP&F's website at [www.op-f.org](http://www.op-f.org).

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, 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 115 and 401(h).

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$41,266 and \$43,465 for the year ended December 31, 2012, \$41,070 and \$44,206 for the year ended December 31, 2011, and \$37,828 and \$43,318 for the year ended December 31, 2010. For 2012, 94.29 percent has been contributed for police and 93.93 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

## **Note 14 – 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. Starting September 1, 2011 the City entered into a three year contract with the Lake County Board of Commissioners to participate in their group health plan. Anthem provided the hospitalization and medical insurance in 2012. Employees pay ten percent of the premium up to a maximum of \$140 per month effective January 2012. MetLife provides the dental insurance which is paid entirely by the City. EyeMed Vision Care provides vision insurance which is paid entirely by the City. The plan covers lenses, contacts and routine office exams. MetLife provides life insurance and core accidental death insurance of \$20,000 which is paid entirely by the City. Employees are able to add extra insurance once a year for themselves, their spouse or children up to \$500,000 or five times their annual salary, whichever is less, paid by the employee through payroll deductions.

## **Note 15 - Operating Lease**

The City of Kirtland entered into an operating lease with Pitney Bowes for a postage meter. This is a five-year lease with a payment of \$52 per month.



**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

**Note 16 – Note Debt**

A summary of note transactions for the year ended December 31, 2012 follows:

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12
<b>Governmental Activities</b>				
2011 - 1.00% Various Purpose Notes	\$315,000	\$0	(\$315,000)	\$0
2012 - 1.00% Various Purpose Notes	0	425,000	0	425,000
<b>Total Governmental Activities</b>	<u>\$315,000</u>	<u>\$425,000</u>	<u>(\$315,000)</u>	<u>\$425,000</u>
<b>Business-Type Activities</b>				
2011 - 1.00% Various Purpose Notes	<u>\$735,000</u>	<u>\$0</u>	<u>(\$735,000)</u>	<u>\$0</u>

All the notes are backed by the full faith and credit of the City of Kirtland and mature within one year. The maturity date for all outstanding notes is July 17, 2013. 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.

**Note 17 - Long-Term Obligations**

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Enterprise General Obligation Bonds:</i>			
Waste Water Refunding - 1998	4.50 - 5.00 %	\$173,000	December 1, 2016
Templeview Sewer Project Bond - 2006	4.375	323,000	June 1, 2046
<i>Enterprise Ohio Public Works Commission Loans:</i>			
Templeview Sewer - 2003	0.00	283,915	July 1, 2026
<i>General Obligation Bonds:</i>			
Fire Department and Civic Center - 1998	4.50 - 5.00	2,667,000	December 1, 2016
<i>Various Purpose Bonds - 2006:</i>			
State Route 306 Improvement	3.75 - 5.00	1,055,000	December 1, 2026

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2012

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>General Obligation Bonds (Continued):</i>			
Various Purpose Bonds - 2006:			
Parks and Recreation Purposes	3.75 - 5.00 %	\$650,000	December 1, 2026
Service Facility		200,000	December 1, 2026
Senior Center		100,000	December 1, 2026
Various Purpose Bonds - 2012:			
Civic Center	1.80	603,780	December 1, 2016
Fire Department		219,003	December 1, 2016
Waste Water		46,967	December 1, 2016
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 2005	0.00	50,000	January 31, 2026
Route 306 and Route 6 Intersection	0.00	50,000	July 1, 2030
<i>Long-term Notes Payable:</i>			
2012 Various Purpose	1.00	1,010,000	July 17, 2013

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

	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012	Amounts Due in One Year
<b>Business-Type Activities</b>					
<i>General Obligation Bonds</i>					
Waste Water Refunding	\$55,890	\$0	(\$55,890)	\$0	\$0
Templeview Sewer Project	306,200	0	(3,800)	302,400	4,000
<b>Total General Obligation Bonds</b>	362,090	0	(59,690)	302,400	4,000
<i>OPWC Loan</i>					
Templeview Sewer	212,936	0	(14,195)	198,741	14,196
<b>Total Business-Type Activities</b>	\$575,026	\$0	(\$73,885)	\$501,141	\$18,196

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2012

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
Fire Department and Civic Center 1998 Refunding Bonds	\$979,110	\$0	(\$979,110)	\$0	\$0
Various Purpose Bonds 2006:					
State Route 306 Improvement	862,942	0	(42,095)	820,847	44,726
Parks and Recreation Purposes	531,672	0	(25,935)	505,737	27,556
Service Facility	163,592	0	(7,980)	155,612	8,479
Senior Center	81,794	0	(3,990)	77,804	4,239
Unamortized Premium	50,630	0	(3,616)	47,014	0
Total Various Purpose Bonds	1,690,630	0	(83,616)	1,607,014	85,000
Various Purpose Bonds 2012:					
Civic Center	0	603,780	0	603,780	146,303
Fire Department	0	219,003	0	219,003	53,067
Waste Water	0	46,967	0	46,967	11,380
Total Various Purpose Bonds	0	869,750	0	869,750	210,750
<b>Total General Obligation Bonds</b>	<b>2,669,740</b>	<b>869,750</b>	<b>(1,062,726)</b>	<b>2,476,764</b>	<b>295,750</b>
<b>OPWC Loan</b>					
Route 306 Widening, Phase II	36,250	0	(2,500)	33,750	2,500
Route 306 and Route 6 Intersection	50,000	0	(2,632)	47,368	2,631
<b>Total OPWC Loans</b>	<b>86,250</b>	<b>0</b>	<b>(5,132)</b>	<b>81,118</b>	<b>5,131</b>
<b>Other Long-term Obligations</b>					
Notes Payable	1,275,000	1,010,000	(1,275,000)	1,010,000	0
Compensated Absences	241,746	90,981	(72,970)	259,757	5,575
<b>Total Other Long-term Obligations</b>	<b>1,516,746</b>	<b>1,100,981</b>	<b>(1,347,970)</b>	<b>1,269,757</b>	<b>5,575</b>
<b>Total Governmental Activities</b>	<b>\$4,272,736</b>	<b>\$1,970,731</b>	<b>(\$2,415,828)</b>	<b>\$3,827,639</b>	<b>\$306,456</b>

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

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. The various purpose general obligation bonds will be paid from the debt retirement fund.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

In 2012, the City issued general obligation bonds, in the amount of \$869,750, to currently refund bonds previously issued in 1998. The current refunding was undertaken to take advantage of lower interest rates. The bonds were issued with an interest rate of 1.80 percent and were issued for a four year period with final maturity on December 1, 2016. The bonds will be retired through the general obligation bond retirement debt service fund.

	1998 Fire Department and Civic Center	1998 Waste Water	Total
Outstanding at			
December 31, 2011	\$979,110	\$55,890	\$1,035,000
Amount Refunded	(799,370)	(45,630)	(845,000)
Principal Payment on			
Non-Refunded Portion	(179,740)	(10,260)	(190,000)
Outstanding at			
December 31, 2012	\$0	\$0	\$0

The proceeds of the refunding bonds were deposited in an irrevocable trust with an escrow agent to provide for the optional redemption on January 3, 2013 of the \$645,000 of the outstanding 1998 fire department and civic center refunding bonds and the 1998 wastewater refunding bonds so as to discharge and satisfy the obligations of the City.

The City decreased its aggregated debt service payments by \$44,303 over the next four years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$42,375.

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

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

Compensated absences will be paid from the general fund.

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 waste water refunding bonds will be paid from collections in the waste water fund.

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

The City's overall legal debt margin was \$22,825,482 with an unvoted debt margin of \$10,111,258 at December 31, 2012. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012 are as follows:

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2012

	<b>Governmental Activities</b>			<b>Business-Type Activities</b>		
	General Obligation		OPWC	General Obligation		OPWC
	Bonds		Loan	Bonds		Loan
	Principal	Interest	Principal	Principal	Interest	Principal
2013	\$295,750	\$90,378	\$5,131	\$4,000	\$14,364	\$14,196
2014	305,000	83,230	5,132	4,200	14,174	14,196
2015	308,000	75,670	5,131	4,400	13,975	14,196
2016	321,000	68,011	5,132	4,600	13,766	14,195
2017	95,000	60,000	5,131	4,800	13,547	14,195
2018-2022	550,000	223,750	25,658	27,200	64,121	70,979
2023-2027	555,000	71,000	21,908	33,600	57,077	56,784
2028-2032	0	0	7,895	41,700	48,370	0
2033-2037	0	0	0	51,800	37,545	0
2038-2042	0	0	0	64,100	24,121	0
2043-2046	0	0	0	62,000	7,519	0
Total	<u>\$2,429,750</u>	<u>\$672,039</u>	<u>\$81,118</u>	<u>\$302,400</u>	<u>\$308,579</u>	<u>\$198,741</u>

**Note 18 – Jointly Governed Organization**

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of 164 communities who have been authorized by ballot to purchase electricity on behalf of their citizens and 125 communities who have been authorized by ballot to purchase natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the nine-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation programs. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2012. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Suite 20, Solon, Ohio 44139.

**Note 19 – Interfund Transactions**

*Interfund Transfers*

The general fund and the major capital equipment special revenue fund transferred \$246,845 and \$145,000, respectively, to the general obligation bond retirement fund for debt payment requirements. The general fund transferred \$1,646 and \$11,367, 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 \$51,811 to the waste water fund for debt payment requirements. Other governmental funds transferred \$30,000 to general fund was for expenses paid in previous years related to grants. Transfer activity is shown in the following table.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

Transfers To	Transfers From		Totals
	General	Other Governmental Funds	
<i>Major Funds:</i>			
General	\$0	\$30,000	\$30,000
State Route 306 & State Route 6	11,367	0	11,367
Waste Water	51,811	0	51,811
Total Major Funds	63,178	30,000	93,178
<i>Other Governmental Funds:</i>			
Bond Retirement	246,845	145,000	391,845
Major Capital Equipment	1,646	0	1,646
Total Other Governmental Funds	248,491	145,000	393,491
Totals	\$311,669	\$175,000	\$486,669

***Interfund Balances***

At December 31, 2012, the general fund had an interfund receivable of \$76,612 and the Tibbetts road resurfacing capital projects fund had an interfund payable of \$76,612. The interfund balances were the result of a deficit cash balance in the tibbetts road resurfacing fund due to the timing of the receipt of grant monies. The general fund provides temporary funding of the project until the grant dollars are received.

**Note 20 - Contingencies**

***Grants***

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

***Litigation***

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

**Note 21 – Significant Commitments**

***Encumbrances***

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

	<u>Amount</u>		<u>Amount</u>
Governmental Funds:		Proprietary Fund:	
General fund	\$30,410	Waste Water	<u>\$1,996</u>
Other Governmental funds	<u>11,021</u>		
Total Governmental Funds	<u>\$41,431</u>		

**Note 22 – Subsequent Event**

On July 17, 2013, the City reissued the various purpose notes in the amount of \$1,180,000 at a rate of 1.0 percent. This amount includes the reissuance of \$1,010,000 of existing notes and \$170,000 for a service department truck. The notes mature on July 2, 2014.

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# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, (the City) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 18, 2014.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801  
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361  
[www.ohioauditor.gov](http://www.ohioauditor.gov)

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

June 18, 2014



# Dave Yost • Auditor of State

**CITY OF KIRTLAND**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 03, 2014**