



Mary Taylor, CPA
Auditor of State

**CITY OF KIRTLAND
LAKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, (the City) as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, as of December 31, 2007 and December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and the Fire Emergency Levy funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

November 24, 2008

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

The discussion and analysis of the City of Kirtland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2007. 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 2007 are:

- This is the fourth year that the City has reported based on the GASB Statement No. 34 Reporting Model.
- Total assets decreased by \$1,012,320 or 3.82 percent from \$26,527,259 in 2006 to \$25,514,939 in 2007.
- Total liabilities decreased by \$233,260 or 3.04 percent from \$7,668,130 in 2006 to \$7,434,870 in 2007.
- Total net assets decreased \$779,060 or 4.13 percent from \$18,859,129 in 2006 to \$18,080,069 in 2007.
- Total capital assets increased \$274,933 or 1.31 percent from \$20,976,266 in 2006 to \$21,251,199 in 2007.
- Total long-term liabilities decreased \$321,472 or 5.61 percent from \$5,727,209 in 2006 to \$5,405,737 in 2007.

Using This Annual Basic Financial Statement Report (BFS)

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

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

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The City of Kirtland as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2007?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

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

Reporting the City of Kirtland's Most Significant Funds

Fund Financial Statements

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

Government Funds

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

City of Kirtland, Ohio
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Proprietary Funds

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

The City of Kirtland as a Whole

The *Statement of Net Assets* looks at the City as a whole. Table I provides a summary of the City's net assets for 2007 compared to 2006.

Table I
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$4,193,626	\$5,474,157	\$70,114	\$76,836	\$4,263,740	\$5,550,993
Capital Assets, Net	20,461,754	20,181,753	789,445	794,513	21,251,199	20,976,266
<i>Total Assets</i>	24,655,380	25,655,910	859,559	871,349	25,514,939	26,527,259
Current and Other Liabilities	2,025,093	1,937,620	4,040	3,301	2,029,133	1,940,921
Long-Term Liabilities:						
Due Within One Year	287,774	259,509	9,720	9,180	297,494	268,689
Due In More Than One Year	5,043,544	5,386,510	64,699	72,010	5,108,243	5,458,520
<i>Total Liabilities</i>	7,356,411	7,583,639	78,459	84,491	7,434,870	7,668,130
Invested in Capital Assets, Net of Related Debt	15,224,840	14,823,544	715,026	713,323	15,939,866	15,536,867
Restricted:						
Capital Projects	563,591	875,688	0	0	563,591	875,688
Other Purposes	629,692	903,450	0	0	629,692	903,450
Unrestricted	880,846	1,469,589	66,074	73,535	946,920	1,543,124
<i>Total Net Assets</i>	\$17,298,969	\$18,072,271	\$781,100	\$786,858	\$18,080,069	\$18,859,129

Total assets decreased by \$1,012,320 from 2006 to 2007. The biggest decreases in assets were in the available cash at year end and intergovernmental receivables. Cash decreases were due to purchases of capital assets and reduction of long-term debt.

Total liabilities decreased by \$233,260 from 2006 to 2007. This decrease was due to repayment of long-term debt.

Total net assets decreased by \$779,060 comprised of governmental net assets decreasing by \$773,302 and business-type activities decreasing by \$5,758. Net assets decreased mainly due to a decrease in cash of \$1,278,646 which was used for hospitalization and employee benefits.

City of Kirtland, Ohio
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Table 2 shows the changes in net assets for the years ended December 31, 2007, as compared to 2006.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program Revenues						
Charges for Services	\$426,480	\$533,767	\$75,970	\$75,013	\$502,450	\$608,780
Operating Grants and Contributions	557,188	605,611	0	0	557,188	605,611
Capital Grants and Contributions	350,382	455,529	0	0	350,382	455,529
Total Program Revenues	1,334,050	1,594,907	75,970	75,013	1,410,020	1,669,920
General Revenues						
Property Taxes	1,485,453	1,374,662	0	0	1,485,453	1,374,662
Municipal Income Taxes	2,931,172	2,933,529	0	0	2,931,172	2,933,529
Grants and Entitlements	680,137	997,080	0	0	680,137	997,080
Interest	111,072	105,594	0	0	111,072	105,594
Miscellaneous	106,577	44,044	0	0	106,577	44,044
Total General Revenues	5,314,411	5,454,909	0	0	5,314,411	5,454,909
Total Revenues	6,648,461	7,049,816	75,970	75,013	6,724,431	7,124,829
Program Expenses						
General Government	1,982,854	1,793,684	0	0	1,982,854	1,793,684
Security of Persons and Property	2,450,431	2,292,780	0	0	2,450,431	2,292,780
Transportation	2,151,427	1,855,049	0	0	2,151,427	1,855,049
Public Health and Welfare	74,289	79,759	0	0	74,289	79,759
Community Environment	77,395	33,307	0	0	77,395	33,307
Leisure Time Activities	460,008	319,763	0	0	460,008	319,763
Interest and Fiscal Charges	225,359	284,169	0	8,737	225,359	292,906
Sewer	0	0	81,728	66,548	81,728	66,548
Total Program Expenses	7,421,763	6,658,511	81,728	75,285	7,503,491	6,733,796
<i>Increase (Decrease) in Net Assets</i>	(773,302)	391,305	(5,758)	(272)	(779,060)	391,033
Net Assets Beginning of Year	18,072,271	17,680,966	786,858	787,130	18,859,129	18,468,096
Net Assets End of Year	\$17,298,969	\$18,072,271	\$781,100	\$786,858	\$18,080,069	\$18,859,129

The City is very dependent on property taxes and income taxes, which account for 65.68 percent of total revenues. The City remained consistent in 2007 with previous years in the collection of revenues and the cost of doing business. The largest taxpayers of income taxes are employees of public facilities such as school and government agencies. This allows for consistency and stability of collections of income taxes.

The decrease in grants and entitlements is due to the City receiving less FEMA and Homeland Securities grant monies in 2007 than in 2006.

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Security of persons and property represents the largest governmental program expense, 33.02 percent of governmental expenses. General government represents 26.72 percent and transportation represents 28.99 percent of total governmental expenses. These three expenses cover most of the services and programs offered by the City. The remaining 11.27 percent of governmental expenses are for community environment, leisure time or parks activities and interest and fiscal charges on debt. The largest percentage of increase in expenses occurred in leisure time activities. The 43.86 percent increase in this area is related to the community center building expansion such as additional personnel, supplies, and contract services.

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

GOVERNMENTAL ACTIVITIES

Several revenue sources fund the City's governmental activities with City income tax being the largest contribution. The income tax rate of 1 percent was established by City Ordinance No. 71-0-11, passed December 20, 1971. On November 6, 2001, the electors approved an increase in the income tax rate to 2 percent from 1 percent and a change in the tax credit for residents having income taxable in another community. In 2007, the revenue collected from income taxes was \$2,931,172. General revenues from property taxes and charges for services are also significant revenue generators. The City monitors its sources of revenues very closely for any changes or fluctuations.

Overall, the City has enjoyed a steady increase in income tax collections for the past ten years. This has been especially important to the City because the tax revenue has provided the City the funds to maintain streets, make infrastructure improvements and strengthen safety forces. The City of Kirtland continues to be very aggressive in collecting delinquent income tax. The City's strong economic growth and strong base of taxpayers provide the City with an income tax base that can sustain the loss of any major tax paying entity and still be able to meet the financial needs of the City. City income tax revenues of \$2,931,172 were designated for the City's general fund.

Total revenues for governmental activities for 2007 were \$6,648,461. Revenue consists primarily of property taxes of \$1,485,453 and income taxes of \$2,931,172 representing 22.34 and 44.09 percent, respectively, of total revenues. Intergovernmental revenues received through operating and capital grants or contributions as well as unrestricted grants and entitlements make up \$1,587,707 or 23.88 percent of revenues. The remaining 9.69 percent of revenues represents charges for services, interest and miscellaneous receipts. Charges for services include non-resident ambulance billing, cemetery fees and recreation fees.

Total governmental activities program expenses for 2007 were \$7,754,763. General government, security of persons and property and transportation expenses are the three main sources of expenses, representing 88.73 percent of all governmental expenses. These activities include police protection, fire protection, road maintenance, planning/zoning, mayoral office and finance office.

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

Table 3
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
General Government	\$1,982,854	\$1,793,684	\$1,833,114	\$1,514,351
Security of Persons and Property	2,450,431	2,292,780	2,236,384	2,136,180
Transportation	2,151,427	1,855,049	1,295,214	847,324
Public Health and Welfare	74,289	79,759	68,585	79,759
Community Environment	77,395	33,307	71,560	(4,110)
Leisure Time Activities	460,008	319,763	357,497	205,931
Interest and Fiscal Charges	225,359	284,169	225,359	284,169
<i>Total</i>	<u>\$7,421,763</u>	<u>\$6,658,511</u>	<u>\$6,087,713</u>	<u>\$5,063,604</u>

Dependence on general revenues for governmental activities is apparent. Over 59.51 percent of total expenses are supported through taxes. Operating and capital grants program revenues support 12.23 percent while charges for services support 5.75 percent. The remaining expenses are supported by investment and miscellaneous revenues along with some of the carryover cash balance from year 2006.

BUSINESS-TYPE ACTIVITIES

Utility services for waste water had \$75,970 in charges for services which were not sufficient to cover the \$81,728 in total expenses in 2007. Currently the City operates three waste water treatment plants, which are combined for reporting purposes. Services include monitoring and testing the discharge. The City closely monitors the cost of these services and will adjust the operating and/or capital improvement charges to pay for future development and related costs, as needed.

The City's Funds

All governmental funds had total expenditures of \$8,134,400 and revenues of \$6,436,832. The most significant fund is the general fund with a year-end fund balance of \$281,015, which included an unreserved fund balance of \$247,826 compared to annual expenditures of \$5,032,963. Expenditures exceeded revenues by \$388,904. For all governmental funds, expenditures exceeded revenues by \$1,647,568 due to retirement of debt and capital projects.

The fire emergency levy special revenue fund is used to operate the fire department. Total property tax revenues of \$389,420 along with \$45,470 in intergovernmental revenues exceeded total expenditures of \$430,000 by \$4,890. The fire emergency levy ended the year with a \$28,068 fund balance. The fire department services will be continuing at the current level of service.

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General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2007 the City amended its general fund budget from the original certified revenues to final certified revenues in the amount of \$468,170. All capital projects and requests for capital type purchases in excess of \$15,000 must be reviewed and approved individually by the Mayor, after which they are sent to the formal Council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, services and supplies, capital outlay object level for each function for all funds. The Finance Director, with approval from the Mayor, has been authorized to allocate appropriations to more detailed object levels within each function and fund.

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

For the general fund, the original budgeted revenues were \$4,761,830 the final budgeted amount was \$5,230,000 and the actual amount was \$4,948,911. The \$281,089 difference was due primarily to the City receiving less property and income tax revenue than anticipated. Original appropriations of \$5,039,925 were increased during the year by \$567,267 to establish final appropriations of \$5,607,192 for the year. The actual expenditures of \$5,023,179 decreased from the final budget by \$584,013 primarily due to personnel and equipment costs in the general government, police, fire and transportation departments.

Capital Assets and Debt Administration

Capital Assets

Total capital assets for the City of Kirtland as of December 31, 2007 were \$21,251,199. The \$1,521,697 in additions to land, construction in progress, buildings and improvements, machinery and equipment, roads and storm sewers for the governmental activities capital assets were offset by the \$1,149,810 in current year depreciation. Business-type activities capital assets had \$9,577 in additions in 2007 which were offset by \$14,645 in current year depreciation to give an overall \$5,068 decrease in business-type capital assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$1,247,890	\$744,376	\$114,840	\$114,840	\$1,362,730	\$859,216
Construction in Progress	438,006	110,192	9,577	0	447,583	110,192
Buildings and Improvements	3,831,349	3,564,035	42,756	45,749	3,874,105	3,609,784
Machinery and Equipment	1,890,731	1,978,838	34,238	36,903	1,924,969	2,015,741
Infrastructure						
Roads	12,261,362	12,950,597	0	0	12,261,362	12,950,597
Storm Sewers	792,416	833,715	0	0	792,416	833,715
Sewer Lines	0	0	588,034	597,021	588,034	597,021
<i>Total Capital Assets</i>	<u>\$20,461,754</u>	<u>\$20,181,753</u>	<u>\$789,445</u>	<u>\$794,513</u>	<u>\$21,251,199</u>	<u>\$20,976,266</u>

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

City Council is committed along with the Administration to maintain its capital assets at a condition acceptable to provide the best possible service for all residents. In 2007, the City's capital asset purchases included building additions, park land acquisition, fire equipment, and highway improvements. In 2006, the City's capital asset purchases included building additions, park land acquisition, fire equipment and highway improvements.

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

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

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Debt

On December 31, 2007, the City of Kirtland had \$5,371,892 in bonds, loans and notes outstanding, with \$270,308 due within one year. Table 5 summarizes bonds, loans and notes outstanding.

Table 5
Outstanding Debt at Year End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$3,966,504	\$4,198,840	\$74,419	\$81,190	\$4,040,923	\$4,280,030
OPWC Loans	415,969	382,665	0	0	415,969	382,665
Short-Term Notes	105,000	105,000	0	0	105,000	105,000
Notes Payable	<u>810,000</u>	<u>915,000</u>	<u>0</u>	<u>0</u>	<u>810,000</u>	<u>915,000</u>
Total	<u>\$5,297,473</u>	<u>\$5,601,505</u>	<u>\$74,419</u>	<u>\$81,190</u>	<u>\$5,371,892</u>	<u>\$5,682,695</u>

The general obligation bonds include a fire department and civic center bond of \$1,641,310. This was originally a \$2,667,000 bond issued on December 1, 1998. Payments are made from the general fund.

A general obligation bond was issued in 2006 for \$2,077,326 to be used for various purposes. A general obligation bond was also issued in 2006 for \$323,000 for the Templeview sewer project.

The Ohio Public Works Commission loans represent interest free loans obtained to finance the Route 306 Widening and portions of sanitary sewers for the Templeview Sewer Rehabilitation. The Templeview Sewer loan is not finalized since the project is not yet completed. This will be paid from assessments based on benefit units to landowners within the development.

On July 23, 2007 the City retired \$1,020,000 in general obligation bond anticipation notes and issued \$915,000 in notes with a maturity date of July 27, 2008. The \$915,000 in notes were issued for road and sewer improvements, and major capital projects throughout the City.

The City's overall legal debt margin on December 31, 2007 was \$23,086,536 with an unvoted debt margin of \$9,620,341.

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

Current Financial Related Activities

Over the past ten years the City has enjoyed strong growth in revenues as a result of new residential development. The City of Kirtland is located in Lake County in the northeast section of Ohio, approximately 22 miles east of the City of Cleveland, and about 5 miles inland from Lake Erie. The City, with a population of about 6,700, is about 17 square miles and consists predominately of residential homes. The City is bounded on three sides by the East and West Branches of the Chagrin River, which is

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designated as one of Ohio's "scenic rivers." Surrounded by Geauga and Cuyahoga Counties, there is an estimated population of 2,000,000 residing within a 50 mile radius. Due to the location and the beauty of the City, continued residential development is expected to continue in the future. This development provides for additional income and property taxes that allow the City to continue to provide high quality services and has lead to a strong and healthy community.

City health care costs for employees have been increasing by nearly 5 percent per year. During the period of 2002 through 2007, health care insurance costs continued to escalate everywhere and the City continues to find ways to keep the costs at reasonable levels while providing the best possible insurance coverage for City employees. The City negotiated an employee cost sharing plan with all bargaining units in the City in 2006.

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

Contacting the City's Finance Department

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

City of Kirtland, Ohio*Statement of Net Assets**December 31, 2007*

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,162,247	\$69,507	\$1,231,754
Materials and Supplies Inventory	45,588	0	45,588
Accounts Receivable	47,537	607	48,144
Intergovernmental Receivable	588,576	0	588,576
Prepaid Items	1,059	0	1,059
Municipal Income Taxes Receivable	829,483	0	829,483
Property Taxes Receivable	1,454,042	0	1,454,042
Deferred Charges	65,094	0	65,094
Non-Depreciable Capital Assets	1,685,896	124,417	1,810,313
Depreciable Capital Assets, Net	18,775,858	665,028	19,440,886
<i>Total Assets</i>	<u>24,655,380</u>	<u>859,559</u>	<u>25,514,939</u>
Liabilities			
Accounts Payable	93,811	1,550	95,361
Contracts Payable	498	0	498
Accrued Wages and Benefits	215,585	515	216,100
Vacation Benefits Payable	33,383	0	33,383
Intergovernmental Payable	113,825	1,592	115,417
Deferred Revenue	1,424,333	0	1,424,333
Accrued Interest Payable	38,658	383	39,041
Notes Payable	105,000	0	105,000
Long-Term Liabilities:			
Due Within One Year	287,774	9,720	297,494
Due In More Than One Year	5,043,544	64,699	5,108,243
<i>Total Liabilities</i>	<u>7,356,411</u>	<u>78,459</u>	<u>7,434,870</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	15,224,840	715,026	15,939,866
Restricted for:			
Capital Projects	563,591	0	563,591
Fire	58,976	0	58,976
Street Construction, Maintenance and Repair	241,298	0	241,298
Senior Citizens	31,677	0	31,677
Other Purposes	297,741	0	297,741
Unrestricted	880,846	66,074	946,920
<i>Total Net Assets</i>	<u>\$17,298,969</u>	<u>\$781,100</u>	<u>\$18,080,069</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Activities
For the Year Ended December 31, 2007

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$1,982,854	\$149,740	\$0	\$0
Security of Persons and Property	2,450,431	124,410	89,637	0
Transportation	2,151,427	130,686	375,145	350,382
Public Health and Welfare	74,289	5,704	0	0
Community Environment	77,395	5,835	0	0
Leisure Time Activities	460,008	10,105	92,406	0
Interest and Fiscal Charges	225,359	0	0	0
<i>Total Governmental Activities</i>	7,421,763	426,480	557,188	350,382
Business-Type Activities				
Waste Water	81,728	75,970	0	0
<i>Total</i>	\$7,503,491	\$502,450	\$557,188	\$350,382

General Revenues

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

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net Revenue (Expense) and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,833,114)	\$0	(\$1,833,114)
(2,236,384)	0	(2,236,384)
(1,295,214)	0	(1,295,214)
(68,585)	0	(68,585)
(71,560)	0	(71,560)
(357,497)	0	(357,497)
(225,359)	0	(225,359)
(6,087,713)	0	(6,087,713)
<u>0</u>	<u>(5,758)</u>	<u>(5,758)</u>
<u>(6,087,713)</u>	<u>(5,758)</u>	<u>(6,093,471)</u>
662,831	0	662,831
516,843	0	516,843
305,779	0	305,779
2,931,172	0	2,931,172
680,137	0	680,137
111,072	0	111,072
106,577	0	106,577
<u>5,314,411</u>	<u>0</u>	<u>5,314,411</u>
(773,302)	(5,758)	(779,060)
<u>18,072,271</u>	<u>786,858</u>	<u>18,859,129</u>
<u>\$17,298,969</u>	<u>\$781,100</u>	<u>\$18,080,069</u>

City of Kirtland, Ohio

Balance Sheet

Governmental Funds

December 31, 2007

	General	Fire Emergency Levy	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$247,345	\$28,068	\$886,834	\$1,162,247
Materials and Supplies Inventory	45,588	0	0	45,588
Accounts Receivable	28,615	0	18,922	47,537
Interfund Receivable	5,969	0	0	5,969
Intergovernmental Receivable	343,387	23,079	222,110	588,576
Prepaid Items	1,059	0	0	1,059
Municipal Income Taxes Receivable	829,483	0	0	829,483
Property Taxes Receivable	649,676	383,028	421,338	1,454,042
<i>Total Assets</i>	<u>\$2,151,122</u>	<u>\$434,175</u>	<u>\$1,549,204</u>	<u>\$4,134,501</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$22,620	\$0	\$71,191	\$93,811
Contracts Payable	498	0	0	498
Accrued Wages and Benefits	215,585	0	0	215,585
Interfund Payable	0	0	5,969	5,969
Intergovernmental Payable	113,497	0	328	113,825
Deferred Revenue	1,517,907	406,107	609,777	2,533,791
Accrued Interest Payable	0	0	2,518	2,518
Notes Payable	0	0	105,000	105,000
<i>Total Liabilities</i>	<u>1,870,107</u>	<u>406,107</u>	<u>794,783</u>	<u>3,070,997</u>
Fund Balances				
Reserved for Encumbrances	33,189	0	109,063	142,252
Unreserved:				
Undesignated, Reported in:				
General Fund	247,826	0	0	247,826
Special Revenue Funds	0	28,068	373,465	401,533
Capital Projects Funds	0	0	271,893	271,893
<i>Total Fund Balances</i>	<u>281,015</u>	<u>28,068</u>	<u>754,421</u>	<u>1,063,504</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,151,122</u>	<u>\$434,175</u>	<u>\$1,549,204</u>	<u>\$4,134,501</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2007*

Total Governmental Fund Balances	\$1,063,504
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,461,754
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent Property Taxes	29,709
Intergovernmental	484,045
Municipal Income Taxes	595,704
Total	1,109,458
In the statement of activities bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	65,094
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(36,140)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(33,383)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds.	
General Obligation Bonds	(3,966,504)
OPWC Loans	(415,969)
Notes Payable	(810,000)
Capital Leases	(4,535)
Compensated Absences	(134,310)
Total	(5,331,318)
 <i>Net Assets of Governmental Activities</i>	 \$17,298,969

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, 2007

	General	Fire Emergency Levy	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$662,399	\$389,420	\$433,514	\$1,485,333
Municipal Income Taxes	2,669,484	0	0	2,669,484
Charges for Services	130,654	0	45,646	176,300
Licenses and Permits	17,866	0	0	17,866
Fines and Forfeitures	31,732	0	495	32,227
Intergovernmental	714,188	45,470	868,138	1,627,796
Rentals	200,087	0	0	200,087
Interest	111,072	0	0	111,072
Contributions and Donations	0	0	10,090	10,090
Miscellaneous	106,577	0	0	106,577
<i>Total Revenues</i>	<u>4,644,059</u>	<u>434,890</u>	<u>1,357,883</u>	<u>6,436,832</u>
Expenditures				
Current:				
General Government	1,962,273	0	0	1,962,273
Security of Persons and Property	1,630,894	430,000	325,000	2,385,894
Transportation	1,131,716	0	544,012	1,675,728
Public Health and Welfare	74,289	0	0	74,289
Community Environment	77,504	0	0	77,504
Leisure Time Activities	133,106	0	300,697	433,803
Capital Outlay	0	0	923,575	923,575
Debt Service:				
Principal Retirement	9,989	0	345,016	355,005
Interest and Fiscal Charges	13,192	0	233,137	246,329
<i>Total Expenditures</i>	<u>5,032,963</u>	<u>430,000</u>	<u>2,671,437</u>	<u>8,134,400</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(388,904)</u>	<u>4,890</u>	<u>(1,313,554)</u>	<u>(1,697,568)</u>
Other Financing Sources (Uses)				
Notes Issued	0	0	810,000	810,000
Loans Issued	0	0	50,000	50,000
Current Refunding	0	0	(810,000)	(810,000)
Transfers In	0	0	470,635	470,635
Transfers Out	(370,635)	0	(100,000)	(470,635)
<i>Total Other Financing Sources (Uses)</i>	<u>(370,635)</u>	<u>0</u>	<u>420,635</u>	<u>50,000</u>
<i>Net Change in Fund Balances</i>	(759,539)	4,890	(892,919)	(1,647,568)
<i>Fund Balances Beginning of Year</i>	<u>1,040,554</u>	<u>23,178</u>	<u>1,647,340</u>	<u>2,711,072</u>
<i>Fund Balances End of Year</i>	<u><u>\$281,015</u></u>	<u><u>\$28,068</u></u>	<u><u>\$754,421</u></u>	<u><u>\$1,063,504</u></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, 2007*

Net Change in Fund Balances - Total Governmental Funds (\$1,647,568)

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

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

Capital Asset Additions	1,521,697	
Current Year Depreciation	(1,149,810)	
Total	371,887	371,887

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. (91,886)

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

Delinquent Property Taxes	120	
Intergovernmental	(50,179)	
Municipal Income Taxes	261,688	
Total	211,629	211,629

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

Notes Issued	(810,000)	
OPWC Loans Issued	(50,000)	
Total	(860,000)	(860,000)

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

Bond, Note and Loan Principal	1,160,416	
Capital Lease Payments	4,589	
Total	1,165,005	1,165,005

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

Accrued Interest on Bonds	20,970	
Amortization of Deferred Charges	(3,616)	
Amortization of Bond Premium	3,616	
Total	20,970	20,970

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	6,080	
Vacation Benefits	50,581	
Total	56,661	56,661

Change in Net Assets of Governmental Activities (\$773,302)

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, 2007*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Property Taxes	\$637,359	\$700,022	\$662,399	(\$37,623)
Municipal Income Taxes	2,850,401	3,130,645	2,962,387	(168,258)
Charges for Services	123,892	136,072	128,759	(7,313)
Licenses and Permits	17,191	18,881	17,866	(1,015)
Fines and Forfeitures	30,005	32,955	31,184	(1,771)
Intergovernmental	693,993	762,224	721,258	(40,966)
Rentals	192,523	211,452	200,087	(11,365)
Interest	106,873	117,381	111,072	(6,309)
Miscellaneous	109,593	120,368	113,899	(6,469)
<i>Total Revenues</i>	<u>4,761,830</u>	<u>5,230,000</u>	<u>4,948,911</u>	<u>(281,089)</u>
Expenditures				
Current:				
General Government	1,966,419	2,199,588	1,975,293	224,295
Security of Persons and Property	1,582,767	1,771,704	1,604,340	167,364
Transportation	1,081,885	1,211,177	1,097,265	113,912
Public Health and Welfare	73,186	81,496	74,289	7,207
Community Environment	75,552	84,579	76,601	7,978
Leisure Time Activities	226,036	241,100	176,983	64,117
Debt Service:				
Principal Retirement	8,257	3,199	5,400	(2,201)
Interest and Fiscal Charges	25,823	14,349	13,008	1,341
<i>Total Expenditures</i>	<u>5,039,925</u>	<u>5,607,192</u>	<u>5,023,179</u>	<u>584,013</u>
<i>Excess of Revenues Under Expenditures</i>	(278,095)	(377,192)	(74,268)	302,924
Other Financing Uses				
Transfers Out	(358,605)	(401,530)	(370,635)	30,895
<i>Net Change in Fund Balance</i>	(636,700)	(778,722)	(444,903)	333,819
<i>Fund Balance Beginning of Year</i>	506,232	506,232	506,232	0
Prior Year Encumbrances Appropriated	128,722	128,722	128,722	0
<i>Fund Balance End of Year</i>	<u>(\$1,746)</u>	<u>(\$143,768)</u>	<u>\$190,051</u>	<u>\$333,819</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, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property Taxes	\$372,740	\$372,740	\$389,420	\$16,680
Intergovernmental	43,522	43,522	45,470	1,948
<i>Total Revenues</i>	416,262	416,262	434,890	18,628
Expenditures				
Current:				
Security of Persons and Property	430,000	430,000	430,000	0
<i>Net Change in Fund Balance</i>	(13,738)	(13,738)	4,890	18,628
<i>Fund Balance Beginning of Year</i>	23,178	23,178	23,178	0
<i>Fund Balance End of Year</i>	<u>\$9,440</u>	<u>\$9,440</u>	<u>\$28,068</u>	<u>\$18,628</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2007

	Waste Water
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$69,507
Accounts Receivable	607
<i>Total Current Assets</i>	70,114
<i>Noncurrent Assets:</i>	
Nondepreciable Capital Assets	124,417
Depreciable Capital Assets, Net	665,028
<i>Total Noncurrent Assets</i>	789,445
<i>Total Assets</i>	859,559
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	1,550
Accrued Wages	515
Intergovernmental Payable	1,592
Accrued Interest Payable	383
Bonds Payable - Current	9,720
<i>Total Current Liabilities</i>	13,760
<i>Long-Term Liabilities:</i>	
Bonds Payable	64,699
<i>Total Liabilities</i>	78,459
Net Assets	
Invested in Capital Assets, Net of Related Debt	715,026
Unrestricted	66,074
<i>Total Net Assets</i>	\$781,100

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Year Ended December 31, 2007*

	<u>Waste Water</u>
Operating Revenues	
Charges for Services	<u>\$75,970</u>
Operating Expenses	
Personal Services	12,829
Purchased Services	0
Materials and Supplies	46,060
Depreciation	<u>14,645</u>
<i>Total Operating Expenses</i>	<u>73,534</u>
<i>Operating Loss</i>	2,436
Non-Operating Expenses	
Interest and Fiscal Charges	(8,194)
<i>Change in Net Assets</i>	(5,758)
<i>Net Assets Beginning of Year</i>	<u>786,858</u>
<i>Net Assets End of Year</i>	<u><u>\$781,100</u></u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2007

	Waste Water
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$75,893
Cash Payments to Suppliers for Services and Supplies	(45,123)
Cash Payments for Employee Services and Benefits	(12,992)
	17,778
<i>Net Cash Provided By Operating Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(9,577)
Principal Paid on Bonds	(9,180)
Interest Paid on Bonds	(5,820)
	(24,577)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
Net Increase in Cash and Cash Equivalents	(6,799)
<i>Cash and Cash Equivalents Beginning of Year</i>	76,306
<i>Cash and Cash Equivalents End of Year</i>	\$69,507
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$2,436
<i>Adjustments:</i>	
Depreciation	14,645
Increase in Assets:	
Accounts Receivable	(77)
Increase (Decrease) in Liabilities:	
Accounts Payable	54
Accrued Wages and Benefits	117
Intergovernmental Payable	603
	15,342
<i>Total Adjustments</i>	
<i>Net Cash Provided by Operating Activities</i>	\$17,778

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2007

	Private Purpose Trust	
	Cemetery	Agency
Assets		
Equity Pooled in Cash and Cash Equivalents	\$2,386	\$330,789
Liabilities		
Deposits Held and Due to Others	0	\$330,789
Net Assets		
Held in Trust for Perpetual Care	\$2,386	

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2007

	<u>Cemetery</u>
Additions	\$0
Deductions	<u>0</u>
Change in Net Assets	0
Net Assets Beginning of Year	<u>2,386</u>
Net Assets End of Year	<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, 2007

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, Mayor's court and waste water services.

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

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

Note 2 - Summary of Significant Accounting Policies

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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

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

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

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

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

C. Measurement Focus

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

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

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

During 2007, investments were limited to STAROhio (State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2007.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2007 amounted to \$111,072, which includes \$93,517 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, 2007

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

H. Inventory

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of twenty-five hundred dollars (\$2,500). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest costs incurred during the construction of enterprise fund capital assets are also capitalized.

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

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

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

J. Interfund Balances

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use by law either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,193,283 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for law enforcement, drug enforcement and education, police pension payments, state highway maintenance and recreation activities.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

O. Operating Revenues and Expenses

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

P. Internal Activity

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.

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

Note 3 – Change in Accounting Principles

For 2007, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the OPERS and the OP&F post-employment healthcare plans in the amount of \$5,571 for OPERS and \$6,802 for police and \$5,342 for fire, which are the same as the previously reported liabilities.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
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GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Note 4 - Budgetary Basis of Accounting

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

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- d) Unreported cash represents amounts received but not included as revenue on the budgetary statements, but which are reported on the operating statements prepared using GAAP.

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

Net Change in Fund Balances General and Fire Emergency Levy		
	General	Fire Emergency Levy
GAAP Basis	(\$759,539)	\$4,890
Net Adjustment for Revenue Accruals	310,821	0
Ending Unrecorded Cash	(5,969)	0
Net Adjustment for Expenditure Accruals	(53,479)	0
Encumbrances	63,263	0
Budget Basis	(\$444,903)	\$4,890

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 5 – Compliance and Accountability

A. Legal Compliance

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

	Original Certifications Plus <u>Beginning Balances</u>	Original <u>Appropriations</u>	<u>Excess</u>
General Fund	\$5,396,784	\$5,398,530	\$1,746
Senior Citizens	184,128	207,060	22,932
State Route 306 Intersection	346,245	1,141,500	795,255

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

	Final Certifications Plus <u>Beginning Balances</u>	Final <u>Appropriations</u>	<u>Excess</u>
General Fund	\$5,864,954	\$6,008,722	\$143,768
Senior Citizens	184,128	222,510	38,382

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

	<u>Expenditures Plus Encumbrances</u>	<u>Appropriations</u>	<u>Excess</u>
General			
<i>Debt Service</i>			
Principal Retirement	\$5,400	\$3,199	\$2,201
Senior Citizens/Recreation			
<i>Leisure Time Activities</i>			
Personal Services	50,342	47,051	3,291
Services and Supplies	68,590	62,270	6,320
Capital Outlay	60,430	56,480	3,950
Senior Citizens			
<i>Leisure Time Activities</i>			
Personal Services	27,514	14,708	12,806
Services and Supplies	13,818	7,387	6,431
SR 615/Kirtland Chardon			
<i>Transportation</i>			
Capital Outlay	76,219	25,000	51,219

Contrary to Ohio Revised Code Section 5705.41(D) the City did not encumber all expenditures in a timely manner.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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

B. Accountability

The SR 615 Kirtland/Chardon and Emergency Fire Equipment capital projects funds had deficit fund balances of \$75,396 and \$100,000, respectively, as of December 31, 2007. The fund deficits resulted from adjustments for accrued liabilities. 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 6 - Deposits and Investments

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

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

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

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

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

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

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

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

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$133,676 of the City's bank balance of \$277,694 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Investments

Investments are reported at fair value. As of December 31, 2007, the City's only investment was in STAROhio with a fair value of \$1,388,455 and an average maturity of 41 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 STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

Note 7 – Receivables

Receivables at December 31, 2007, 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.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) are for 2007 taxes.

2007 real property taxes are levied after October 1, 2007 on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2008.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes. 2007 tangible personal property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out-the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
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The full tax rate for all City operations for the year ended December 31, 2007 was \$11.05 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$247,433,630
Other Real Estate	13,168,800
Public Utility Personal Property	6,649,990
Tangible Personal Property	2,071,470
Total Valuation	\$269,323,890

The Lake County Treasurer collects property tax on behalf of all taxing districts within the County, including the City of Kirtland. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2007 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

B. Income Tax

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

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

C. Intergovernmental Receivable

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

Governmental Activities	Amount
Local Government	\$247,740
Gasoline Tax	91,455
Gasoline Excise Tax	47,158
Homestead and Rollback	87,822
Motor Vehicle License Tax	30,181
Permissive Tax	28,793
Estate Tax	38,929
Grants	13,644
Miscellaneous	2,854
Total Intergovernmental Receivables	\$588,576

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 8 - Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance 12/31/06	Additions	Deletions	Balance 12/31/07
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$744,376	\$503,514	\$0	\$1,247,890
Construction in Progress	110,192	327,814	0	438,006
Total Capital Assets, Not Being Depreciated	854,568	831,328	0	1,685,896
<i>Capital Assets, being depreciated:</i>				
Buildings, Structures and Improvements	5,538,329	418,933	0	5,957,262
Machinery and Equipment	3,604,553	239,177	(357,078)	3,486,652
Infrastructure:				
Roads	29,446,593	32,259	0	29,478,852
Storm Sewer	1,032,484	0	0	1,032,484
<i>Total Capital Assets, being depreciated</i>	39,621,959	690,369	(357,078)	39,955,250
Less Accumulated Depreciation:				
Buildings, Structures and Improvements	(1,974,294)	(151,619)	0	(2,125,913)
Machinery and Equipment	(1,625,715)	(235,398)	265,192	(1,595,921)
Infrastructure:				
Roads	(16,495,996)	(721,494)	0	(17,217,490)
Storm Sewer	(198,769)	(41,299)	0	(240,068)
<i>Total Accumulated Depreciation</i>	(20,294,774)	(1,149,810) *	265,192	(21,179,392)
Total Capital Assets, being depreciated, Net	19,327,185	(459,441)	(91,886)	18,775,858
Governmental Activities Assets, Net	\$20,181,753	\$371,887	(\$91,886)	\$20,461,754

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

	Balance 12/31/06	Additions	Deletions	Balance 12/31/07
Business-Type Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$114,840	\$0	\$0	\$114,840
Construction in Progress	0	9,577	0	9,577
Total Capital Assets, Not Being Depreciated	<u>114,840</u>	<u>9,577</u>	<u>0</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	<u>920,547</u>	<u>0</u>	<u>0</u>	<u>920,547</u>
<i>Total Capital Assets, being depreciated</i>	<u>1,116,706</u>	<u>0</u>	<u>0</u>	<u>1,116,706</u>
Less Accumulated Depreciation:				
Buildings, Structures and Improvements	(103,905)	(2,993)	0	(106,898)
Machinery and Equipment	(9,602)	(2,665)	0	(12,267)
Infrastructure:				
Sewer Lines	<u>(323,526)</u>	<u>(8,987)</u>	<u>0</u>	<u>(332,513)</u>
<i>Total Accumulated Depreciation</i>	<u>(437,033)</u>	<u>(14,645)</u>	<u>0</u>	<u>(451,678)</u>
Total Capital Assets, being depreciated, Net	<u>679,673</u>	<u>(14,645)</u>	<u>0</u>	<u>665,028</u>
Business-Type Activities Assets, Net	<u>\$794,513</u>	<u>(\$5,068)</u>	<u>0</u>	<u>\$789,445</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$63,555
Security of Persons and Property	158,281
Transportation	871,535
Community Environment	2,746
Leisure Time Activities	<u>53,693</u>
Total	<u>\$1,149,810</u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 9 - Risk Management

A. Property and Liability

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2007, the City contracted with Selective Insurance Company for various types of insurance through Wichert Insurance Agency. The City also contracted with Scottsdale Indemnity Company Insurance for various types of insurance through Love Insurance Agency. The type, coverage, and deductibles for the City's insurance follows:

Type	Coverage	Deductible
Wichert Insurance Agency:		
Commercial Property	\$9,218,865	\$1,000
Earthquake and Flood	500,000	25,000
Boiler Machinery and Machinery	9,218,865	1,000
Inland Marine	901,689	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 Clerk	100,000	0

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

B. Workers' Compensation

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

Note 10 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in State and local classifications contributed 9.5 percent of covered payroll, public safety members contributed 9.75 percent, and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.17 percent of covered payroll. For the period January 1 through June 30, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$130,453, \$132,091 and \$164,315 respectively; 97.95 percent has been contributed for 2007 and 100 percent for 2006 and 2005. Contributions to the member-directed plan for 2007 were \$147 made by the City and \$101 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.50 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2007, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police and firefighters were \$76,280 and \$101,284 for the year ended December 31, 2007, \$64,577 and \$93,219 for the year ended December 31, 2006, and \$65,271 and \$92,268 for the year ended December 31, 2005, respectively. The full amount has been contributed for 2006 and 2005. 97.75 percent and 97.52 percent has been contributed for 2007.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 11 - Postemployment Benefits

A. Ohio Public Employees Retirement System

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

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

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

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer’s contribution to 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 employees. In 2007, local government employers contributed 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.00 percent of covered payroll from January 1 through June 30, 2007, and 6.00 percent from July 1 through December 31, 2007.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree’s 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, 2007, 2006, and 2005 were \$85,927, \$64,610 and \$68,823, respectively; 97.95 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

B. Ohio Police and Firemen Pension Fund

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

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

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare 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 contained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401 (h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401 (h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare 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. Active members do not make contributions to the OPEB plan.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$40,384 and \$39,633 for the year ended December 31, 2007, \$42,594 and \$44,458 for the year ended December 31, 2006, and \$43,051 and \$44,005 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 97.75 percent has been contributed for police and 97.52 percent has been contributed for firefighters for 2007.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 12 – Other Employee Benefits

A. Compensated Absences

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

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

B. Health Insurance

The City provides hospitalization, medical, dental, vision and life insurance for all full time employees. Medical Mutual of Ohio provided the hospitalization and medical insurance in 2007. Employees pay ten percent of the premium up to a maximum of \$110 per month effective January 2007. Aetna US Healthworks provides the dental insurance which is paid entirely by the City. Eye Care Plan of America provides vision insurance which is paid entirely by the City. The plan covers lenses, contacts and routine office exams. BMA provides life insurance and core accidental death insurance of \$20,000 which is paid entirely by the City. Employees are able to add extra insurance once a year for themselves, their spouse or children up to \$500,000 or five times their annual salary, whichever is less, paid by the employee through payroll deductions.

Note 13 - Operating Leases

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

Note 14 – Capital Leases

Prior to 2007, the City entered into five capital leases for a skid steer, Compaq computers, two copiers, and a vehicle. During 2007, the City did not have any new capital leases. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases". Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program expenditures on a budgetary basis. The equipment contracted was capitalized in the amount of \$101,921, the present value of the minimum lease payments at the inception of the leases. Accumulated depreciation on the equipment was \$59,730, with a book value of \$42,191 as of December 31, 2007.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of minimum lease payments as of December 31, 2007:

Year Ending December 31,	Governmental Activities
2008	\$3,640
2009	648
2010	432
Total Minimum Lease Payments	4,720
Less: Amount Representing Interest	(185)
Present Value of Minimum Lease Payments	\$4,535

Note 15 – Note Debt

A summary of note transactions for the year ended December 31, 2007 follows:

	Balance 12/31/06	Additions	Reductions	Balance 12/31/07
Governmental Activities				
Templeview Sewer	\$5,000	\$5,000	(\$5,000)	\$5,000
Emergency Fire Equipment	100,000	100,000	(100,000)	100,000
Total	\$105,000	\$105,000	(\$105,000)	\$105,000

All the notes are backed by the full faith and credit of the City of Kirtland and mature within one year. The maturity date for all outstanding notes is July 27, 2008. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended. The notes will be paid from transfers from the general obligation bond retirement fund.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 16 - Long-Term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Enterprise General Obligation Bonds:</i>			
Waste Water Refunding - 1998	4.50-5.00 %	\$173,000	December 1, 2016
<i>General Obligation Bonds:</i>			
Fire Department and Civic Center - 1998	4.50-5.00	2,667,000	December 1, 2016
<i>Various Purpose Bonds - 2006:</i>			
State Route 306 Improvement	3.75-5.00	1,055,000	December 1, 2026
Parks and Recreation Purposes		650,000	December 1, 2026
Service Facility		200,000	December 1, 2026
Senior Center		100,000	December 1, 2026
Templeview Sewer Project Bond - 2006	4.375	323,000	June 1, 2046
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 2005	0.00	50,000	July 1, 2026
Route 306 Widening Phase IV - 2006	0.00	50,000	Incomplete
Route 306 Widening	0.00	50,000	Incomplete
Templeview Sewer - 2003	0.00	283,915	Incomplete
<i>Long-term Notes</i>			
Route 306 and Route 6 Intersection	4.10	400,000	July 27, 2008
Templeview Sewer	4.10	115,000	July 27, 2008
Emergency Fire Equipment	4.10	400,000	July 27, 2008

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

	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007	Amounts Due in One Year
Business-Type Activities					
<i>General Obligation Bonds</i>					
Waste Water Refunding	\$102,870	\$0	(\$9,180)	\$93,690	\$9,720
Unamortized Loss on Refunding	(21,680)	0	2,409	(19,271)	0
<i>Total Business-Type Activities</i>	<u>\$81,190</u>	<u>\$0</u>	<u>(\$6,771)</u>	<u>\$74,419</u>	<u>\$9,720</u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

	Balance 12/31/06	Additions	Reductions	Balance 12/31/07	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
Fire Department and Civic Center					
1998 Refunding Bonds	\$1,802,130	\$0	\$160,820	\$1,641,310	\$170,280
State Route 306 Improvement	1,055,000	0	34,202	1,020,798	39,464
Parks and Recreation	650,000	0	21,072	628,928	24,314
Service Facility	200,000	0	6,484	193,516	7,481
Senior Center	100,000	0	3,242	96,758	3,741
Unamortized Premium	68,710	0	3,616	65,094	0
Templeview Sewer Project Bond	323,000	0	2,900	320,100	3,200
Total General Obligation Bonds	4,198,840	0	232,336	3,966,504	248,480
OPWC Loan					
Route 306 Widening, Phase II	48,750	0	2,500	46,250	2,500
Route 306 Widening, Phase IV	50,000	0	0	50,000	2,500
Route 306 Widening	0	50,000	0	50,000	2,632
Templeview Sewer	283,915	0	14,196	269,719	14,196
Total OPWC Loans	382,665	50,000	16,696	415,969	21,828
Long-term Notes					
Various Purpose Notes:					
Route 306 and Route 6 Intersection	400,000	400,000	400,000	400,000	0
Templeview Sewer	115,000	110,000	115,000	110,000	0
Emergency Fire Equipment	400,000	300,000	400,000	300,000	0
Total Long-Term Notes	915,000	810,000	915,000	810,000	0
Capital Lease Obligation	9,124	0	4,589	4,535	3,495
Compensated Absences	140,390	982	7,062	134,310	13,971
Total Governmental Activities	\$5,646,019	\$860,982	\$1,175,683	\$5,331,318	\$287,774

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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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

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

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

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

In 2003, the City received \$263,415 in Ohio Public Works Commission loans for the Templeview Sewer Project. A special assessment will be levied on the benefiting units upon completion of the project. In 2005, the City received a \$50,000 loan for the Route 306 Widening Phase II Project. In 2006, the City received a \$50,000 loan for the Route 306 Widening Phase IV Project and \$20,500 for the Templeview Sewer project. In 2007, the City received a \$50,000 loan for the Route 306 Widening Project which will be paid out of the General fund. The Templeview Sewer, Route 306 Widening Phase IV and Route 306 Widening projects have not been completed; therefore, no amortization schedules have been established to determine annual payments or the final maturity.

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

The City's overall legal debt margin was \$23,086,536 with an unvoted debt margin of \$9,620,341 at December 31, 2007. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007 are as follows:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

	Governmental Activities			Business-Type Activities	
	General Obligation Bonds		OPWC Loan	General Obligation Bonds	
	Principal	Interest	Principal	Principal	Interest
2008	\$248,480	\$185,420	\$2,500	\$9,720	\$4,595
2009	239,220	174,585	2,500	9,180	4,148
2010	239,420	163,977	2,500	9,180	3,717
2011	248,980	153,243	2,500	9,720	3,281
2012	263,540	141,554	2,500	10,260	2,795
2013-2017	1,276,370	510,309	12,500	45,630	5,858
2018-2022	577,200	287,871	12,500	0	0
2023-2027	588,600	128,077	8,750	0	0
2028-2032	41,700	48,370	0	0	0
2033-2037	51,800	37,545	0	0	0
2038-2042	64,100	24,121	0	0	0
2043-2047	62,000	7,519	0	0	0
Total	<u>\$3,901,410</u>	<u>\$1,862,591</u>	<u>\$46,250</u>	<u>\$93,690</u>	<u>\$24,394</u>

Note 17 – Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2007. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

Note 18 – Interfund Transfers

The general fund and the major capital equipment capital projects fund transferred \$370,635 and \$100,000 respectively, to the general obligation bond retirement fund for debt payment requirements.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 19 - Contingencies

A. Grants

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

B. Litigation

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

Note 20 – Subsequent Event

On July 27, 2008, the City retired \$915,000 in general obligation bond anticipation notes and issued \$1,810,000 in new notes with a maturity date of July 28, 2009 and an interest rate of 4.15 percent. The following table summarizes the activity.

<u>Note Issuance</u>	<u>Retired</u>	<u>Issued</u>
Templeview Sewer	\$115,000	\$110,000
Emergency Fire Equipment	400,000	300,000
State Route 306 and Route 6 Intersection	400,000	400,000
Various Purpose Note	0	1,000,000
<i>Total Notes</i>	<u>\$915,000</u>	<u>\$1,810,000</u>

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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, 2006. 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 2006 are:

- This is the third year that the City has reported based on the GASB Statement No. 34 Reporting Model.
- Total assets increased by \$1,039,288 or 4.08 percent from \$25,487,971 in 2005 to \$26,527,259 in 2006.
- Total liabilities increased by \$648,255 or 9.24 percent from \$7,019,875 in 2005 to \$7,668,130 in 2006.
- Total net assets increased \$391,033 or 2.12 percent from \$18,468,096 in 2005 to \$18,859,129 in 2006.
- Total capital assets decreased \$19,599 or .09 percent from \$20,995,865 in 2005 to \$20,976,266 in 2006.
- Total long-term liabilities increased \$1,557,001 or 37.34 percent from \$4,170,208 in 2005 to \$5,727,209 in 2006.

Using This Annual Basic Financial Statement Report (BFS)

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

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

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

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

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

Reporting the City of Kirtland's Most Significant Funds

Fund Financial Statements

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

Government Funds

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

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Proprietary Funds

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

The City of Kirtland as a Whole

The *Statement of Net Assets* looks at the City as a whole. Table I provides a summary of the City's net assets for 2006 compared to 2005.

Table I
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$5,474,157	\$4,419,114	\$76,836	\$72,992	\$5,550,993	\$4,492,106
Capital Assets, Net	20,181,753	20,191,551	794,513	804,314	20,976,266	20,995,865
<i>Total Assets</i>	<u>25,655,910</u>	<u>24,610,665</u>	<u>871,349</u>	<u>877,306</u>	<u>26,527,259</u>	<u>25,487,971</u>
Current and Other Liabilities	1,937,620	2,846,912	3,301	2,755	1,940,921	2,849,667
Long-Term Liabilities:						
Due Within One Year	259,509	174,618	9,180	8,640	268,689	183,258
Due In More Than One Year	5,386,510	3,908,169	72,010	78,781	5,458,520	3,986,950
<i>Total Liabilities</i>	<u>7,583,639</u>	<u>6,929,699</u>	<u>84,491</u>	<u>90,176</u>	<u>7,668,130</u>	<u>7,019,875</u>
Invested in Capital Assets, Net of Related Debt	14,823,544	15,549,339	713,323	716,893	15,536,867	16,266,232
Restricted:						
Capital Projects	875,688	710,707	0	0	875,688	710,707
Other Purposes	903,450	745,480	0	0	903,450	745,480
Unrestricted	1,469,589	675,440	73,535	70,237	1,543,124	745,677
<i>Total Net Assets</i>	<u>\$18,072,271</u>	<u>\$17,680,966</u>	<u>\$786,858</u>	<u>\$787,130</u>	<u>\$18,859,129</u>	<u>\$18,468,096</u>

Total assets increased by \$1,039,288 from 2005 to 2006. The biggest increases in assets were in the available cash at year end and property taxes, municipal income taxes and intergovernmental receivables. Cash increases were due to improved collections of income taxes and borrowings for future capital improvements. The increase in capital assets was due to acquisitions of major capital equipment offset by current year depreciation of assets.

Total liabilities increased by \$648,255 from 2005 to 2006. This increase was due to additional borrowings for park land acquisition and improvements for the State Route 306 and 6 intersection.

Total net assets increased by \$391,033 comprised of governmental net assets increasing by \$391,305 and business-type activities decreasing by \$272. Net assets increased mainly due to an increase in cash of \$742,474 which was brought about by a higher return on investments in 2006.

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Table 2 shows the changes in net assets for the years ended December 31, 2006, as compared to 2005.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues						
Charges for Services	\$533,767	\$492,202	\$75,013	\$76,582	\$608,780	\$568,784
Operating Grants and Contributions	605,611	551,241	0	0	605,611	551,241
Capital Grants and Contributions	455,529	605,031	0	0	455,529	605,031
Total Program Revenues	1,594,907	1,648,474	75,013	76,582	1,669,920	1,725,056
General Revenues						
Property Taxes	1,374,662	1,365,107	0	0	1,374,662	1,365,107
Municipal Income Taxes	2,933,529	2,828,313	0	0	2,933,529	2,828,313
Grants and Entitlements	997,080	738,334	0	0	997,080	738,334
Interest	105,594	64,977	0	0	105,594	64,977
Miscellaneous	44,044	263,454	0	0	44,044	263,454
Total General Revenues	5,454,909	5,260,185	0	0	5,454,909	5,260,185
Total Revenues	7,049,816	6,908,659	75,013	76,582	7,124,829	6,985,241
Program Expenses						
General Government	1,793,684	1,730,128	0	0	1,793,684	1,730,128
Security of Persons and Property	2,292,780	2,740,035	0	0	2,292,780	2,740,035
Transportation	1,855,049	2,190,549	0	0	1,855,049	2,190,549
Public Health and Welfare	79,759	66,133	0	0	79,759	66,133
Community Environment	33,307	71,442	0	0	33,307	71,442
Leisure Time Activities	319,763	336,763	0	0	319,763	336,763
Interest and Fiscal Charges	284,169	129,053	8,737	8,737	292,906	137,790
Sewer	0	0	66,548	79,191	66,548	79,191
Total Program Expenses	6,658,511	7,264,103	75,285	87,928	6,733,796	7,352,031
Decrease in Net Assets						
Before Transfers	391,305	(355,444)	(272)	(11,346)	391,033	(366,790)
Transfers	0	(77,924)	0	77,924	0	0
Increase (Decrease) in Net Assets	391,305	(433,368)	(272)	66,578	391,033	(366,790)
Net Assets Beginning of Year	17,680,966	18,114,334	787,130	720,552	18,468,096	18,834,886
Net Assets End of Year	\$18,072,271	\$17,680,966	\$786,858	\$787,130	\$18,859,129	\$18,468,096

The City is very dependent on property taxes and income taxes, which account for 61.11 percent of total revenues. The City remained consistent in 2006 with previous years in the collection of revenues and the cost of doing business. The largest taxpayers of income taxes are employees of public facilities such as school and government agencies. This allows for consistency and stability of collections of income taxes.

The increase in grants and entitlements is due to the City receiving more general grant monies in 2006 than in 2005.

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Security of persons and property represents the largest governmental program expense, 34.43 percent of governmental expenses. General government represents 26.94 percent and transportation represents 27.86 percent of total governmental expenses. These three sources cover most of the services and programs offered by the City. The remaining 10.77 percent of governmental expenses are for community environment, leisure time or parks activities and interest and fiscal charges on debt. The largest increase in expenses occurred in interest and fiscal charges on debt. The 120.20 percent increase in this area is primarily due to increased short-term lending rates and additional borrowings.

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

GOVERNMENTAL ACTIVITIES

Several revenue sources fund the City's governmental activities with City income tax being the largest contribution. The income tax rate of 1 percent was established by City Ordinance No. 71-0-11, passed December 20, 1971. On November 6, 2001, the electors approved an increase in the income tax rate to 2 percent from 1 percent and a change in the tax credit for residents having income taxable in another community. In 2006, the revenue collected from income taxes was \$2,933,529. General revenues from property taxes and charges for services are also significant revenue generators. The City monitors its sources of revenues very closely for any changes or fluctuations.

Overall, the City has enjoyed a steady increase in income tax collections for the past ten years. This has been especially important to the City because the tax revenue has provided the City the funds to maintain streets, make infrastructure improvements and strengthen safety forces. The City of Kirtland continues to be very aggressive in collecting delinquent income tax. The City's strong economic growth and strong base of taxpayers provide the City with an income tax base that can sustain the loss of any major tax paying entity and still be able to meet the financial needs of the City. City income tax revenues of \$2,933,529 were designated for the City's general fund.

Total revenues for governmental activities for 2006 were \$7,049,816. Revenue consists primarily of property taxes of \$1,374,662 and income taxes of \$2,933,529 representing 19.50 and 41.61 percent, respectively, of total revenues. Intergovernmental revenues received through operating and capital grants or contributions as well as unrestricted grants and entitlements make up \$2,058,220 or 29.20 percent of revenues. The remaining 9.69 percent of revenues represents charges for services, interest and miscellaneous receipts. Charges for services include non-resident ambulance billing, cemetery fees and recreation fees.

Total governmental activities program expenses for 2006 were \$6,658,511. General government, security of persons and property and transportation expenses are the three main sources of expenses, representing 89.23 percent of all governmental expenses. These activities include police protection, fire protection, road construction, road maintenance, planning/zoning, mayoral office and finance office.

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Table 3 presents a summary for governmental activities 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	
	2006	2005	2006	2005
General Government	\$1,793,684	\$1,730,128	\$1,514,351	\$1,489,267
Security of Persons and Property	2,292,780	2,740,035	2,136,180	2,496,443
Transportation	1,855,049	2,190,549	847,324	1,143,439
Public Health and Welfare	79,759	66,133	79,759	60,788
Community Environment	33,307	71,442	(4,110)	65,915
Leisure Time Activities	319,763	336,763	205,931	230,724
Interest and Fiscal Charges	284,169	129,053	284,169	129,053
<i>Total</i>	<u>\$6,658,511</u>	<u>\$7,264,103</u>	<u>\$5,063,604</u>	<u>\$5,615,629</u>

Dependence on general revenues for governmental activities is apparent. Over 64.70 percent of total expenses are supported through taxes. Operating and capital grants program revenues support 15.94 percent while charges for services support 8.02 percent. The remaining expenses are supported by investment and miscellaneous revenues along with some of the carryover cash balance from year 2005.

BUSINESS-TYPE ACTIVITIES

Utility services for waste water had \$75,013 in charges for services which were not sufficient to cover the \$75,285 in total expenses in 2006. Currently the City operates three waste water treatment plants, which are combined for reporting purposes. Services include monitoring and testing the discharge. The City closely monitors the cost of these services and will adjust the operating and/or capital improvement charges to pay for future development and related costs, as needed.

The City's Funds

All governmental funds had total expenditures of \$6,548,833 and revenues of \$6,792,625. The most significant fund is the general fund with a year-end fund balance of \$1,040,554, which included an unreserved fund balance of \$922,810 compared to annual expenditures of \$4,197,099. Revenues exceeded expenditures by \$453,397. For all governmental funds, expenditures exceeded revenues by \$243,792 due to retirement of debt and bond issuance costs.

The fire emergency levy special revenue fund is used to operate the fire department. Total expenditures of \$504,996 exceeded property tax revenues of \$376,176 along with \$53,851 in intergovernmental revenues by \$74,969. The fire emergency levy ended the year with a \$23,178 fund balance. The fire department services will be continuing at the current level of service.

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General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2006 the City did not amend its general fund budget from the original certified revenues in the amount of \$4,709,039. All capital projects and requests for capital type purchases in excess of \$15,000 must be reviewed and approved individually by the Mayor, after which they are sent to the formal council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, services and supplies, capital outlay object level for each function for all funds. The Finance Director, with approval from the Mayor, has been authorized to allocated appropriations to more detailed object levels within each function and fund.

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

For the general fund, the original budgeted revenues were \$4,709,039 the final budgeted amount was \$4,709,039 and the actual amount was \$4,641,465. The \$67,574 difference was due primarily to the City receiving less property and income tax revenue than anticipated. Original appropriations of \$4,364,527 were increased during the year by \$117,199 to establish final appropriations of \$4,481,726 for the year. The actual expenditures of \$4,408,762 decreased from the final budget by \$72,964 primarily due to personnel and equipment costs in the police, fire and transportation departments.

Capital Assets and Debt Administration

Capital Assets

Total capital assets for the City of Kirtland as of December 31, 2006 were \$20,181,753. The \$1,129,060 in additions to land, construction in progress, buildings and improvements, machinery and equipment, roads and storm sewers for the governmental activities capital assets were offset by the \$1,132,574 in current year depreciation. Business-type activities capital assets had \$4,844 in additions in 2006 which were offset by \$14,645 in current year depreciation to give an overall \$9,801 decrease in business-type capital assets.

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Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$744,376	\$623,690	\$114,840	\$114,840	\$859,216	\$738,530
Construction in Progress	110,192	0	0	466,389	110,192	466,389
Buildings and Improvements	3,564,035	3,658,781	45,749	48,742	3,609,784	3,707,523
Machinery and Equipment	1,978,838	1,884,479	36,903	39,568	2,015,741	1,924,047
Infrastructure						
Roads	12,950,597	13,161,623	0	0	12,950,597	13,161,623
Storm Sewers	833,715	862,978	0	0	833,715	862,978
Sewer Lines	0	0	597,021	134,775	597,021	134,775
<i>Total Capital Assets</i>	\$20,181,753	\$20,191,551	\$794,513	\$804,314	\$20,976,266	\$20,995,865

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

City Council is committed along with the Administration to maintain its capital assets at a condition acceptable to provide the best possible service for all residents. In 2006, the City's capital asset purchases included building additions, park land acquisition, fire equipment, and highway improvements. In 2005, the City's capital asset purchases included dump trucks, paving equipment, an ambulance, and vehicles for the service and police departments.

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

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

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Debt

On December 31, 2006, the City of Kirtland had \$5,682,695 in bonds, loans and notes outstanding, with \$247,916 due within one year. Table 5 summarizes bonds, loans and notes outstanding.

Table 5
Outstanding Debt at Year End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$4,198,840	\$1,953,490	\$81,190	\$87,421	\$4,280,030	\$2,040,911
OPWC Loans	382,665	313,415	0	0	382,665	313,415
Short-Term Notes	105,000	640,000	0	0	105,000	640,000
Notes Payable	915,000	1,721,000	0	0	915,000	1,721,000
Total	<u>\$5,601,505</u>	<u>\$4,627,905</u>	<u>\$81,190</u>	<u>\$87,421</u>	<u>\$5,682,695</u>	<u>\$4,715,326</u>

The general obligation bonds include a fire department and civic center bond of \$1,802,130 - a \$2,667,000 bond originally issued on December 1, 1998. Payments are made from the general fund.

A general obligation bond was issued in 2006 for \$2,077,326 to be used for various purposes. A general obligation bond was also issued in 2006 for \$323,000 for the Templeview sewer project.

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

On July 25, 2006 the City retired \$2,361,000 in general obligation bond anticipation notes and issued \$1,020,000 in notes with a maturity date of July 28, 2007. The \$1,020,000 notes issued were for various building improvement projects throughout the City and for various street or storm sewer improvements.

The City's overall legal debt margin on December 31, 2006 was \$22,578,415 with an unvoted debt margin of \$9,209,405.

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

Current Financial Related Activities

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

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

City health care costs for employees have been increasing by nearly five percent per year since 2004. During the period of 2002 through 2006, health care insurance costs continued to escalate everywhere and the City continues to find ways to keep the costs at reasonable levels while providing the best possible insurance coverage for City employees. The City negotiated an employee cost sharing plan with all bargaining units in the City in 2006.

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

Contacting the City's Finance Department

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

City of Kirtland, Ohio

Statement of Net Assets

December 31, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,434,094	\$76,306	\$2,510,400
Materials and Supplies Inventory	65,646	0	65,646
Accounts Receivable	36,193	530	36,723
Intergovernmental Receivable	649,405	0	649,405
Prepaid Items	1,390	0	1,390
Municipal Income Taxes Receivable	860,698	0	860,698
Property Taxes Receivable	1,358,021	0	1,358,021
Deferred Charges	68,710	0	68,710
Non-Depreciable Capital Assets	854,568	114,840	969,408
Depreciable Capital Assets, Net	19,327,185	679,673	20,006,858
<i>Total Assets</i>	<u>25,655,910</u>	<u>871,349</u>	<u>26,527,259</u>
Liabilities			
Accounts Payable	28,947	1,496	30,443
Contracts Payable	43,669	0	43,669
Retainage Payable	9,790	0	9,790
Accrued Wages and Benefits	185,179	398	185,577
Vacation Benefits Payable	83,964	0	83,964
Intergovernmental Payable	90,279	989	91,268
Deferred Revenue	1,328,432	0	1,328,432
Accrued Interest Payable	62,360	418	62,778
Notes Payable	105,000	0	105,000
Long-Term Liabilities:			
Due Within One Year	259,509	9,180	268,689
Due In More Than One Year	5,386,510	72,010	5,458,520
<i>Total Liabilities</i>	<u>7,583,639</u>	<u>84,491</u>	<u>7,668,130</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	14,823,544	713,323	15,536,867
Restricted for:			
Capital Projects	875,688	0	875,688
Fire Emergency Levy	59,105	0	59,105
Street Construction, Maintenance and Repair	381,924	0	381,924
Senior Citizens	80,669	0	80,669
Other Purposes	381,752	0	381,752
Unrestricted	1,469,589	73,535	1,543,124
<i>Total Net Assets</i>	<u>\$18,072,271</u>	<u>\$786,858</u>	<u>\$18,859,129</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$1,793,684	\$279,333	\$0	\$0
Security of Persons and Property	2,292,780	42,364	114,236	0
Transportation	1,855,049	145,799	406,397	455,529
Public Health and Welfare	79,759	0	0	0
Community Environment	33,307	37,417	0	0
Leisure Time Activities	319,763	28,854	84,978	0
Interest and Fiscal Charges	284,169	0	0	0
<i>Total Governmental Activities</i>	6,658,511	533,767	605,611	455,529
Business-Type Activities				
Waste Water	75,285	75,013	0	0
<i>Total</i>	\$6,733,796	\$608,780	\$605,611	\$455,529

General Revenues

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

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net Revenue (Expense) and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,514,351)	\$0	(\$1,514,351)
(2,136,180)	0	(2,136,180)
(847,324)	0	(847,324)
(79,759)	0	(79,759)
4,110	0	4,110
(205,931)	0	(205,931)
(284,169)	0	(284,169)
(5,063,604)	0	(5,063,604)
0	(272)	(272)
(5,063,604)	(272)	(5,063,876)
587,116	0	587,116
125,389	0	125,389
375,210	0	375,210
286,947	0	286,947
2,933,529	0	2,933,529
997,080	0	997,080
105,594	0	105,594
44,044	0	44,044
5,454,909	0	5,454,909
391,305	(272)	391,033
17,680,966	787,130	18,468,096
\$18,072,271	\$786,858	\$18,859,129

City of Kirtland, Ohio

Balance Sheet

Governmental Funds

December 31, 2006

	<u>General</u>	<u>Fire Emergency Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$634,954	\$23,178	\$1,775,962	\$2,434,094
Materials and Supplies Inventory	65,646	0	0	65,646
Accounts Receivable	27,921	0	8,272	36,193
Intergovernmental Receivable	390,081	27,510	231,814	649,405
Prepaid Items	1,390	0	0	1,390
Municipal Income Taxes Receivable	860,698	0	0	860,698
Property Taxes Receivable	572,808	376,008	409,205	1,358,021
<i>Total Assets</i>	<u>\$2,553,498</u>	<u>\$426,696</u>	<u>\$2,425,253</u>	<u>\$5,405,447</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$24,084	\$0	\$4,863	\$28,947
Contracts Payable	0	0	43,669	43,669
Retainage Payable	0	0	9,790	9,790
Accrued Wages and Benefits	185,179	0	0	185,179
Intergovernmental Payable	90,279	0	0	90,279
Deferred Revenue	1,213,402	403,518	609,341	2,226,261
Accrued Interest Payable	0	0	5,250	5,250
Notes Payable	0	0	105,000	105,000
<i>Total Liabilities</i>	<u>1,512,944</u>	<u>403,518</u>	<u>777,913</u>	<u>2,694,375</u>
 Fund Balances				
Reserved for Encumbrances	117,744	0	419,822	537,566
Unreserved:				
Undesignated, Reported in:				
General Fund	922,810	0	0	922,810
Special Revenue Funds	0	23,178	562,730	585,908
Capital Projects Funds	0	0	664,788	664,788
<i>Total Fund Balances</i>	<u>1,040,554</u>	<u>23,178</u>	<u>1,647,340</u>	<u>2,711,072</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,553,498</u>	<u>\$426,696</u>	<u>\$2,425,253</u>	<u>\$5,405,447</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2006*

Total Governmental Fund Balances	\$2,711,072
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,181,753
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent Property Taxes	29,589
Intergovernmental	379,675
Municipal Income Taxes	488,565
Total	897,829
In the statement of activities bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	68,710
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(57,110)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(83,964)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds.	
General Obligation Bonds	(4,198,840)
OPWC Loans	(382,665)
Notes Payable	(915,000)
Capital Leases	(9,124)
Compensated Absences	(140,390)
Total	(5,646,019)
 <i>Net Assets of Governmental Activities</i>	 \$18,072,271

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, 2006

	General	Fire Emergency Levy	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Taxes	\$586,105	\$376,176	\$411,795	\$1,374,076
Municipal Income Taxes	2,898,145	0	0	2,898,145
Charges for Services	139,527	0	141,009	280,536
Licenses and Permits	16,691	0	0	16,691
Fines and Forfeitures	40,931	0	951	41,882
Intergovernmental	624,801	53,851	904,485	1,583,137
Rentals	194,658	0	0	194,658
Interest	105,594	0	0	105,594
Contributions and Donations	0	0	10,070	10,070
Miscellaneous	44,044	0	0	44,044
<i>Total Revenues</i>	<u>4,650,496</u>	<u>430,027</u>	<u>1,468,310</u>	<u>6,548,833</u>
Expenditures				
Current:				
General Government	1,730,159	0	7	1,730,166
Security of Persons and Property	1,391,348	504,996	291,647	2,187,991
Transportation	792,590	0	203,340	995,930
Public Health and Welfare	79,759	0	0	79,759
Community Environment	88,321	0	0	88,321
Leisure Time Activities	102,032	0	244,580	346,612
Capital Outlay	0	0	883,025	883,025
Debt Service:				
Principal Retirement	6,433	0	151,360	157,793
Interest and Fiscal Charges	6,457	0	244,245	250,702
Bond Issuance Cost	0	0	72,326	72,326
<i>Total Expenditures</i>	<u>4,197,099</u>	<u>504,996</u>	<u>2,090,530</u>	<u>6,792,625</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>453,397</u>	<u>(74,969)</u>	<u>(622,220)</u>	<u>(243,792)</u>
Other Financing Sources (Uses)				
Bonds Issued	300,000	0	2,028,000	2,328,000
Bond Premium	0	0	72,326	72,326
Notes Issued	0	0	915,000	915,000
Loans Issued	0	0	70,500	70,500
Current Refunding	(26,000)	0	(1,695,000)	(1,721,000)
Transfers In	0	0	345,402	345,402
Transfers Out	(345,402)	0	0	(345,402)
<i>Total Other Financing Sources (Uses)</i>	<u>(71,402)</u>	<u>0</u>	<u>1,736,228</u>	<u>1,664,826</u>
<i>Net Change in Fund Balances</i>	381,995	(74,969)	1,114,008	1,421,034
<i>Fund Balances Beginning of Year</i>	<u>658,559</u>	<u>98,147</u>	<u>533,332</u>	<u>1,290,038</u>
<i>Fund Balances End of Year</i>	<u>\$1,040,554</u>	<u>\$23,178</u>	<u>\$1,647,340</u>	<u>\$2,711,072</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, 2006*

Net Change in Fund Balances - Total Governmental Funds	\$1,421,034
 <i>Amounts reported for governmental activities in the statements of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:	
Capital Asset Additions	1,129,060
Current Year Depreciation	<u>(1,132,574)</u>
Total	(3,514)
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.	
	(6,284)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Delinquent Property Taxes	586
Intergovernmental	465,013
Municipal Income Taxes	<u>35,384</u>
Total	500,983
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets:	
Bonds Issued	(2,328,000)
Notes Issued	(915,000)
OPWC Loans Issued	(70,500)
Premium on Bonds	(72,326)
Bond Issuance Cost	<u>72,326</u>
Total	(3,313,500)
Repayment of bond, note and loan principal and capital lease payments are expenditures in the governmental funds, but the repayments reduce the long-term liabilities in the statement of net assets:	
Bond, Note and Loan Principal	1,873,610
Capital Lease Payments	<u>5,183</u>
Total	1,878,793
In the statement of activities, interest is accrued on outstanding bonds, bond premium and bond issuance costs are amortized over the terms of the bonds whereas in the governmental funds the expenditure is reported when bonds are issued.	
Accrued Interest on Bonds	(33,467)
Amortization of Deferred Charges	(3,616)
Amortization of Bond Premium	<u>3,616</u>
	(33,467)
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	(59,815)
Vacation Benefits	<u>7,075</u>
Total	<u>(52,740)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$391,305</u></u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Property and Other Taxes	\$629,675	\$629,675	\$586,105	(\$43,570)
Municipal Income Taxes	2,867,744	2,867,744	2,850,870	(16,874)
Charges for Services	137,921	137,921	137,109	(812)
Licenses and Permits	16,790	16,790	16,691	(99)
Fines and Forfeitures	41,811	41,811	41,565	(246)
Intergovernmental	661,577	661,577	657,684	(3,893)
Rentals	195,810	195,810	194,658	(1,152)
Interest	106,219	106,219	105,594	(625)
Miscellaneous	51,492	51,492	51,189	(303)
<i>Total Revenues</i>	<u>4,709,039</u>	<u>4,709,039</u>	<u>4,641,465</u>	<u>(67,574)</u>
Expenditures				
Current:				
General Government	1,769,620	1,817,371	1,757,396	59,975
Security of Persons and Property	1,435,271	1,474,056	1,411,686	62,370
Transportation	871,014	894,092	856,154	37,938
Public Health and Welfare	81,359	83,583	79,759	3,824
Community Environment	92,720	95,168	91,132	4,036
Leisure Time Activities	107,040	109,953	205,132	(95,179)
Debt Service:				
Principal Retirement	1,250	1,250	1,250	0
Interest and Fiscal Charges	6,253	6,253	6,253	0
<i>Total Expenditures</i>	<u>4,364,527</u>	<u>4,481,726</u>	<u>4,408,762</u>	<u>72,964</u>
<i>Excess of Revenues Over Expenditures</i>	<u>344,512</u>	<u>227,313</u>	<u>232,703</u>	<u>5,390</u>
Other Financing Sources (Uses)				
Current Refunding	(26,000)	(26,000)	(26,000)	0
Bonds Issued	0	0	300,000	300,000
Transfers Out	(386,508)	(363,558)	(345,402)	18,156
<i>Total Other Financing Sources (Uses)</i>	<u>(412,508)</u>	<u>(389,558)</u>	<u>(71,402)</u>	<u>318,156</u>
<i>Net Change in Fund Balance</i>	(67,996)	(162,245)	161,301	323,546
<i>Fund Balance Beginning of Year</i>	280,549	280,549	280,549	0
Prior Year Encumbrances Appropriated	64,382	64,382	64,382	0
<i>Fund Balance End of Year</i>	<u>\$276,935</u>	<u>\$182,686</u>	<u>\$506,232</u>	<u>\$323,546</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, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property and Other Taxes	\$412,116	\$412,116	\$376,176	(\$35,940)
Intergovernmental	0	0	53,851	53,851
<i>Total Revenues</i>	412,116	412,116	430,027	17,911
Expenditures				
Current:				
Security of Persons and Property	505,000	505,000	504,996	4
<i>Net Change in Fund Balance</i>	(92,884)	(92,884)	(74,969)	17,915
<i>Fund Balance Beginning of Year</i>	98,147	98,147	98,147	0
<i>Fund Balance End of Year</i>	<u>\$5,263</u>	<u>\$5,263</u>	<u>\$23,178</u>	<u>\$17,915</u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2006

	Waste Water
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$76,306
Accounts Receivable	530
	76,836
<i>Total Current Assets</i>	76,836
<i>Noncurrent Assets:</i>	
Nondepreciable Capital Assets	114,840
Depreciable Capital Assets, Net	679,673
	794,513
<i>Total Noncurrent Assets</i>	794,513
<i>Total Assets</i>	871,349
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	1,496
Accrued Wages	398
Intergovernmental Payable	989
Accrued Interest Payable	418
Bonds Payable - Current	9,180
	12,481
<i>Total Current Liabilities</i>	12,481
<i>Long-Term Liabilities:</i>	
Bonds Payable	72,010
	72,010
<i>Total Liabilities</i>	84,491
Net Assets	
Invested in Capital Assets, Net of Related Debt	713,323
Unrestricted	73,535
	786,858
<i>Total Net Assets</i>	\$786,858

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
*Statement of Revenues,
 Expenses and Changes in Fund Net Assets
 Enterprise Fund
 For the Year Ended December 31, 2006*

	<u>Waste Water</u>
Operating Revenues	
Charges for Services	<u>\$75,013</u>
Operating Expenses	
Personal Services	16,737
Services and Supplies	35,166
Depreciation	<u>14,645</u>
<i>Total Operating Expenses</i>	<u>66,548</u>
<i>Operating Loss</i>	8,465
Non-Operating Expenses	
Interest and Fiscal Charges	<u>(8,737)</u>
<i>Change in Net Assets</i>	(272)
<i>Net Assets Beginning of Year</i>	<u>787,130</u>
<i>Net Assets End of Year</i>	<u><u>\$786,858</u></u>

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2006

	Waste Water
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$75,192
Cash Payments to Suppliers for Services and Supplies	(34,973)
Cash Payments for Employee Services and Benefits	(16,352)
<i>Net Cash Provided By Operating Activities</i>	23,867
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(4,844)
Principal Paid on Bonds	(8,640)
Interest Paid on Bonds	(6,360)
<i>Net Cash Used for Capital and Related Financing Activities</i>	(19,844)
Net Increase in Cash and Cash Equivalents	4,023
<i>Cash and Cash Equivalents Beginning of Year</i>	72,283
<i>Cash and Cash Equivalents End of Year</i>	\$76,306
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$8,465
<i>Adjustments:</i>	
Depreciation	14,645
Increase in Assets:	
Accounts Receivable	179
Increase (Decrease) in Liabilities:	
Accounts Payable	(148)
Accrued Wages and Benefits	97
Intergovernmental Payable	629
<i>Total Adjustments</i>	15,402
<i>Net Cash Provided by Operating Activities</i>	\$23,867

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2006

	Private Purpose Trust	
	Cemetery	Agency
Assets		
Equity Pooled in Cash and Cash Equivalents	\$2,386	\$423,822
Liabilities		
Deposits Held and Due to Others	0	\$423,822
Net Assets		
Held in Trust for Perpetual Care	\$2,386	

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2006

	<u>Cemetery</u>
Additions	\$0
Deductions	<u>0</u>
Change in Net Assets	0
Net Assets Beginning of Year	<u>2,386</u>
Net Assets End of Year	<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, 2006

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, Mayor's court 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 16 of the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

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

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

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

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

C. Measurement Focus

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

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

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

During 2006, investments were limited to STAROhio (State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$105,594, which includes \$82,762 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, 2006

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

H. Inventory

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of twenty-five hundred dollars (\$2,500). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest costs incurred during the construction of enterprise fund capital assets are also capitalized.

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

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

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

J. Interfund Balances

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use by law either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,779,138 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for law enforcement, drug enforcement and education, police pension payments, state highway maintenance and recreation activities.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

O. Operating Revenues and Expenses

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

P. Internal Activity

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.

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

Note 3 – Change in Accounting Principles

A. Changes in Accounting Principles

For 2006, the City has implemented GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 47 established standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not affect the presentation of the financial statements of the City.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 4 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance

	General	Fire Emergency Levy
GAAP Basis	\$381,995	(\$74,969)
Net Adjustment for Revenue Accruals	(9,031)	0
Net Adjustment for Expenditure Accruals	(340,385)	0
Encumbrances	128,722	0
Budget Basis	\$161,301	(\$74,969)

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 5 – Compliance and Accountability

A. Legal Compliance

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

	Original Certifications Plus Beginning Balances	Original Appropriations	Excess
Senior Citizens	\$203,015	\$223,750	(\$20,735)
Street Construction, Maintenance and Repair	285,537	305,000	(19,463)
Major Capital Equipment	218,437	220,000	(1,563)
State Route 306 Intersection	0	400,000	(400,000)
Public Land Acquisition	0	345,000	(345,000)

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

	Final Certifications Plus Beginning Balances	Final Appropriations	Excess
Major Capital Equipment	\$218,437	\$220,000	(\$1,563)
State Route 306 Intersection	0	400,000	(400,000)
Public Land Acquisition	0	345,000	(345,000)

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund			
<i>General Government</i>			
Judicial			
Services and Supplies	\$23,731	\$32,686	(\$8,955)
Finance			
Services and Supplies	127,808	128,493	(685)
City Engineering			
Services and Supplies	31,845	36,653	(4,808)
Leisure Time Activities			
Capital Outlay	815	100,778	(99,963)
Debt Service			
Principal Retirement	0	1,250	(1,250)
Interest and Fiscal Charges	0	6,253	(6,253)
Senior Citizens			
<i>Leisure Time Activities</i>			
Personal Services	15,000	19,219	(4,219)
Services and Supplies	8,750	17,766	(9,016)
Major Capital Equipment			
<i>General Government</i>			
Services and Supplies	0	7	(7)
Templeview Sewer			
<i>Transportation</i>			
Capital Outlay	0	247,412	(247,412)
<i>Debt Service</i>			
Principal Retirement	0	540,000	(540,000)
<i>Other Financing Sources (Uses)</i>			
Current Refunding	0	120,000	(120,000)
Park Land Acquisition			
Capital Outlay	345,000	351,095	(6,095)

Contrary to Ohio Revised Code Section 5705.41(D) the City did not encumber all expenditures in a timely manner.

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

B. Accountability

The major capital equipment capital projects fund had a deficit fund balance of \$71,258 as of December 31, 2006. The fund deficit was caused by adjustments for principal retirement. The general fund is liable for any deficit in this fund and provides operating transfers when cash is required, rather than when accruals occur.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 6 - Deposits and Investments

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

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

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

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

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$899,986 of the City's bank balance of \$1,099,986 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

Investments are reported at fair value. As of December 31, 2006, the City's only investment was in STAROhio with a fair value of \$2,303,496 and an average maturity of 39 days.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

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

Note 7 – Receivables

Receivables at December 31, 2006, 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.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out-the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2006 was \$11.05 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Real Property:	
Residential/Agricultural	\$245,078,670
Other Real Estate	12,644,560
Public Utility Personal Property	8,348,620
Tangible Personal Property	<u>1,308,338</u>
Total	<u><u>\$267,380,188</u></u>

The Lake County Treasurer collects property tax on behalf of all taxing districts within the County, including the City of Kirtland. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

B. Income Tax

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

C. Intergovernmental Receivable

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

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$248,055
Gasoline Tax	77,500
Gasoline Excise Tax	73,030
Homestead and Rollback	80,828
Motor Vehicle License Tax	28,880
Permissive Tax	34,221
Local Government Assistance	42,604
Local County Auditor - Senior Coalition Grant	4,327
Ohio Job and Family Services - 2004 Refund	656
Ohio BWC - 2005 Refund	1,188
Enforcement Fines	2,270
Estate Tax	9,689
Grants	46,157
Total Intergovernmental Receivables	<u><u>\$649,405</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 8 - Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$623,690	\$120,686	\$0	\$744,376
Construction in Progress	0	110,192	0	110,192
Total Capital Assets, Not Being Depreciated	<u>623,690</u>	<u>230,878</u>	<u>0</u>	<u>854,568</u>
<i>Capital Assets, being depreciated:</i>				
Buildings, Structures and Improvements	5,485,427	52,902	0	5,538,329
Machinery and Equipment	3,501,992	329,175	(226,614)	3,604,553
Infrastructure:				
Roads	28,942,366	504,227	0	29,446,593
Storm Sewer	<u>1,020,606</u>	<u>11,878</u>	<u>0</u>	<u>1,032,484</u>
<i>Total Capital Assets, being depreciated</i>	<u>38,950,391</u>	<u>898,182</u>	<u>(226,614)</u>	<u>39,621,959</u>
Less Accumulated Depreciation:				
Buildings, Structures and Improvements	(1,826,646)	(147,648)	0	(1,974,294)
Machinery and Equipment	(1,617,513)	(228,532)	220,330	(1,625,715)
Infrastructure:				
Roads	(15,780,743)	(715,253)	0	(16,495,996)
Storm Sewer	<u>(157,628)</u>	<u>(41,141)</u>	<u>0</u>	<u>(198,769)</u>
<i>Total Accumulated Depreciation</i>	<u>(19,382,530)</u>	<u>(1,132,574) *</u>	<u>220,330</u>	<u>(20,294,774)</u>
Total Capital Assets, being depreciated, Net	<u>19,567,861</u>	<u>(234,392)</u>	<u>(6,284)</u>	<u>19,327,185</u>
Governmental Activities Assets, Net	<u>\$20,191,551</u>	<u>(\$3,514)</u>	<u>(\$6,284)</u>	<u>\$20,181,753</u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Business-Type Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$114,840	\$0	\$0	\$114,840
Construction in Progress	466,389	4,844	(471,233)	0
Total Capital Assets, Not Being Depreciated	<u>581,229</u>	<u>4,844</u>	<u>(471,233)</u>	<u>114,840</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	471,233	0	920,547
<i>Total Capital Assets, being depreciated</i>	<u>645,473</u>	<u>471,233</u>	<u>0</u>	<u>1,116,706</u>
Less Accumulated Depreciation:				
Buildings, Structures and Improvements	(100,912)	(2,993)	0	(103,905)
Machinery and Equipment	(6,937)	(2,665)	0	(9,602)
Infrastructure:				
Sewer Lines	(314,539)	(8,987)	0	(323,526)
<i>Total Accumulated Depreciation</i>	<u>(422,388)</u>	<u>(14,645)</u>	<u>0</u>	<u>(437,033)</u>
Total Capital Assets, being depreciated, Net	<u>223,085</u>	<u>456,588</u>	<u>0</u>	<u>679,673</u>
Business-Type Activities Assets, Net	<u><u>\$804,314</u></u>	<u><u>\$461,432</u></u>	<u><u>(\$471,233)</u></u>	<u><u>\$794,513</u></u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$62,817
Security of Persons and Property	155,854
Transportation	860,248
Community Environment	2,796
Leisure Time Activities	50,859
Total	<u><u>\$1,132,574</u></u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 9 - Risk Management

A. Property and Liability

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2006, the City contracted with National Fire Insurance of Hartland and American Alternative Insurance for various types of insurance through Wichert Insurance Agency. The City also contracted with Clarendon National Insurance Company and Peerless Insurance for various types of insurance through Love Insurance Agency. The type, coverage, and deductibles for the City's insurance follows:

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

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

B. Workers' Compensation

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

Note 10 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 13.70 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$132,091, \$164,315 and \$158,699 respectively; 91.38 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$29 made by the City and \$19 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.50 percent for police officers and 24.00 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$64,577 and \$93,219 for the year ended December 31, 2006, \$65,271 and \$92,268 for the year ended December 31, 2005, and \$60,046 and \$92,917 for the year ended December 31, 2004, respectively. The full amount has been contributed for 2005 and 2004. 84.03 percent and 87.98 percent has been contributed for 2006.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 11 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The number of active contributing participants for both plans used in December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$219,906. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$42,594 for police and \$44,458 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

Note 12 – Other Employee Benefits

A. Compensated Absences

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

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

B. Health Insurance

The City provides hospitalization, medical, dental, vision and life insurance for all full time employees. QualChoice provided the hospitalization and medical insurance from January 1 through October 31, 2006. Effective November 1, 2006, Medical Mutual of Ohio became the provider for the hospitalization and medical insurance. Employees pay ten percent of the premium up to a maximum of \$100 per month effective January 2006. Aetna US Healthworks provides the dental insurance which is paid entirely by the City. Eye Care Plan of America provides vision insurance which is paid entirely by the City. The plan covers lenses, contacts and routine office exams. BMA provides life insurance and core accidental death insurance of \$20,000 which is paid entirely by the City. Employees are able to add extra insurance once a year for themselves, their spouse or children up to \$500,000 or five times their annual salary, whichever is less, paid by the employee through payroll deductions.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 13 – Capital Leases

Prior to 2006, the City entered into five capital leases for a skid steer, Compaq computers, two copiers, and a vehicle. During 2006, the City did not have any new capital leases. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases". Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program expenditures on a budgetary basis. The equipment contracted was capitalized in the amount of \$101,921, the present value of the minimum lease payments at the inception of the leases. Accumulated depreciation on the equipment was \$47,644, with a book value of \$54,277 as of December 31, 2006.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of minimum lease payments as of December 31, 2006:

Year Ending December 31,	Governmental Activities
2007	\$4,773
2008	3,640
2009	648
2010	432
Total Minimum Lease Payments	9,493
Less: Amount Representing Interest	(369)
Present Value of Minimum Lease Payments	\$9,124

Note 14 – Note Debt

A summary of note transactions for the year ended December 31, 2006 follows:

	Balance 12/31/05	Additions	Reductions	Balance 12/31/06
Governmental Activities				
2006, 4.10% Templeview Sewer	\$540,000	\$5,000	(\$540,000)	\$5,000
2006, 4.10% Major Capital Equipment	100,000	100,000	(100,000)	100,000
Total	\$640,000	\$105,000	(\$640,000)	\$105,000

All the notes are backed by the full faith and credit of the City of Kirtland and mature within one year. The maturity date for all outstanding notes is July 28, 2007. 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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

Note 15 - Long-Term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Enterprise General Obligation Bonds:</i>			
Waste Water Refunding - 1998	4.50-5.00 %	\$173,000	December 1, 2016
<i>General Obligation Bonds:</i>			
Fire Department and Civic Center - 1998	4.50-5.00	2,667,000	December 1, 2016
<i>Various Purpose Bonds - 2006:</i>			
	3.75-5.00		
State Route 306 Improvement		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
Templeview Sewer Project Bond - 2006	4.375	323,000	June 1, 2046
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 2005	0.00	50,000	July 1, 2026
Route 306 Widening Phase IV - 2006	0.00	50,000	Incomplete
Templeview Sewer - 2003	0.00	283,915	Incomplete
<i>Long-term Notes</i>			
Route 306 and 6 Intersection - 2006	4.10	400,000	July 28, 2007
Templeview Sewer	4.10	115,000	July 28, 2007
Major Capital Equipment	4.10	400,000	July 28, 2007

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

	Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006	Amounts Due in One Year
Business-Type Activities					
General Obligation Bonds					
Waste Water Refunding	\$111,510	\$0	(\$8,640)	\$102,870	\$9,180
Unamortized Loss on Refunding	(24,089)	0	2,409	(21,680)	0
<i>Total Business-Type Activities</i>	<u>\$87,421</u>	<u>\$0</u>	<u>(\$6,231)</u>	<u>\$81,190</u>	<u>\$9,180</u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

	Balance 12/31/05	Additions	Reductions	Balance 12/31/06	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
Fire Department and Civic Center 1998 Refunding Bonds	\$1,953,490	\$0	\$151,360	\$1,802,130	\$160,820
Various Purpose Bonds 2006:					
State Route 306 Improvement	0	1,055,000	0	1,055,000	34,202
Parks and Recreation	0	650,000	0	650,000	21,072
Service Facility	0	200,000	0	200,000	6,484
Senior Center	0	100,000	0	100,000	3,242
Unamortized Premium	0	72,326	3,616	68,710	0
Templeview Sewer Project Bond	0	323,000	0	323,000	2,900
Total General Obligation Bonds	1,953,490	2,400,326	154,976	4,198,840	228,720
OPWC Loan					
Route 306 Widening, Phase II	50,000	0	1,250	48,750	2,500
Route 306 Widening, Phase IV	0	50,000	0	50,000	2,500
Templeview Sewer	263,415	20,500	0	283,915	14,196
Total OPWC Loans	313,415	70,500	1,250	382,665	19,196
Long-term Notes					
Various Purpose Notes:					
State Route 306	1,075,000	0	1,075,000	0	0
Route 306 and Route 6 Intersection	0	400,000	0	400,000	0
Templeview Sewer	120,000	115,000	120,000	115,000	0
Major Capital Equipment	500,000	400,000	500,000	400,000	0
Communication Equipment	26,000	0	26,000	0	0
Total Long-Term Notes	1,721,000	915,000	1,721,000	915,000	0
Capital Lease Obligation	14,307	0	5,183	9,124	4,589
Compensated Absences	80,575	73,537	13,722	140,390	7,004
Total Governmental Activities	\$4,082,787	\$3,459,363	\$1,896,131	\$5,646,019	\$259,509

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

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

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

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

In 2003, the City received \$263,415 in Ohio Public Works Commission loans for the Templeview Sewer Project. A special assessment will be levied on the benefiting units upon completion of the project. In 2005, the City received a \$50,000 loan for the Route 306 Widening Phase II Project. In 2006, the City received a \$50,000 loan for the Route 306 Widening Phase IV Project and \$20,500 for the Templeview Sewer project. The Templeview Sewer and the Route 306 Widening Phase IV projects have not been completed; therefore, no amortization schedules have been established to determine annual payments or the final maturity.

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

The City's overall legal debt margin was \$22,578,415 with an unvoted debt margin of \$9,209,405 at December 31, 2006. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006 are as follows:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

	Governmental Activities			Business-Type Activities	
	General Obligation		OPWC	General Obligation	
	Bonds		Loan	Bonds	
	Principal	Interest	Principal	Principal	Interest
2007	\$228,720	\$195,314	\$2,500	\$9,180	\$5,013
2008	248,480	185,420	2,500	9,720	4,595
2009	239,220	174,585	2,500	9,180	4,148
2010	239,420	163,977	2,500	9,180	3,717
2011	248,980	153,243	2,500	9,720	3,281
2012-2016	1,440,110	578,316	12,500	55,890	8,653
2017-2021	551,100	315,361	12,500	0	0
2022-2026	707,200	163,356	11,250	0	0
2027-2031	39,900	50,265	0	0	0
2032-2036	49,600	39,901	0	0	0
2037-2041	61,500	27,043	0	0	0
2042-2046	75,900	11,124	0	0	0
Total	<u>\$4,130,130</u>	<u>\$2,057,905</u>	<u>\$48,750</u>	<u>\$102,870</u>	<u>\$29,407</u>

Note 16 – Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 118 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2006. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

Note 17 – Interfund Transfers

The general fund transferred \$345,402 to the general obligation bond retirement fund for debt payment requirements.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 18 - Contingencies

A. Grants

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

B. Litigation

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

Note 19 – Contractual Commitment

As of December 2006, the City had the following significant contractual commitment for the Senior Citizens building:

Contractor	Contract Amount	Amount Paid	Remaining Contract
Marous Brothers Construction	\$270,942	\$44,438	\$226,504

Note 20 – Subsequent Event

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

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

On July 28, 2008, the City retired \$915,000 in general obligation bond anticipation notes and issued \$1,810,000 in new notes with a maturity date of July 28, 2009 and an interest rate of 4.15 percent. The following table summarizes the activity.

<u>Note Issuance</u>	<u>Retired</u>	<u>Issued</u>
Templeview	\$115,000	\$110,000
Emergency Fire Equipment	400,000	300,000
State Route 306 and Route 6 Intersection	400,000	400,000
Various Purpose Note	0	1,000,000
<i>Total Notes</i>	<u>\$915,000</u>	<u>\$1,810,000</u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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Mary Taylor, CPA

Auditor of State

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

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, (the City) as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the City's management in a separate letter dated November 24, 2008.

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Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-003.

We did note a certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 24, 2008.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

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

Mary Taylor, CPA
Auditor of State

November 24, 2008

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

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

FINDING NUMBER 2007-001

NONCOMPLIANCE CITATION

EXPENDITURES PLUS ENCUMBRANCES IN EXCESS OF APPROPRIATIONS

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

<u>Fund/Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
2007			
General Fund			
Debt Service			
Principal Retirement	\$3,199	\$5,400	\$2,201
Senior Citizens/Recreation			
Leisure Time Activities			
Personal Services	47,051	50,342	3,291
Services and Supplies	62,270	68,590	6,320
Capital Outlay	56,480	60,430	3,950
Senior Citizens			
Leisure Time Activities			
Personal Services	14,708	27,514	12,806
Services and Supplies	7,387	13,818	6,431
State Route 615/Kirtland Chardon			
Transportation			
Capital Outlay	25,000	76,219	51,219

CITY OF KIRTLAND
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)

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

FINDING NUMBER 2007-001 (Continued)

NONCOMPLIANCE CITATION (Continued)

EXPENDITURES PLUS ENCUMBRANCES EXCEEDING APPROPRIATIONS (Continued)

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
2006			
General Fund			
Judicial			
Services and Supplies	23,731	32,686	8,955
Finance			
Services and Supplies	127,808	128,493	685
City Engineering			
Services and Supplies	31,845	36,653	4,808
Leisure Time Activities			
Capital Outlay	815	100,778	99,963
Debt Service			
Principal Retirement	0	1,250	1,250
Interest and Fiscal Charges	0	6,253	6,253
Senior Citizens			
Leisure Time Activities			
Personal Services	15,000	19,219	4,219
Services and Supplies	8,750	17,766	9,016
Major Capital Equipment			
General Government			
Services and Supplies	0	7	7
Templeview Sewer			
Transportation			
Capital Outlay	0	247,412	247,412
Debt Service			
Principal Retirement	0	540,000	540,000
Other Financing Sources (Uses)			
Current Refunding	0	120,000	120,000
Park Land Acquisition			
Capital Outlay	345,000	351,095	6,095

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

Officials' Response:

The City will monitor this better in the future.

CITY OF KIRTLAND
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)

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

FINDING NUMBER 2007-002

NONCOMPLIANCE CITATION

CERTIFICATION OF AVAILABILITY OF APPROPRIATIONS

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Twenty-two percent, \$11,790 out of \$52,513 amount tested or six out of 60 transactions test were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**CITY OF KIRTLAND
LAKE COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

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

FINDING NUMBER 2007-002

NONCOMPLIANCE CITATION (Continued)

CERTIFICATION OF AVAILABILITY OF APPROPRIATIONS (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the Finance Director certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) required to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response:

The City is in process of updating policies and procedures for certifications.

FINDING NUMBER 2007-003

NONCOMPLIANCE CITATION

Appropriations Exceeding Estimated Resources

Ohio Revised Code Section 5705.39 provides the total appropriations made during the fiscal year for any fund must not exceed the amount included in the certificate of estimated resources. Ohio Revised Code 5705.36(A)(5) provides the amended certificate of estimated resources certified prior to making the appropriation from each fund, should not exceed the total estimated revenue. The following funds had original appropriations in excess of original estimated resources. Some of the funds were corrected at year end.

	<u>Original Certifications</u>	<u>Original Appropriations</u>	<u>Variance</u>
2007			
General Fund	\$ 5,396,784	\$ 5,398,530	\$ 1,746
Senior Citizens	184,128	207,060	22,932
State Route 306 Intersection	346,245	1,141,500	795,255
2006			
Senior Citizens	203,015	223,750	20,735
SCM&R	285,537	305,000	19,463
Major Capital Equipment	218,437	220,000	1,563
State Route 306 Intersection	0	400,000	400,000
Public Land Acquisition	0	345,000	345,000

**CITY OF KIRTLAND
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

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

FINDING NUMBER 2007-003

NONCOMPLIANCE CITATION (Continued)

Also, the City had final appropriations in excess of final estimated resources in the following funds:

	Final Certifications	Final Appropriations	Variance
2007			
General Fund	\$ 5,864,954	\$ 6,008,722	\$ 143,768
Senior Citizens	184,128	222,510	38,382
2006			
Major Capital Equipment	218,437	220,000	1,563
State Route 306 Intersection	0	400,000	400,000
Public Land Acquisition	0	345,000	345,000

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

Officials' Response:

The city will correct this in the future.

CITY OF KIRTLAND
LAKE COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	ORC 5705.41(B) Expenditures Exceeding Appropriations	Not Corrected	Reissued as 2007-001
2005-002	Approval of Timecards	Yes	



Mary Taylor, CPA
Auditor of State

CITY OF KIRTLAND

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 6, 2009**