



Dave Yost • Auditor of State



**CITY OF KIRTLAND  
LAKE COUNTY**

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**CITY OF KIRTLAND  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Kirtland, Lake County, Ohio, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Fire Emergency Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

August 31, 2016

**City of Kirtland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

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The discussion and analysis of the City of Kirtland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2014. 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 2014 are:

- In 2014, the City passed a new levy for the City's roads that is estimated to generate an additional \$460,000 in property tax revenue in 2015.
- Total governmental program expenses decreased slightly as the City continues to provide the services our residents expect while carefully monitoring costs.
- During 2014, the City issued \$1,415,000 in general obligation notes which was used to retire the 2013 \$1,180,000 in general obligation notes and for the purchase of new equipment.

### **Using This Annual Basic Financial Statement Report (BFS)**

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

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

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

#### **Statement of Net Position and Statement of Activities**

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2014?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all (non-fiduciary) assets and deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

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

## **Reporting the City of Kirtland's Most Significant Funds**

### ***Fund Financial Statements***

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

### ***Government Funds***

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

### ***Proprietary Funds***

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

### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.



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

The *Statement of Net Position* looks at the City as a whole. Table 1 provides a summary of the City's net position for 2014 compared to 2013.

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

	Governmental Activities		Business-Type Activity		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$4,460,002	\$4,264,876	\$351,952	\$519,003	\$4,811,954	\$4,783,879
Capital Assets, Net	15,460,167	16,476,220	2,476,925	2,499,845	17,937,092	18,976,065
<i>Total Assets</i>	<u>19,920,169</u>	<u>20,741,096</u>	<u>2,828,877</u>	<u>3,018,848</u>	<u>22,749,046</u>	<u>23,759,944</u>
Current and Other Liabilities	700,123	1,726,013	10,948	10,397	711,071	1,736,410
Long-Term Liabilities:						
Due Within One Year	354,657	315,727	18,596	18,396	373,253	334,123
Due In More Than One Year	3,104,221	2,224,503	445,953	464,549	3,550,174	2,689,052
<i>Total Liabilities</i>	<u>4,159,001</u>	<u>4,266,243</u>	<u>475,497</u>	<u>493,342</u>	<u>4,634,498</u>	<u>4,759,585</u>
Deferred Inflows of Resources	1,884,570	1,482,565	0	0	1,884,570	1,482,565
Net Investment in Capital Assets	12,169,295	13,378,772	2,012,376	2,016,900	14,181,671	15,395,672
Restricted:						
Capital Projects	418,457	0	0	0	418,457	0
Fire	97,106	86,826	0	0	97,106	86,826
Street Construction,						
Maintenance and Repair	182,460	187,717	0	0	182,460	187,717
Senior Citizens	152,788	171,695	0	0	152,788	171,695
Other Purposes	236,008	99,423	0	0	236,008	99,423
Unrestricted	620,484	1,067,855	341,004	508,606	961,488	1,576,461
<i>Total Net Position</i>	<u>\$13,876,598</u>	<u>\$14,992,288</u>	<u>\$2,353,380</u>	<u>\$2,525,506</u>	<u>\$16,229,978</u>	<u>\$17,517,794</u>

Net position may serve as a useful indicator of a government's financial position over time. In the case of the City of Kirtland, assets exceeded liabilities and deferred inflows of resources by \$13,876,598 at year-end. By far the largest portion of the City's net position is its investment in capital assets including land, buildings, machinery and equipment, roads, storm sewer lines, and sewer lines net of related debt. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Kirtland's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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Table 2 shows the changes in net position for the years ended December 31, 2014, as compared to 2013.

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

	Governmental Activities		Business-Type Activity		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$568,349	\$671,046	\$156,858	\$130,531	\$725,207	\$801,577
Operating Grants and Contributions	675,473	637,393	0	0	675,473	637,393
Capital Grants	282,896	340,452	0	114,416	282,896	454,868
<b>Total Program Revenues</b>	<b>1,526,718</b>	<b>1,648,891</b>	<b>156,858</b>	<b>244,947</b>	<b>1,683,576</b>	<b>1,893,838</b>
<b>General Revenues</b>						
Property Taxes	1,536,195	1,524,863	0	0	1,536,195	1,524,863
Municipal Income Taxes	3,070,145	3,280,170	0	0	3,070,145	3,280,170
Grants and Entitlements	266,575	474,935	0	0	266,575	474,935
Investment Earnings	117	137	0	0	117	137
Gain on Sale of Capital Assets	212	4,656	0	0	212	4,656
Miscellaneous	132,470	68,893	103,913	0	236,383	68,893
<b>Total General Revenues</b>	<b>5,005,714</b>	<b>5,353,654</b>	<b>103,913</b>	<b>0</b>	<b>5,109,627</b>	<b>5,353,654</b>
<b>Total Revenues</b>	<b>6,532,432</b>	<b>7,002,545</b>	<b>260,771</b>	<b>244,947</b>	<b>6,793,203</b>	<b>7,247,492</b>
<b>Program Expenses</b>						
General Government	1,990,957	1,959,802	0	0	1,990,957	1,959,802
Security of Persons and Property	2,602,307	2,811,912	0	0	2,602,307	2,811,912
Transportation	2,420,209	2,323,359	0	0	2,420,209	2,323,359
Public Health and Welfare	0	68,785	0	0	0	68,785
Community Environment	79,296	62,917	0	0	79,296	62,917
Leisure Time Activities	462,552	374,278	0	0	462,552	374,278
Interest and Fiscal Charges	92,801	99,423	0	0	92,801	99,423
Waste Water	0	0	432,897	210,528	432,897	210,528
<b>Total Program Expenses</b>	<b>7,648,122</b>	<b>7,700,476</b>	<b>432,897</b>	<b>210,528</b>	<b>8,081,019</b>	<b>7,911,004</b>
<i>Change in Net Position</i>	<i>(1,115,690)</i>	<i>(697,931)</i>	<i>(172,126)</i>	<i>34,419</i>	<i>(1,287,816)</i>	<i>(663,512)</i>
<b>Net Position</b>						
Beginning of Year	14,992,288	15,690,219	2,525,506	2,491,087	17,517,794	18,181,306
<b>Net Position End of Year</b>	<b>\$13,876,598</b>	<b>\$14,992,288</b>	<b>\$2,353,380</b>	<b>\$2,525,506</b>	<b>\$16,229,978</b>	<b>\$17,517,794</b>

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

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Security of persons and property include the police and fire departments, accounted for program expenses of \$2,602,307 which is 34.03 percent of total expenses. Our police and fire departments continue to improve their equipment to better serve our community and at the same time provide extra safety for our officers. We continue to strive to provide better police and fire service at a lower cost per man-hour. The City has been recognized as one of the safest cities in Northeast Ohio by Cleveland Magazine for two years in a row.

***Governmental Activities***

Several revenue sources fund the City's governmental activities with City income tax being the largest contribution. The income tax rate of 1 percent was established by City Ordinance No. 71-0-11, passed December 20, 1971. On November 6, 2001, the electors approved an increase in the income tax rate to 2 percent from 1 percent and a change in the tax credit for residents having income taxable in another community. In 2014, the revenue collected from income taxes was designated for the City's general fund. General revenues from property taxes and charges for services are also significant revenue generators. The City monitors its sources of revenues very closely for any changes or fluctuations.

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

Total revenues for governmental activities decreased in 2014 due to a decrease in FEMA grant money from 2013 and lower income tax collections. Revenue consists primarily of property taxes, income taxes and intergovernmental revenues received through operating and capital grants or contributions as well as unrestricted grants and entitlements. The remaining revenues represent charges for services, interest and miscellaneous receipts. Charges for services include non-resident ambulance billing, cemetery fees and recreation fees.

Total governmental activities program expenses decreased slightly in 2014 compared to 2013 due to the concerted efforts of the city to keep expenses low. This decrease was offset by the City's concerted effort to keep expenses low while still providing the services the residents have come to expect. General government, security of persons and property and transportation expenses are the three main sources of expenses. These activities include police protection, fire protection, road maintenance, planning/zoning, mayoral office and finance office.

Table 3 presents a summary for governmental activities of the total cost of services and the net cost of providing these services. The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

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

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
General Government	\$1,990,957	\$1,959,802	(\$1,821,667)	(\$1,784,678)
Security of Persons and Property	2,602,307	2,811,912	(2,160,644)	(2,169,279)
Transportation	2,420,209	2,323,359	(1,637,199)	(1,624,956)
Public Health and Welfare	0	68,785	0	(62,407)
Community Environment	79,296	62,917	(72,618)	(56,432)
Leisure Time Activities	462,552	374,278	(336,475)	(254,410)
Interest and Fiscal Charges	92,801	99,423	(92,801)	(99,423)
<i>Total</i>	<u>\$7,648,122</u>	<u>\$7,700,476</u>	<u>(\$6,121,404)</u>	<u>(\$6,051,585)</u>

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

Security of persons and property expenses account for approximately 34 percent of total 2014 expenses. A significant portion of these expenses can be attributed to salaries, wages and employee benefits. As of December 31, 2014, the City employed 14 full time police officers and 10 full time firefighters. Other significant expenses include transportation expenses which make up approximately 31.64 percent of total expenses. The majority of transportation expenses include salaries, benefits and infrastructure depreciation.

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

***BUSINESS-TYPE ACTIVITIES***

The charges for services from waste water utility services along with miscellaneous revenues received were insufficient to cover the total expenses in 2014. Currently, the City operates three waste water treatment plants and the underground lines in a fourth service area known as Templeview, which are combined for reporting purposes. Services include monitoring and testing the discharge. The City closely monitors the cost of these services and will adjust the operating and/or capital improvement charges to pay for future development and related costs, as needed.

**The City's Funds**

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

The City's major governmental funds are the general fund, the fire emergency levy and road levy special revenue funds and the State Route 306 and State Route 6 capital projects fund. The decrease in general fund revenues was mainly due to decreases in income tax collections despite the City aggressively collecting delinquencies. The decrease is also due to the decreases in intergovernmental revenue as well as rentals.

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The general fund had an increase in fund balance due the issuance of general obligation notes. The fire emergency levy special revenue fund increased slightly due to careful monitoring of expenditures. The road levy special revenue fund was established in 2014 and had no fund balance at year end. The State Route 306 and State Route 6 capital projects fund had a significant increase in fund balance due to the issuance of general obligation notes.

***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 2014, the City amended its general fund budget from the original certified revenues. All capital projects and requests for capital type purchases in excess of \$25,000 must be reviewed and approved individually by the Mayor, after which they are sent to the formal Council meeting for ordinance enactment on the purchase. The legal level of budgetary control has been established by Council at the personal services, contractual services/supplies and capital outlay object levels for each function for all funds. The Finance Director, with approval from the Mayor or City Council, has been authorized to allocate appropriations to more detailed function and object levels within each fund.

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

**Capital Assets and Debt Administration**

***Capital Assets***

Table 4 shows 2014 balances of capital assets as compared to 2013.

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

	Governmental Activities		Business-Type Activity		Total	
	2014	2013	2014	2013	2014	2013
Land	\$1,364,602	\$1,364,602	\$124,417	\$124,417	\$1,489,019	\$1,489,019
Buildings, Structures and Improvements	3,029,685	3,123,893	27,829	24,796	3,057,514	3,148,689
Machinery and Equipment	1,249,974	1,516,857	16,105	18,243	1,266,079	1,535,100
Infrastructure						
Roads	9,014,462	9,805,004	0	0	9,014,462	9,805,004
Storm Sewers	801,444	665,864	0	0	801,444	665,864
Sewer Lines	0	0	2,308,574	2,332,389	2,308,574	2,332,389
<b>Total Capital Assets</b>	<b>\$15,460,167</b>	<b>\$16,476,220</b>	<b>\$2,476,925</b>	<b>\$2,499,845</b>	<b>\$17,937,092</b>	<b>\$18,976,065</b>

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

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

City Council is committed along with the Administration to maintain its capital assets at a condition acceptable to provide the best possible service for all residents. The City continues to monitor the requirements of its public buildings and lands. Currently the existing buildings and land are adequate to provide for the current services being offered.

See Note 9 for additional information on the City's capital assets.

***Debt***

Table 5 summarizes bonds, loans and notes outstanding.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities		Business-Type Activity		Total	
	2014	2013	2014	2013	2014	2013
General Obligation						
Bonds	\$1,868,779	\$2,177,398	\$294,200	\$298,400	\$2,162,979	\$2,475,798
OPWC Loans	118,892	75,986	170,349	184,545	289,241	260,531
General Obligation Notes	1,415,000	1,180,000	0	0	1,415,000	1,180,000
Totals	<u>\$3,402,671</u>	<u>\$3,433,384</u>	<u>\$464,549</u>	<u>\$482,945</u>	<u>\$3,867,220</u>	<u>\$3,916,329</u>

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

In 2014, the City issued \$1,415,000 in general obligation notes which were used to retire the 2013 \$1,180,000 in general obligation notes and for the purchase of a service truck, a computer system upgrade and for phase two of the Lakeland turn lanes project. See Notes 16 and 17 for additional information on the City's outstanding debt obligations.

***Current Financial Related Activities***

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

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*Unaudited*

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

The City also took pride in being ranked the third safest city, out of seventy-seven cities in Northeast Ohio. The ranking was featured in the June 2012 edition of Cleveland Magazine. The City ranked in the top fifteen cities for safety, median home sale price and ten year median home sale price increases. These statistics illustrate the commitment of our safety forces, engineering department, public works department and our residents to work together to maintain a community where people are proud to live and work.

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

**Contacting the City's Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information contact Director of Finance, Keith Martinet, City of Kirtland, 9301 Chillicothe Road, Kirtland, Ohio 44094, telephone 440-256-3332, or at the website at [www.kirtlandohio.com](http://www.kirtlandohio.com).

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**City of Kirtland, Ohio***Statement of Net Position**December 31, 2014*

	Governmental Activities	Business-Type Activity	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,114,613	\$351,952	\$1,466,565
Materials and Supplies Inventory	59,675	0	59,675
Accounts Receivable	36,342	0	36,342
Intergovernmental Receivable	478,087	0	478,087
Municipal Income Taxes Receivable	838,453	0	838,453
Property Taxes Receivable	1,932,832	0	1,932,832
Non-Depreciable Capital Assets	1,364,602	124,417	1,489,019
Depreciable Capital Assets, Net	14,095,565	2,352,508	16,448,073
<i>Total Assets</i>	<u>19,920,169</u>	<u>2,828,877</u>	<u>22,749,046</u>
<b>Liabilities</b>			
Accounts Payable	28,131	1,272	29,403
Accrued Wages and Benefits	223,442	915	224,357
Vacation Benefits Payable	90,087	0	90,087
Intergovernmental Payable	140,082	1,253	141,335
Accrued Interest Payable	13,381	7,508	20,889
Notes Payable	205,000	0	205,000
Long-Term Liabilities:			
Due Within One Year	354,657	18,596	373,253
Due In More Than One Year	3,104,221	445,953	3,550,174
<i>Total Liabilities</i>	<u>4,159,001</u>	<u>475,497</u>	<u>4,634,498</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	1,884,570	0	1,884,570
<b>Net Position</b>			
Net Investment in Capital Assets	12,169,295	2,012,376	14,181,671
Restricted for:			
Capital Projects	418,457	0	418,457
Fire	97,106	0	97,106
Street Construction, Maintenance and Repair	182,460	0	182,460
Senior Citizens	152,788	0	152,788
Other Purposes	236,008	0	236,008
Unrestricted	620,484	341,004	961,488
<i>Total Net Position</i>	<u>\$13,876,598</u>	<u>\$2,353,380</u>	<u>\$16,229,978</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2014

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
<b>Governmental Activities</b>				
General Government	\$1,990,957	\$169,290	\$0	\$0
Security of Persons and Property	2,602,307	289,891	135,052	16,720
Transportation	2,420,209	86,393	430,441	266,176
Community Environment	79,296	6,678	0	0
Leisure Time Activities	462,552	16,097	109,980	0
Interest and Fiscal Charges	92,801	0	0	0
<i>Total Governmental Activities</i>	7,648,122	568,349	675,473	282,896
<b>Business-Type Activity</b>				
Waste Water	432,897	156,858	0	0
<i>Total</i>	<u>\$8,081,019</u>	<u>\$725,207</u>	<u>\$675,473</u>	<u>\$282,896</u>

**General Revenues**

Property Taxes Levied for:  
General Purposes  
Fire Operating  
Police Operating  
Police Pension  
Senior Citizen Recreation  
Municipal Income Taxes  
Levied for General Purposes  
Grants and Entitlements  
not Restricted to Specific Programs  
Investment Earnings  
Gain on the Sale of Capital Assets  
Miscellaneous

*Total General Revenues*

*Change in Net Position*

*Net Position Beginning of Year*

*Net Position End of Year*

See accompanying notes to the basic financial statements

Net Revenue (Expense) and  
Changes in Net Position

Governmental Activities	Business-Type Activity	Total
(\$1,821,667)	\$0	(\$1,821,667)
(2,160,644)	0	(2,160,644)
(1,637,199)	0	(1,637,199)
(72,618)	0	(72,618)
(336,475)	0	(336,475)
(92,801)	0	(92,801)
(6,121,404)	0	(6,121,404)
0	(276,039)	(276,039)
(6,121,404)	(276,039)	(6,397,443)
555,132	0	555,132
693,489	0	693,489
99,286	0	99,286
61,657	0	61,657
126,631	0	126,631
3,070,145	0	3,070,145
266,575	0	266,575
117	0	117
212	0	212
132,470	103,913	236,383
5,005,714	103,913	5,109,627
(1,115,690)	(172,126)	(1,287,816)
14,992,288	2,525,506	17,517,794
<u>\$13,876,598</u>	<u>\$2,353,380</u>	<u>\$16,229,978</u>

**City of Kirtland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2014*

	<u>General</u>	<u>Fire Emergency Levy</u>	<u>Road Levy</u>	<u>State Route 306 and State Route 6</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Equity in Pooled Cash and						
Cash Equivalents	\$380,854	\$33,058	\$0	\$346,854	\$353,847	\$1,114,613
Materials and Supplies Inventory	59,675	0	0	0	0	59,675
Accounts Receivable	23,670	0	0	0	12,672	36,342
Interfund Receivable	6,398	0	0	0	0	6,398
Intergovernmental Receivable	158,618	45,963	29,950	0	243,556	478,087
Municipal Income Taxes Receivable	838,453	0	0	0	0	838,453
Property Taxes Receivable	553,179	573,593	400,172	0	405,888	1,932,832
<i>Total Assets</i>	<u>\$2,020,847</u>	<u>\$652,614</u>	<u>\$430,122</u>	<u>\$346,854</u>	<u>\$1,015,963</u>	<u>\$4,466,400</u>
<b>Liabilities</b>						
Accounts Payable	\$25,612	\$0	\$0	\$0	\$2,519	\$28,131
Accrued Wages and Benefits	223,442	0	0	0	0	223,442
Interfund Payable	0	0	0	0	6,398	6,398
Intergovernmental Payable	139,876	0	0	0	206	140,082
Accrued Interest Payable	225	0	0	725	75	1,025
Notes Payable	45,000	0	0	145,000	15,000	205,000
<i>Total Liabilities</i>	<u>434,155</u>	<u>0</u>	<u>0</u>	<u>145,725</u>	<u>24,198</u>	<u>604,078</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	535,734	555,508	400,172	0	393,156	1,884,570
Unavailable Revenue	794,692	64,048	29,950	0	211,211	1,099,901
<i>Total Deferred Inflows of Resources</i>	<u>1,330,426</u>	<u>619,556</u>	<u>430,122</u>	<u>0</u>	<u>604,367</u>	<u>2,984,471</u>
<b>Fund Balances</b>						
Nonspendable	59,675	0	0	0	0	59,675
Restricted	0	33,058	0	201,129	398,821	633,008
Assigned	196,591	0	0	0	0	196,591
Unassigned (Deficit)	0	0	0	0	(11,423)	(11,423)
<i>Total Fund Balances</i>	<u>256,266</u>	<u>33,058</u>	<u>0</u>	<u>201,129</u>	<u>387,398</u>	<u>877,851</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$2,020,847</u>	<u>\$652,614</u>	<u>\$430,122</u>	<u>\$346,854</u>	<u>\$1,015,963</u>	<u>\$4,466,400</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2014*

<b>Total Governmental Fund Balances</b>	<b>\$877,851</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,460,167
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	48,262
Intergovernmental	410,822
Municipal Income Taxes	617,574
Rentals	23,243
<b>Total</b>	<b>1,099,901</b>
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	(12,356)
Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(90,087)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds:	
General Obligation Bonds	(1,868,779)
OPWC Loans	(118,892)
General Obligation Notes	(1,210,000)
Compensated Absences	(261,207)
<b>Total</b>	<b>(3,458,878)</b>
 <i>Net Position of Governmental Activities</i>	 <b>\$13,876,598</b>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2014*

	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$556,156	\$576,560	\$0	\$405,935	\$1,538,651
Municipal Income Taxes	3,164,320	0	0	0	3,164,320
Charges for Services	170,897	0	0	163,135	334,032
Licenses and Permits	19,102	0	0	0	19,102
Fines and Forfeitures	28,684	0	0	753	29,437
Intergovernmental	275,232	91,925	7,323	818,411	1,192,891
Rentals	162,535	0	0	0	162,535
Interest	107	0	0	10	117
Miscellaneous	68,321	0	64,149	0	132,470
<i>Total Revenues</i>	<u>4,445,354</u>	<u>668,485</u>	<u>71,472</u>	<u>1,388,244</u>	<u>6,573,555</u>
<b>Expenditures</b>					
Current:					
General Government	1,932,782	0	0	0	1,932,782
Security of Persons and Property	1,510,910	660,000	0	310,000	2,480,910
Transportation	1,024,619	0	0	410,000	1,434,619
Community Environment	68,743	0	0	0	68,743
Leisure Time Activities	182,791	0	0	211,537	394,328
Capital Outlay	0	0	131,449	180,718	312,167
Debt Service:					
Principal Retirement	0	0	0	311,694	311,694
Interest and Fiscal Charges	2,875	0	4,371	83,753	90,999
<i>Total Expenditures</i>	<u>4,722,720</u>	<u>660,000</u>	<u>135,820</u>	<u>1,507,702</u>	<u>7,026,242</u>
<i>Revenues Over (Under) Expenditures</i>	<u>(277,366)</u>	<u>8,485</u>	<u>(64,348)</u>	<u>(119,458)</u>	<u>(452,687)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	3,000	0	0	0	3,000
OPWC Loans Issued	0	0	49,600	0	49,600
General Obligation Notes Issued	600,000	0	505,000	105,000	1,210,000
Transfers In	0	0	0	394,818	394,818
Transfers Out	(245,768)	0	0	(149,050)	(394,818)
<i>Total Other Financing Sources (Uses)</i>	<u>357,232</u>	<u>0</u>	<u>554,600</u>	<u>350,768</u>	<u>1,262,600</u>
<i>Net Change in Fund Balances</i>	79,866	8,485	490,252	231,310	809,913
<i>Fund Balances Beginning of Year</i>	<u>176,400</u>	<u>24,573</u>	<u>(289,123)</u>	<u>156,088</u>	<u>67,938</u>
<i>Fund Balances End of Year</i>	<u>\$256,266</u>	<u>\$33,058</u>	<u>\$201,129</u>	<u>\$387,398</u>	<u>\$877,851</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, 2014*

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**Net Change in Fund Balances - Total Governmental Funds** \$809,913

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities,  
the cost of those assets are allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	340,174	
Current Year Depreciation	(1,353,439)	
Total		(1,013,265)

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.

(2,788)

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

Delinquent Property Taxes	(2,456)	
Intergovernmental	32,053	
Municipal Income Taxes	(94,175)	
Rentals	23,243	
Total		(41,335)

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.

bonds are issued:

Accrued Interest	(5,421)	
Amortization of Bond Premium	3,619	
Total		(1,802)

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	25,639	
Vacation Benefits	55,854	
Total		81,493

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

311,694

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

OPWC Loans Issued	(49,600)	
General Obligation Notes Issued	(1,210,000)	
Total		(1,259,600)

*Change in Net Position of Governmental Activities*

(\$1,115,690)

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, 2014*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues</b>				
Property Taxes	\$579,876	\$592,061	\$556,156	(\$35,905)
Municipal Income Taxes	3,304,695	3,374,136	3,169,513	(204,623)
Charges for Services	177,741	181,475	170,470	(11,005)
Licenses and Permits	21,870	22,329	20,975	(1,354)
Fines and Forfeitures	31,566	32,230	30,275	(1,955)
Intergovernmental	370,580	378,367	355,421	(22,946)
Rentals	200,460	204,672	192,260	(12,412)
Interest	112	114	107	(7)
Miscellaneous	72,103	73,619	69,154	(4,465)
<i>Total Revenues</i>	<u>4,759,003</u>	<u>4,859,003</u>	<u>4,564,331</u>	<u>(294,672)</u>
<b>Expenditures</b>				
Current:				
General Government	2,049,353	2,049,053	1,941,257	107,796
Security of Persons and Property	1,568,122	1,568,122	1,493,720	74,402
Transportation	1,220,688	1,320,688	1,215,636	105,052
Community Environment	69,133	69,433	68,470	963
Leisure Time Activities	189,538	189,538	183,875	5,663
<i>Total Expenditures</i>	<u>5,096,834</u>	<u>5,196,834</u>	<u>4,902,958</u>	<u>293,876</u>
<i>Revenues Over (Under) Expenditures</i>	<u>(337,831)</u>	<u>(337,831)</u>	<u>(338,627)</u>	<u>(796)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	3,000	3,000
Transfers In	275,000	275,000	445,000	170,000
Transfers Out	(401,500)	(401,500)	(397,259)	4,241
<i>Total Other Financing Sources (Uses)</i>	<u>(126,500)</u>	<u>(126,500)</u>	<u>50,741</u>	<u>177,241</u>
<i>Net Change in Fund Balance</i>	<u>(464,331)</u>	<u>(464,331)</u>	<u>(287,886)</u>	<u>176,445</u>
<i>Fund Balance Beginning of Year</i>	440,999	440,999	440,999	0
Prior Year Encumbrances Appropriated	31,919	31,919	31,919	0
<i>Fund Balance End of Year</i>	<u>\$8,587</u>	<u>\$8,587</u>	<u>\$185,032</u>	<u>\$176,445</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, 2014*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues</b>				
Property Taxes	\$551,625	\$551,625	\$576,560	\$24,935
Intergovernmental	87,949	87,949	91,925	3,976
<i>Total Revenues</i>	639,574	639,574	668,485	28,911
<b>Expenditures</b>				
Current:				
Security of Persons and Property	660,000	660,000	660,000	0
<i>Net Change in Fund Balance</i>	(20,426)	(20,426)	8,485	28,911
<i>Fund Balance Beginning of Year</i>	24,573	24,573	24,573	0
<i>Fund Balance End of Year</i>	<u>\$4,147</u>	<u>\$4,147</u>	<u>\$33,058</u>	<u>\$28,911</u>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Fund*  
*December 31, 2014*

	Waste Water
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$351,952
<i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	124,417
Depreciable Capital Assets, Net	2,352,508
<i>Total Noncurrent Assets</i>	2,476,925
<i>Total Assets</i>	2,828,877
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	1,272
Accrued Wages and Benefits	915
Intergovernmental Payable	1,253
Accrued Interest Payable	7,508
Bonds Payable	4,400
OPWC Loans Payable	14,196
<i>Total Current Liabilities</i>	29,544
<i>Long-Term Liabilities (net of current portion)</i>	
Bonds Payable	289,800
OPWC Loans Payable	156,153
<i>Total Long-Term Liabilities</i>	445,953
<i>Total Liabilities</i>	475,497
<b>Net Position</b>	
Net Investment in Capital Assets	2,012,376
Unrestricted	341,004
<i>Total Net Position</i>	\$2,353,380

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Revenues, Expenses  
and Changes in Fund Net Position  
Enterprise Fund  
For the Year Ended December 31, 2014*

	Waste Water
<b>Operating Revenues</b>	
Charges for Services	\$156,858
Miscellaneous	103,913
<i>Total Operating Revenues</i>	260,771
<b>Operating Expenses</b>	
Personal Services	17,742
Services and Supplies	339,621
Depreciation	62,586
<i>Total Operating Expenses</i>	419,949
<i>Operating Loss</i>	(159,178)
<b>Non Operating Expenses</b>	
Interest and Fiscal Charges	(12,948)
<i>Change in Net Position</i>	(172,126)
<i>Net Position Beginning of Year</i>	2,525,506
<i>Net Position End of Year</i>	\$2,353,380

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Cash Flows*  
*Enterprise Fund*  
For the Year Ended December 31, 2014

	Waste Water
<b>Increases (Decreases) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers	\$156,858
Cash Received from Other Sources	103,913
Cash Payments to Suppliers for Services and Supplies	(338,396)
Cash Payments for Employee Services and Benefits	(18,309)
	(95,934)
<i>Net Cash Used for Operating Activities</i>	<i>(95,934)</i>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	(39,666)
Grants	114,416
Principal Paid on Bonds	(4,200)
Interest Paid on Bonds	(13,055)
Principal Paid on OPWC Loans	(14,196)
	43,299
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<i>43,299</i>
Net Decrease in Cash and Cash Equivalents	(52,635)
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>404,587</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$351,952</i>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$159,178)
<i>Adjustments:</i>	
Depreciation	62,586
Increase (Decrease) in Liabilities:	
Accounts Payable	625
Accrued Wages and Benefits	140
Intergovernmental Payable	(107)
	63,244
<i>Total Adjustments</i>	<i>63,244</i>
<i>Net Cash Used for Operating Activities</i>	<i>(\$95,934)</i>

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*December 31, 2014*

	Private Purpose Trust	
	Cemetery	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$2,386	\$340,845
<b>Liabilities</b>		
Deposits Held and Due to Others	0	\$340,845
<b>Net Position</b>		
Held in Trust for Perpetual Care	\$2,386	

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Year Ended December 31, 2014*

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

See accompanying notes to the basic financial statements

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

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

***Description of the City***

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

***Reporting Entity***

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

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

The City participates in one jointly governed organization, the Northeast Ohio Public Energy Council. This organization is presented in Note 18 of the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

***Basis of Presentation***

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

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

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

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

**Fund Accounting**

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

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

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

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

**Road Levy Fund** This fund accounts for and reports property tax revenues restricted for the maintenance and repairs of City streets.

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



**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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The other governmental funds of the City account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

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

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

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

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

**Measurement Focus**

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

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

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

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

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

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 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 Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, rentals and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

***Budgetary Process***

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

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

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

***Cash and Cash Equivalents***

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

The City of Kirtland has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2014. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at December 31, 2014.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2014 amounted to \$107, which includes \$82 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**  
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***Inventory***

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

***Capital Assets***

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

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

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

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

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

***Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund balance amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

***Compensated Absences***

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

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

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

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

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

***Net Position***

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

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

***Fund Balance***

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

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

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

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

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

***Assigned:*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State statute.

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

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

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

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

### ***Internal Activity***

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

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

***Bond Premium***

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

***Estimates***

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

**Note 3 – Accountability and Compliance**

***Accountability***

The Sperry Road special revenue fund had a deficit fund balance of \$6,398 as of December 31, 2014. The fund's deficit resulted because the City expended funds prior to the receipt of grant monies.

The Tibbetts Road resurfacing capital projects fund has a deficit fund balance of \$5,025 as of December 31, 2014. The fund's deficit was the result of the issuance of short-term notes. The fund's deficit will be eliminated once the notes or bonds are issued.

The general fund is liable for any deficits in these funds and provides transfers when cash is required, rather than when accruals occur.

***Compliance***

The City had a negative cash balance in the Sperry Road fund in the amount of \$6,398. This indicates that revenue from other sources was used to pay obligations of this fund contrary to Ohio Revised Code Section 5705.10(I). Although this cash deficit was not corrected by year end, management has indicated that cash will be closely monitored to prevent future violations.

**City of Kirtland, Ohio**  
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**Note 4 – Fund Balances**

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

Fund Balances	General	Fire Emergency Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable:</u>					
Inventory	\$59,675	\$0	\$0	\$0	\$59,675
<u>Restricted for:</u>					
Police Department Operations	0	0	0	24,619	24,619
Fire Department Operations	0	33,058	0	1,520	34,578
Senior Citizens	0	0	0	182,971	182,971
Street and Highway Construction, Maintenance and Repair	0	0	0	36,820	36,820
Capital Projects	0	0	201,129	72,272	273,401
Other Purposes	0	0	0	80,619	80,619
<i>Total Restricted</i>	<u>0</u>	<u>33,058</u>	<u>201,129</u>	<u>398,821</u>	<u>633,008</u>
<u>Assigned to:</u>					
Year 2015 Appropriations	196,591	0	0	0	196,591
Unassigned (Deficit)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(11,423)</u>	<u>(11,423)</u>
Total Fund Balances (Deficit)	<u>\$256,266</u>	<u>\$33,058</u>	<u>\$201,129</u>	<u>\$387,398</u>	<u>\$877,851</u>

**Note 5 - Budgetary Basis of Accounting**

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

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



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

	Net Change in Fund Balances	
	General	Fire Emergency Levy
GAAP Basis	\$79,866	\$8,485
Net Adjustment for Revenue Accruals	(36,023)	0
Net Adjustment for Expenditure Accruals	(129,509)	0
Encumbrances	(202,220)	0
Budget Basis	(\$287,886)	\$8,485

**Note 6 - Deposits and Investments**

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

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5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

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

The City has passed an ordinance allowing the City to invest monies not required to be used for a period of six months or more in the following:

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

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$1,245,837 of the City's bank balance of \$1,495,837 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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, 2014, the City's only investment was in STAR Ohio with a fair value of \$325,161 and an average maturity of 50.1 days.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

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**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** Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carries a rating of AAm by Standards & Poor's. The City has no investment policy that addresses credit risk.

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

**Note 7 – Receivables**

Receivables at December 31, 2014, consisted primarily of property taxes, municipal income taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

**Property Taxes**

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2014 for real and public utility property taxes represents collections of 2013 taxes.

2014 real property taxes were levied after October 1, 2014, on the assessed value as of January 1, 2014, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2014 real property taxes are collected in and intended to finance 2015.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2014 public utility property taxes which became a lien December 31, 2013, are levied after October 1, 2014, and are collected in 2015 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2014, was \$11.05 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2014 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$216,181,970
Other Real Estate	12,773,730
Public Utility Personal Property	8,980,870
Total Valuation	<u><u>\$237,936,570</u></u>

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2014, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2014 operations is offset to deferred inflows of resources – property taxes. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***Income Taxes***

In November of 2001, the City approved an income tax increase from one to two percent beginning January 1, 2002 on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed 1.75 percent of taxable income.

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

***Intergovernmental Receivable***

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

Governmental Activities	Amount
Homestead and Rollback	\$149,550
Local Government	111,752
Gasoline Excise Tax	92,339
Gasoline Tax	47,305
Motor Vehicle License Tax	28,358
Permissive Tax	28,355
State of Ohio	17,858
Other	2,570
Total Intergovernmental Receivables	\$478,087

**Note 8 – Interfund Transactions**

***Interfund Transfers***

The general fund and the major capital equipment special revenue fund transferred \$245,768 and \$149,050, respectively, to the general obligation bond retirement fund for debt payment requirements.

***Interfund Balances***

At December 31, 2014, the general fund had an interfund receivable of \$6,398 and the Sperry road capital projects fund had an interfund payable of \$6,398. This loan was made to support the Sperry Road capital projects fund pending the receipt of grant money that will be used to repay the loans. This loan is expected to be repaid in one year.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2014

**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance 1/1/2014	Additions	Deductions	Balance 12/31/2014
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,364,602	\$0	\$0	\$1,364,602
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	6,162,601	72,335	0	6,234,936
Machinery and Equipment	4,318,506	24,729	(40,709)	4,302,526
Infrastructure:				
Roads	31,643,548	66,231	0	31,709,779
Storm Sewer	1,153,728	176,879	0	1,330,607
<i>Total Capital Assets, being depreciated</i>	<u>43,278,383</u>	<u>340,174</u>	<u>(40,709)</u>	<u>43,577,848</u>
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(3,038,708)	(166,543)	0	(3,205,251)
Machinery and Equipment	(2,801,649)	(288,824)	37,921	(3,052,552)
Infrastructure:				
Roads	(21,838,544)	(856,773)	0	(22,695,317)
Storm Sewer	(487,864)	(41,299)	0	(529,163)
<i>Total Accumulated Depreciation</i>	<u>(28,166,765)</u>	<u>(1,353,439)</u>	<u>37,921</u>	<u>(29,482,283)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>15,111,618</u>	<u>(1,013,265)</u>	<u>(2,788)</u>	<u>14,095,565</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$16,476,220</u>	<u>(\$1,013,265)</u>	<u>(\$2,788)</u>	<u>\$15,460,167</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$59,943
Security of Persons and Property	182,977
Transportation	1,039,471
Community Environment	2,714
Leisure Time Activities	68,334
<b>Total</b>	<u>\$1,353,439</u>

**City of Kirtland, Ohio**  
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	Balance 1/1/2014	Additions	Deductions	Balance 12/31/2014
<b>Business-Type Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$124,417	\$0	\$0	\$124,417
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	149,654	6,129	0	155,783
Machinery and Equipment	46,505	0	0	46,505
Infrastructure:				
Sewer Lines	2,765,134	33,537	0	2,798,671
<i>Total Capital Assets, being depreciated</i>	2,961,293	39,666	0	3,000,959
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(124,858)	(3,096)	0	(127,954)
Machinery and Equipment	(28,262)	(2,138)	0	(30,400)
Infrastructure:				
Sewer Lines	(432,745)	(57,352)	0	(490,097)
<i>Total Accumulated Depreciation</i>	(585,865)	(62,586)	0	(648,451)
<i>Total Capital Assets being depreciated, Net</i>	2,375,428	(22,920)	0	2,352,508
<i>Business-Type Activities Capital Assets, Net</i>	\$2,499,845	(\$22,920)	\$0	\$2,476,925

**Note 10 - Contingencies**

**Grants**

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

**Litigation**

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

**Note 11 - Risk Management**

***Workers' Compensation***

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

***Property and Liability***

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2014, the City contracted with various insurance agencies for various types of insurance. 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	\$11,581,409	\$1,000
Earthquake and Flood	500,000	25,000
Boiler Machinery and Machinery	11,354,322	1,000
Inland Marine	874,315	1,000
Commercial General Liability	1,000,000	0
Umbrella Liability	4,000,000	0
Commercial Automotive	1,000,000	500
Uninsured Motorists	25,000	0
Love Insurance Agency:		
Law Enforcement	1,000,000	5,000
Public Officials	1,000,000	5,000
Employment Practices	1,000,000	5,000
Finance Director	100,000	0
City Clerks	100,000	0

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

**Note 12 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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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 visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2014, members in state and local classifications contributed 10 percent of covered payroll. For 2014, member and employer contribution rates were consistent across all three plans.

The City's 2014 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2014, 2013, and 2012 was \$191,054, \$209,372, and \$160,276, respectively. For 2014, 95.84 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012. There were no contributions to the Member-Directed plan for 2014 by the City or by the plan members.

***Ohio Police and Fire Pension Fund***

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan. OPF provides retirement and disability pension 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. OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report that may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2014, through July 1, 2014, plan members were required to contribute 10.75 percent of their annual covered salary. From July 2, 2014, through December 31, 2014, plan members were required to contribute 11.5 percent of their annual covered salary. Throughout 2014, employers were required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2014, the portion of the City's contribution used to fund pension benefits was 19 percent of covered payroll for police officers and 23.5 percent of covered payroll for firefighters. The City's contribution to OPF for police and firefighters pension was \$111,206 and \$155,261 for the year ended December 31, 2014, \$101,153 and \$134,593 for the year ended December 31, 2013, and \$77,947 and \$111,076 for the year ended December 31, 2012. For 2014, 88.42 percent for police and 93.96 percent for fire has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.



**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

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***Social Security System***

As of December 31, 2014, twenty-nine part-time firefighters and one council person have elected to be covered by Social Security rather than OPERS or OPF. The City's liability is 6.2 percent of wages paid.

**Note 13 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for postemployment 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 mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent for both plans as recommended by the OPERS actuary.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or 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 postemployment health care plan.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2014, 2013, and 2012 was \$31,842, \$16,106, and \$64,283, respectively. For 2014, 95.84 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 9, 2012, with a transition plan commencing on January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contribution toward the health care fund after the end of the transition period.

***Police and Fire Pension Fund***

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

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at [www.opf.org](http://www.opf.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
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The OPF Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$2,851 and \$3,235 for the year ended December 31, 2014, \$23,059 and \$23,907 for the year ended December 31, 2013, and \$41,266 and \$43,465 for the year ended December 31, 2012. For 2014, 88.42 percent for police and 93.96 for fire has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

#### **Note 14 – Other Employee Benefits**

##### ***Compensated Absences***

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

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

##### ***Health Insurance***

The City provides hospitalization, medical, dental, vision and life insurance for all full time employees. Starting September 1, 2012 the City entered into a three year contract with the Lake County Board of Commissioners to participate in their group health plan. Anthem provided the hospitalization and medical insurance in 2014. Employees pay ten percent of the premium up to a maximum of \$140 per month effective January 2014. Principal provides the dental insurance which is paid entirely by the City. EyeMed Vision Care provides vision insurance which is paid entirely by the City. The plan covers lenses, contacts and routine office exams. Principal provides life insurance and core accidental death insurance of \$20,000 which is paid entirely by the City. Employees are able to add extra insurance once a year for themselves, their spouse or children up to \$500,000 or five times their annual salary, whichever is less, paid by the employee through payroll deductions.

#### **Note 15 - Operating Lease**

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

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

A summary of note transactions for the year ended December 31, 2014 follows:

	Balance 1/1/2014	Additions	Reductions	Balance 12/31/14
<b>General Fund</b>				
2007 Plow Truck	\$25,000	\$0	(\$25,000)	\$0
2010 Plow Truck	85,000	10,000	(85,000)	10,000
Emergency Radio Equipment	45,000	5,000	(45,000)	5,000
Truck (Service Department) - 2012	135,000	10,000	(135,000)	10,000
Truck (Service Department) - 2013	170,000	10,000	(170,000)	10,000
Computer System Upgrades - 2014	0	10,000	0	10,000
<b>Total General Fund</b>	<b>460,000</b>	<b>45,000</b>	<b>(460,000)</b>	<b>45,000</b>
<b>Major Capital Equipment Fund</b>				
Ambulance	95,000	10,000	(95,000)	10,000
<b>Tibbetts Road Fund</b>				
Tibbetts Road Completion - 2014	0	5,000	0	5,000
<b>State Route 306 and 6 Fund</b>				
State Route 306 and 6 Intersection	95,000	5,000	(95,000)	5,000
State Route 6 and Sperry Road	110,000	10,000	(110,000)	10,000
State Route 6 Resurfacing	180,000	15,000	(180,000)	15,000
Lakeland Traffic Signal/306	80,000	5,000	(80,000)	5,000
Lakeland Turn Lanes/306	160,000	110,000	(160,000)	110,000
<b>Total State Route 306 and 6 Fund</b>	<b>625,000</b>	<b>145,000</b>	<b>(625,000)</b>	<b>145,000</b>
<b>Total</b>	<b>\$1,180,000</b>	<b>\$205,000</b>	<b>(\$1,180,000)</b>	<b>\$205,000</b>

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 June 30, 2015 and the notes have an interest rate of one percent. 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. The \$205,000 liability above represents the portion of these notes which will be paid down in 2015. The remaining balance of these notes is reported as a long-term liability (See Note 17).

**City of Kirtland, Ohio**  
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**Note 17 - Long-Term Obligations**

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Enterprise General Obligation Bonds:</i>			
Templeview Sewer Project Bond - 2006	4.375%	\$323,000	June 1, 2046
<i>Enterprise Ohio Public Works Commission Loans:</i>			
Templeview Sewer - 2003	0.00	283,915	July 1, 2026
<i>General Obligation Bonds:</i>			
Various Purpose Bonds - 2006:	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
Various Purpose Bonds - 2012:	1.80		
Civic Center		603,780	December 1, 2016
Fire Department		219,003	December 1, 2016
Waste Water		46,967	December 1, 2016
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 2005	0.00	50,000	January 31, 2016
Route 306 and Route 6 Intersection	0.00	50,000	July 1, 2030
Route 306 at Lakeland Community College	0.00	49,600	January 31, 2030
<i>Long-term Notes:</i>			
2010 Plow Truck	1.00	60,000	June 30, 2015
Emergency Radio Equipment - 2012	1.00	30,000	June 30, 2015
Truck (Service Department) - 2012	1.00	110,000	June 30, 2015
Truck (Service Department) - 2013	1.00	170,000	June 30, 2015
Truck (Service Department) - 2014	1.00	175,000	June 30, 2015
Computer System Upgrades - 2014	1.00	100,000	June 30, 2015
Ambulance - 2012	1.00	70,000	June 30, 2015
Tibbetts Road Completion - 2014	1.00	50,000	June 30, 2015
State Route 306 and 6 Intersection - 2012	1.00	85,000	June 30, 2015
State Route 6 and Sperry Road - 2012	1.00	100,000	June 30, 2015
State Route 6 Resurfacing - 2012	1.00	160,000	June 30, 2015
Lakeland Traffic Signal/306 - 2012	1.00	35,000	June 30, 2015
Lakeland Turn Lanes/306 - 2012	1.00	150,000	June 30, 2015
Lakeland Turn Lanes (Phase II) - 2014	1.00	120,000	June 30, 2015

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2014

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

	Balance 1/1/2014	Additions	Reductions	Balance 12/31/14	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
Various Purpose Bonds 2006:					
State Route 306 Improvement	\$776,121	\$0	(\$47,356)	\$728,765	\$47,356
Parks and Recreation Purposes	478,181	0	(29,177)	449,004	29,177
Service Facility	147,133	0	(8,978)	138,155	8,978
Senior Center	73,565	0	(4,489)	69,076	4,489
Unamortized Premium	43,398	0	(3,619)	39,779	0
<b>Total Various Purpose Bonds</b>	<b>1,518,398</b>	<b>0</b>	<b>(93,619)</b>	<b>1,424,779</b>	<b>90,000</b>
Various Purpose Bonds 2012:					
Civic Center	457,477	0	(149,253)	308,224	151,336
Fire Department	165,936	0	(54,137)	111,799	54,892
Waste Water	35,587	0	(11,610)	23,977	11,772
<b>Total Various Purpose Bonds</b>	<b>659,000</b>	<b>0</b>	<b>(215,000)</b>	<b>444,000</b>	<b>218,000</b>
<b>Total General Obligation Bonds</b>	<b>2,177,398</b>	<b>0</b>	<b>(308,619)</b>	<b>1,868,779</b>	<b>308,000</b>
<b>OPWC Loan</b>					
Route 306 Widening, Phase II 2005	31,250	0	(2,500)	28,750	2,500
Route 306 and Route 6 Intersection	44,736	0	(2,631)	42,105	2,632
Route 306 at Lakeland Community College	0	49,600	(1,563)	48,037	3,112
<b>Total OPWC Loans</b>	<b>75,986</b>	<b>49,600</b>	<b>(6,694)</b>	<b>118,892</b>	<b>8,244</b>
<b>Long-Term Notes Payable:</b>					
2010 Plow Truck	0	50,000	0	50,000	0
Emergency Radio Equipment - 2012	0	25,000	0	25,000	0
Truck (Service Department) - 2012	0	100,000	0	100,000	0
Truck (Service Department) - 2013	0	160,000	0	160,000	0
Truck (Service Department) - 2014	0	175,000	0	175,000	0
Computer System Upgrades - 2014	0	90,000	0	90,000	0
Ambulance - 2012	0	60,000	0	60,000	0
Tibbetts Road Completion - 2014	0	45,000	0	45,000	0
State Route 306 and 6 Intersection - 2012	0	80,000	0	80,000	0
State Route 6 and Sperry Road - 2012	0	90,000	0	90,000	0
State Route 6 Resurfacing - 2012	0	145,000	0	145,000	0
Lakeland Traffic Signal/306 - 2012	0	30,000	0	30,000	0
Lakeland Turn Lanes /306 - 2012	0	40,000	0	40,000	0
Lakeland Turn Lanes (Phase II) - 2014	0	120,000	0	120,000	0
<b>Total Long-Term Notes Payable</b>	<b>0</b>	<b>1,210,000</b>	<b>0</b>	<b>1,210,000</b>	<b>0</b>
<b>Other Long-term Obligations</b>					
Compensated Absences	286,846	32,664	(58,303)	261,207	38,413
<b>Total Governmental Activities</b>	<b>\$2,540,230</b>	<b>\$1,292,264</b>	<b>(\$373,616)</b>	<b>\$3,458,878</b>	<b>\$354,657</b>

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

	Balance 1/1/2014	Additions	Reductions	Balance 12/31/2014	Amounts Due in One Year
<b>Business-Type Activity</b>					
<b>General Obligation Bonds</b>					
Templeview Sewer Project	\$298,400	\$0	(\$4,200)	\$294,200	\$4,400
<b>OPWC Loan</b>					
Templeview Sewer	184,545	0	(14,196)	170,349	14,196
<b>Total Business-Type Activities</b>	<b>\$482,945</b>	<b>\$0</b>	<b>(\$18,396)</b>	<b>\$464,549</b>	<b>\$18,596</b>

In 2006, the City issued \$323,000 in forty year general obligation bonds with an interest rate of 4.375 percent. The bond proceeds were used for the Templeview sewer project. The waste water refunding bonds will be paid from collections in the waste water fund.

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

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

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

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

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

In 2014, the City received a \$49,600 OPWC loan for the Route 306 at Lakeland Community College Project which will be paid from the general obligation bond retirement fund.

During 2014, the City issued \$1,415,000 in bond anticipation notes which was used to retire the 2013 \$1,180,000 in bond anticipation notes and for the purchase of new equipment. Bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity beyond the end of the year in which the report is issued have been reported in the government-wide statements as long-term liabilities and therefore, have been excluded from the amount due in more than one year.

Compensated absences will be paid from the general fund.

**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2014

The City's overall legal debt margin was \$21,580,669 with an unvoted debt margin of \$9,683,840 at December 31, 2014. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2014 are as follows:

	<b>Governmental Activities</b>			<b>Business-Type Activity</b>		
	General Obligation		OPWC	General Obligation		OPWC
	Bonds		Loan	Bonds		Loan
	Principal	Interest	Principal	Principal	Interest	Principal
2015	\$308,000	\$75,670	\$8,244	\$4,400	\$13,975	\$14,196
2016	321,000	68,011	8,232	4,600	13,766	14,195
2017	95,000	60,000	8,231	4,800	13,547	14,196
2018	100,000	55,250	8,232	5,000	13,319	14,196
2019	105,000	50,250	8,231	5,200	13,082	14,196
2020-2024	610,000	167,250	41,159	29,600	61,480	70,978
2025-2029	290,000	22,000	32,407	36,600	53,818	28,392
2030-2034	0	0	4,156	45,500	44,318	0
2035-2039	0	0	0	56,400	32,520	0
2040-2044	0	0	0	69,800	17,898	0
2045-2046	0	0	0	32,300	2,318	0
Total	<u>\$1,829,000</u>	<u>\$498,431</u>	<u>\$118,892</u>	<u>\$294,200</u>	<u>\$280,041</u>	<u>\$170,349</u>

**Note 18 – Jointly Governed Organization**

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the nine-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation programs. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2014. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Suite 20, Solon, Ohio 44139.



**City of Kirtland, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2014*

**Note 19 – Significant Commitments**

***Encumbrances***

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

	Amount		Amount
Governmental Funds:		Proprietary Fund:	
General	\$202,220	Waste Water	\$1,272
Other Governmental Funds	2,064		
Total Governmental Funds	\$204,284		

**Note 20 – Subsequent Events**

During January 2015, the City entered into capital lease agreements for a backhoe and a roller. The roller lease agreement is for five years at \$2,050 per month. The backhoe lease agreement is for five years at \$1,320 per month.

During July 2015, the City retired \$1,415,000 in general obligation bond anticipation notes and issued \$1,860,000 in new notes. The new notes have a maturity of June 30, 2016 and an interest rate of 1.00 percent. The following table summarizes the activity.

Note Issuance	Retired	Issued
2010 Plow Truck	\$60,000	\$50,000
Emergency Radio Equipment - 2012	30,000	25,000
Truck (Service Department) - 2012	110,000	100,000
Truck (Service Department) - 2013	170,000	160,000
Truck (Service Department) - 2014	175,000	175,000
Computer System Upgrades - 2014	100,000	90,000
Ambulance - 2012	70,000	60,000
Tibbitts Road Completion - 2014	50,000	45,000
State Route 306 & 6 Intersection	85,000	80,000
State Route 6 and Sperry Road - 2012	100,000	90,000
State Route 6 Resurfacing - 2012	160,000	145,000
Lakeland Traffic Signal/306 - 2012	35,000	30,000
Lakeland Turn Lanes/306 - 2012	150,000	40,000
Lakeland Turn Lanes (Phase II) - 2014	120,000	120,000
Sperry Road Improvements	0	120,000
Plow Truck - Service Dept. (2015)	0	180,000
Roof and HVAC System (City Hall)	0	250,000
Roof and HVAC System (Fire Station)	0	100,000
Total Notes	\$1,415,000	\$1,860,000

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# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Kirtland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 31, 2016.

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

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

August 31, 2016



# Dave Yost • Auditor of State

CITY OF KIRTLAND

LAKE COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 27, 2016