



Dave Yost • Auditor of State

**City of Kirtland
Lake County, Ohio**

**General Purpose External Financial Statements
For the Year Ended December 31, 2017**

Local Government Services Section

City of Kirtland, Ohio
General Purpose External Financial Statements
For the Year Ended December 31, 2017
Table of Contents

	<u>Page</u>
Table of Contents	1
Accountant's Compilation Report.....	3
Management's Discussion and Analysis.....	4
 Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	15
Statement of Activities.....	16
 Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual:	
General Fund	22
Fire Emergency Levy Fund	23
Road Levy Fund	24
Statement of Fund Net Position – Enterprise Fund	25
Statement of Revenues, Expenses and Changes in Fund Net Position – Enterprise Fund.....	26
Statement of Cash Flows – Enterprise Fund	27
Statement of Fiduciary Net Position – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund.....	29
Notes to the Basic Financial Statements	30

Required Supplementary Information:

Schedule of the City's Proportionate Share of the Net Pension Liability – OPERS – Traditional Plan – Last Four Years	68
Schedule of the City's Proportionate Share of the Net Pension Liability – OPF – Last Four Years.....	69
Schedule of City Contributions – OPERS – Traditional Plan – Last Five Years	70
Schedule of City Contributions – OPF – Last Ten Years	72
Notes to the Required Supplementary Information	74



Dave Yost • Auditor of State

City of Kirtland
9301 Chillicothe Road
Kirtland, Ohio 44094

Accountant's Compilation Report

Management is responsible for the accompanying basic financial statements of the City of Kirtland as of and for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America. We have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the accompanying financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board and was prepared by management. We did not compile, review or audit the information nor do we express an opinion, a conclusion, nor provide any assurance on the information.

The Schedules of the City's Proportionate Share of Net Pension Liability and the Schedules of the City's Contributions are not part of the basic financial statements but the Governmental Accounting Standards Board requires their presentation to supplement the basic financial statement. We have compiled these schedules without audit or review and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on this information.

DAVE YOST
Auditor of State

A handwritten signature in cursive script that reads "Unice S. Smith".

Unice S. Smith
Chief of Local Government Services

May 24, 2018

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City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The discussion and analysis of the City of Kirtland's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. 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 2017 are:

- In 2017, the City continued the comprehensive road rebuilding and resurfacing program based on the new road levy established in 2015.
- During 2017, the City issued \$2,540,000 in general obligation notes which were used to retire the 2016 \$2,220,000 in general obligation notes and for the purchase of a fire engine and the new city hall roof.
- The City complies with GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements presentation of the City.

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 2017?" 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.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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 18. 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
For the Year Ended December 31, 2017
Unaudited

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 2017 compared to 2016.

Table 1
Net Position

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$4,628,639	\$4,385,084	\$253,195	\$289,998	\$4,881,834	\$4,675,082
Capital Assets, Net	14,308,577	14,518,404	2,297,307	2,351,417	16,605,884	16,869,821
<i>Total Assets</i>	<u>18,937,216</u>	<u>18,903,488</u>	<u>2,550,502</u>	<u>2,641,415</u>	<u>21,487,718</u>	<u>21,544,903</u>
Deferred Outflows of Resources:						
Pension	1,863,277	1,943,090	10,795	8,481	1,874,072	1,951,571
Current and Other Liabilities	635,551	586,165	51,604	55,687	687,155	641,852
Long-Term Liabilities:						
Due Within One Year	214,947	176,023	19,195	18,995	234,142	195,018
Due in More than One Year:						
Pension	6,975,818	6,527,186	28,080	22,327	7,003,898	6,549,513
Other Amounts	3,780,766	3,700,702	388,966	408,162	4,169,732	4,108,864
<i>Total Liabilities</i>	<u>11,607,082</u>	<u>10,990,076</u>	<u>487,845</u>	<u>505,171</u>	<u>12,094,927</u>	<u>11,495,247</u>
Deferred Inflows of Resources:						
Property Taxes	1,994,406	1,911,596	0	0	1,994,406	1,911,596
Pension	114,047	64,068	6,350	11,085	120,397	75,153
<i>Total Deferred Inflows of Resources</i>	<u>2,108,453</u>	<u>1,975,664</u>	<u>6,350</u>	<u>11,085</u>	<u>2,114,803</u>	<u>1,986,749</u>
Net Investment in Capital Assets	10,400,162	10,778,288	1,889,146	1,924,260	12,289,308	12,702,548
Restricted:						
Capital Projects	2,263	80,339	0	0	2,263	80,339
Fire	0	97,579	0	0	0	97,579
Street Construction,						
Maintenance and Repair	0	311,190	0	0	0	311,190
Senior Citizens	0	147,341	0	0	0	147,341
Other Purposes	814,968	210,416	0	0	814,968	210,416
Unrestricted (Deficit)	(4,132,435)	(3,744,315)	177,956	209,380	(3,954,479)	(3,534,935)
<i>Total Net Position</i>	<u>\$7,084,958</u>	<u>\$7,880,838</u>	<u>\$2,067,102</u>	<u>\$2,133,640</u>	<u>\$9,152,060</u>	<u>\$10,014,478</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" — that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

Net position may serve as a useful indicator of a government's financial position over time. In the case of the City of Kirtland, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$7,084,958 at year-end for governmental activities. 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

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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 increases in liabilities including the issuance of new short term notes and net pension liability. Total assets decreased mainly due to depreciation exceeding capital asset additions.

Table 2 shows the changes in net position for the years ended December 31, 2017, as compared to 2016.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for Services	\$549,087	\$571,464	\$111,176	\$107,375	\$660,263	\$678,839
Operating Grants and Contributions	599,099	653,429	0	0	599,099	653,429
Capital Grants	500,900	155,347	0	0	500,900	155,347
Total Program Revenues	1,649,086	1,380,240	111,176	107,375	1,760,262	1,487,615
General Revenues						
Property Taxes	2,055,165	2,069,503	0	0	2,055,165	2,069,503
Municipal Income Taxes	4,007,444	3,249,908	0	0	4,007,444	3,249,908
Grants and Entitlements	406,554	455,647	0	0	406,554	455,647
Gain on Sale of Capital Assets	0	2,338	0	0	0	2,338
Investment Earnings	6,012	1,760	0	0	6,012	1,760
Miscellaneous	110,692	49,534	0	0	110,692	49,534
Total General Revenues	6,585,867	5,828,690	0	0	6,585,867	5,828,690
Total Revenues	8,234,953	7,208,930	111,176	107,375	8,346,129	7,316,305
Program Expenses						
General Government	2,048,173	2,188,343	0	0	2,048,173	2,188,343
Security of Persons and Property	3,409,583	2,995,919	0	0	3,409,583	2,995,919
Transportation	2,834,344	2,883,863	0	0	2,834,344	2,883,863
Public Health and Welfare	91,992	77,593	0	0	91,992	77,593
Community Environment	120,223	75,452	0	0	120,223	75,452
Leisure Time Activities	447,789	444,625	0	0	447,789	444,625
Interest and Fiscal Charges	78,729	56,870	0	0	78,729	56,870
Waste Water	0	0	177,714	227,791	177,714	227,791
Total Program Expenses	9,030,833	8,722,665	177,714	227,791	9,208,547	8,950,456
Change in Net Position	(795,880)	(1,513,735)	(66,538)	(120,416)	(862,418)	(1,634,151)
Net Position Beginning of Year	7,880,838	9,394,573	2,133,640	2,254,056	10,014,478	11,648,629
Net Position End of Year	\$7,084,958	\$7,880,838	\$2,067,102	\$2,133,640	\$9,152,060	\$10,014,478

The City is very dependent on property taxes and income taxes. Property tax revenues decreased from the previous year mainly due to a decrease in assessed values. 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.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Security of persons and property include the police and fire departments, accounted for program expenses of \$3,409,583 which is 37.75 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 five 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 2017, 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 increased in 2017 due to increased monies received from capital grants as well as municipal income taxes. Revenue consists primarily of property taxes, income taxes and intergovernmental revenues received through operating and capital grants or contributions as well as unrestricted grants and entitlements. The remaining revenues represent charges for services, interest and miscellaneous receipts. Charges for services include non-resident ambulance billing, cemetery fees and recreation fees.

Total governmental activities program expenses increased in 2017 compared to 2016 due to an increase in security of persons and property due to the purchase of a new fire truck. This increase was offset by the City's concerted effort to keep expenses low while still providing the services the residents have come to expect. General government, security of persons and property and transportation expenses are the three main sources of expenses. These activities include police protection, fire protection, road maintenance, planning/zoning, mayoral office and finance office.

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.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General Government	\$2,048,173	\$2,188,343	(\$1,928,262)	(\$2,024,997)
Security of Persons and Property	3,409,583	2,995,919	(2,884,089)	(2,545,291)
Transportation	2,834,344	2,883,863	(1,917,003)	(2,260,749)
Public Health and Welfare	91,992	77,593	(86,509)	(71,628)
Community Environment	120,223	75,452	(113,615)	(69,811)
Leisure Time Activities	447,789	444,625	(373,540)	(313,079)
Interest and Fiscal Charges	78,729	56,870	(78,729)	(56,870)
Total	<u>\$9,030,833</u>	<u>\$8,722,665</u>	<u>(\$7,381,747)</u>	<u>(\$7,342,425)</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 37.75 percent of total 2017 expenses. A significant portion of these expenses can be attributed to salaries, wages and employee benefits. As of December 31, 2017, the City employed 14 full time police officers and 10 full time firefighters. Other significant expenses include transportation expenses which make up approximately 31.39 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 received were insufficient to cover the total expenses in 2017. 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 begins with the balance sheet 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 increase in general fund revenues was mainly due to increases in income tax collections as a result of the City aggressively collecting delinquencies. The increase is also due to an increase in miscellaneous revenue. Even with the increase in revenues, the general fund balance decreased. General fund expenditures increased due to increases to security of persons and property costs as well as an increase to debt service payments. This

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

resulted in an overall decrease to the general fund. The fire emergency levy special revenue fund decreased slightly due to increased costs. The road levy special revenue fund had an increase in fund balance due to decreased expenditures. The State Route 306 and State Route 6 capital projects fund had a decrease in fund balance due to an increase in transportation expenditures for the State Route improvement projects.

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 2017, 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 2017 balances of capital assets as compared to 2016.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
Land	\$1,364,602	\$1,364,602	\$124,417	\$124,417	\$1,489,019	\$1,489,019
Buildings, Structures and Improvements	2,720,736	2,829,066	26,270	21,028	2,747,006	2,850,094
Machinery and Equipment	1,907,559	1,604,877	10,663	12,477	1,918,222	1,617,354
Infrastructure						
Roads	7,936,258	8,299,138	0	0	7,936,258	8,299,138
Storm Sewers	379,422	420,721	0	0	379,422	420,721
Sewer Lines	0	0	2,135,957	2,193,495	2,135,957	2,193,495
Total	\$14,308,577	\$14,518,404	\$2,297,307	\$2,351,417	\$16,605,884	\$16,869,821

Capital assets decreased due to annual depreciation exceeding total capital asset additions.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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 road improvements to State Route 306 slope stabilization, Eagle road drainage and resurfacing, and Raccoon Hill culvert improvement. Other capital asset additions include building improvements to city hall and the fire station and the purchase of various machinery and equipment.

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 11 for additional information on the City's capital assets.

Debt

Table 5 summarizes bonds, loans, capital leases and notes outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$1,155,000	\$1,259,500	\$280,400	\$285,200	\$1,435,400	\$1,544,700
Capital Leases	119,229	178,199	0	0	119,229	178,199
OPWC Loans	94,186	102,417	127,761	141,957	221,947	244,374
Long-Term Notes	2,305,000	2,040,000	0	0	2,305,000	2,040,000
Short-Term Notes	235,000	160,000	0	0	235,000	160,000
Total	<u>\$3,908,415</u>	<u>\$3,740,116</u>	<u>\$408,161</u>	<u>\$427,157</u>	<u>\$4,316,576</u>	<u>\$4,167,273</u>

In 2017, the City issued \$2,540,000 in general obligation notes which were used to retire the 2016 \$2,220,000 in general obligation notes and for road repairs, fire and road equipment, road resurfacing and slope stabilization projects. See Notes 17 and 18 for additional information on the City's outstanding debt obligations.

Current Financial Related Activities

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, there is a consistent tax basis of residential, business, and educational institutions. The City is also working on commercial development in the historical district which installed a sewer system that allows for more diverse development.

City of Kirtland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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 January 1, 2015 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.

For the past several years the City has been awarded AAA's Platinum Award given to communities that demonstrate outstanding success in addressing local traffic safety issues. 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.

Basic Financial Statements

City of Kirtland, Ohio
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$859,690	\$253,195	\$1,112,885
Materials and Supplies Inventory	48,840	0	48,840
Accounts Receivable	54,117	0	54,117
Intergovernmental Receivable	485,282	0	485,282
Municipal Income Taxes Receivable	1,119,985	0	1,119,985
Property Taxes Receivable	2,060,725	0	2,060,725
Non-Depreciable Capital Assets	1,364,602	124,417	1,489,019
Depreciable Capital Assets, Net	12,943,975	2,172,890	15,116,865
Total Assets	18,937,216	2,550,502	21,487,718
Deferred Outflows of Resources			
Pension	1,863,277	10,795	1,874,072
Liabilities			
Accounts Payable	42,101	1,346	43,447
Accrued Wages and Benefits	148,621	0	148,621
Vacation Benefits Payable	102,917	0	102,917
Intergovernmental Payable	79,221	43,102	122,323
Accrued Interest Payable	27,691	7,156	34,847
Notes Payable	235,000	0	235,000
Long-Term Liabilities:			
Due Within One Year	214,947	19,195	234,142
Due In More Than One Year			
Net Pension Liability (See Note 13)	6,975,818	28,080	7,003,898
Other Amounts Due In More Than One Year	3,780,766	388,966	4,169,732
Total Liabilities	11,607,082	487,845	12,094,927
Deferred Inflows of Resources			
Property Taxes	1,994,406	0	1,994,406
Pension	114,047	6,350	120,397
Total Deferred Inflows of Resources	2,108,453	6,350	2,114,803
Net Position			
Net Investment in Capital Assets	10,400,162	1,889,146	12,289,308
Restricted for:			
Capital Projects	2,263	0	2,263
Other Purposes	814,968	0	814,968
Unrestricted (Deficit)	(4,132,435)	177,956	(3,954,479)
Total Net Position	\$7,084,958	\$2,067,102	\$9,152,060

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants
Governmental Activities				
General Government	\$2,048,173	\$119,911	\$0	\$0
Security of Persons and Property	3,409,583	332,022	123,091	70,381
Transportation	2,834,344	75,045	411,777	430,519
Public Health and Welfare	91,992	5,483	0	0
Community Environment	120,223	6,608	0	0
Leisure Time Activities	447,789	10,018	64,231	0
Interest and Fiscal Charges	78,729	0	0	0
<i>Total Governmental Activities</i>	9,030,833	549,087	599,099	500,900
Business-Type Activity				
Waste Water	177,714	111,176	0	0
<i>Total</i>	<u>\$9,208,547</u>	<u>\$660,263</u>	<u>\$599,099</u>	<u>\$500,900</u>

General Revenues

Property Taxes Levied for:

General Purposes

Fire Operating

Fire Emergency

Road Levy

Police Operating

Police Pension

Senior Citizen Recreation

Municipal Income Taxes

Levied for General Purposes

Grants and Entitlements

not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accountant's compilation report

See accompanying notes to the basic financial statements

Net Revenue (Expense) and Changes in Net Position		
Governmental Activities	Business-Type Activity	Total
(\$1,928,262)	\$0	(\$1,928,262)
(2,884,089)	0	(2,884,089)
(1,917,003)	0	(1,917,003)
(86,509)	0	(86,509)
(113,615)	0	(113,615)
(373,540)	0	(373,540)
(78,729)	0	(78,729)
(7,381,747)	0	(7,381,747)
0	(66,538)	(66,538)
(7,381,747)	(66,538)	(7,448,285)
575,602	0	575,602
126,443	0	126,443
589,159	0	589,159
473,239	0	473,239
97,079	0	97,079
63,929	0	63,929
129,714	0	129,714
4,007,444	0	4,007,444
406,554	0	406,554
6,012	0	6,012
110,692	0	110,692
6,585,867	0	6,585,867
(795,880)	(66,538)	(862,418)
7,880,838	2,133,640	10,014,478
\$7,084,958	\$2,067,102	\$9,152,060

See accountant's compilation report

City of Kirtland, Ohio
Balance Sheet
Governmental Funds
December 31, 2017

	General	Fire Emergency Levy	Road Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$383,062	\$30,862	\$154,224	\$2,763	\$288,779	\$859,690
Materials and Supplies Inventory	48,840	0	0	0	0	48,840
Accounts Receivable	32,417	0	0	0	21,700	54,117
Intergovernmental Receivable	202,336	43,243	4,686	7,749	227,268	485,282
Municipal Income Taxes Receivable	1,119,985	0	0	0	0	1,119,985
Property Taxes Receivable	576,395	590,391	472,539	0	421,400	2,060,725
Total Assets	\$2,363,035	\$664,496	\$631,449	\$10,512	\$959,147	\$4,628,639
Liabilities						
Accounts Payable	\$38,769	\$0	\$0	\$0	\$3,332	\$42,101
Accrued Wages and Benefits	148,621	0	0	0	0	148,621
Intergovernmental Payable	79,221	0	0	0	0	79,221
Accrued Interest Payable	1,550	0	0	500	300	2,350
Notes Payable	155,000	0	0	50,000	30,000	235,000
Total Liabilities	423,161	0	0	50,500	33,632	507,293
Deferred Inflows of Resources						
Property Taxes	555,617	569,020	457,274	7,749	404,746	1,994,406
Unavailable Revenue	1,025,381	64,614	19,951	0	213,270	1,323,216
Total Deferred Inflows of Resources	1,580,998	633,634	477,225	7,749	618,016	3,317,622
Fund Balances						
Nonspendable	48,840	0	0	0	0	48,840
Restricted	0	30,862	154,224	0	322,047	507,133
Assigned	189,930	0	0	0	0	189,930
Unassigned (Deficit)	120,106	0	0	(47,737)	(14,548)	57,821
Total Fund Balances	358,876	30,862	154,224	(47,737)	307,499	803,724
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$2,363,035	\$664,496	\$631,449	\$10,512	\$959,147	\$4,628,639

See accountant's compilation report
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, 2017*

Total Governmental Fund Balances		\$803,724
<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.		14,308,577
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	75,309	
Municipal Income Taxes	793,865	
Intergovernmental	423,000	
Rentals	31,042	
Total		1,323,216
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		(25,341)
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.		(102,917)
Long-term liabilities are not due and payable in the current period therefore are not reported in the funds:		
General Obligation Bonds	(1,155,000)	
OPWC Loans	(94,186)	
General Obligation Notes	(2,305,000)	
Compensated Absences	(322,298)	
Capital Leases	(119,229)	
Total		(3,995,713)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred Outflows - Pension	1,863,277	
Net Pension Liability	(6,975,818)	
Deferred Inflows - Pension	(114,047)	
Total		(5,226,588)
Net Position of Governmental Activities		<u>\$7,084,958</u>

See accountant's compilation report
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, 2017

	General	Fire Emergency Levy	Road Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$573,117	\$586,611	\$471,418	\$0	\$415,369	\$2,046,515
Municipal Income Taxes	3,710,633	0	0	0	0	3,710,633
Charges for Services	86,937	0	0	0	180,213	267,150
Licenses and Permits	28,712	0	0	0	0	28,712
Fines and Forfeitures	53,264	0	0	0	691	53,955
Intergovernmental	404,598	86,485	9,372	122,974	916,635	1,540,064
Rentals	193,410	0	0	0	0	193,410
Interest	5,987	0	0	0	25	6,012
Contributions and Donations	0	0	0	0	300	300
Miscellaneous	110,692	0	0	0	0	110,692
Total Revenues	5,167,350	673,096	480,790	122,974	1,513,233	7,957,443
Expenditures						
Current:						
General Government	1,996,696	0	0	0	0	1,996,696
Security of Persons and Property	2,267,567	675,000	0	0	355,000	3,297,567
Transportation	1,145,263	0	375,461	139,451	405,000	2,065,175
Public Health and Welfare	91,992	0	0	0	0	91,992
Community Environment	89,799	0	0	0	0	89,799
Leisure Time Activities	160,586	0	0	0	200,222	360,808
Capital Outlay	0	0	0	0	253,902	253,902
Debt Service:						
Principal Retirement	21,769	0	37,201	0	112,731	171,701
Refunding Notes Redeemed	1,490,000	0	0	395,000	155,000	2,040,000
Interest and Fiscal Charges	21,398	0	3,228	5,947	39,062	69,635
Total Expenditures	7,285,070	675,000	415,890	540,398	1,520,917	10,437,275
Excess of Revenues Over (Under) Expenditures	(2,117,720)	(1,904)	64,900	(417,424)	(7,684)	(2,479,832)
Other Financing Sources (Uses)						
General Obligation Notes Issued	500,000	0	0	0	0	500,000
General Obligation Refunding Notes Issued	1,335,000	0	0	345,000	125,000	1,805,000
Transfers In	70,381	0	0	0	145,460	215,841
Transfers Out	0	0	0	0	(215,841)	(215,841)
Total Other Financing Sources (Uses)	1,905,381	0	0	345,000	54,619	2,305,000
Net Change in Fund Balances	(212,339)	(1,904)	64,900	(72,424)	46,935	(174,832)
Fund Balances Beginning of Year	571,215	32,766	89,324	24,687	260,564	978,556
Fund Balances (Deficit) End of Year	\$358,876	\$30,862	\$154,224	(\$47,737)	\$307,499	\$803,724

See accountant's compilation report
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, 2017*

Net Change in Fund Balances - Total Governmental Funds	(\$174,832)
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*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	1,279,524	
Current Year Depreciation	<u>(1,489,351)</u>	
Total		(209,827)

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

Delinquent Property Taxes	8,650	
Municipal Income Taxes	296,811	
Intergovernmental	(33,811)	
Rentals	<u>5,860</u>	
Total		277,510

Accrued interest is reported in the statement of activities and does not require the use of
current financial resources and therefore are not reported as expenditures
in governmental funds:

Accrued Interest	(9,094)
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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	(25,689)	
Vacation Benefits	<u>17,775</u>	
Total		(7,914)

Repayment of long term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,211,701
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Other financing sources in the governmental funds that increase long-term liabilities in the statement of net position. General Obligation Notes Issued	(2,305,000)
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts in deferred outflow	511,287
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	<u>(1,089,711)</u>
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Change in Net Position of Governmental Activities	<u><u>(\$795,880)</u></u>
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See accountant's compilation report
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, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Property Taxes	\$486,884	\$654,404	\$573,117	(\$81,287)
Municipal Income Taxes	3,087,138	3,498,468	3,643,847	145,379
Charges for Services	73,351	83,125	86,579	3,454
Licenses and Permits	24,325	27,566	28,712	1,146
Fines and Forfeitures	45,604	51,680	53,828	2,148
Intergovernmental	400,664	454,048	472,916	18,868
Rentals	163,861	185,694	193,410	7,716
Interest	5,072	5,748	5,987	239
Miscellaneous	92,452	104,770	109,124	4,354
Total Revenues	4,379,351	5,065,503	5,167,520	102,017
Expenditures				
Current:				
General Government	1,977,646	2,011,777	2,004,105	7,672
Security of Persons and Property	2,503,656	2,519,494	2,344,285	175,209
Transportation	1,065,290	1,079,857	1,063,957	15,900
Public Health and Welfare	90,620	91,992	91,992	0
Community Environment	96,054	97,346	89,644	7,702
Leisure Time Activities	156,455	159,755	159,755	0
Total Expenditures	5,889,721	5,960,221	5,753,738	206,483
Excess of Revenues Over (Under) Expenditures	(1,510,370)	(894,718)	(586,218)	308,500
Other Financing Sources (Uses)				
Transfers In	555,552	555,552	570,381	14,829
Transfers Out	(174,024)	(174,024)	(173,931)	93
Total Other Financing Sources (Uses)	381,528	381,528	396,450	14,922
Net Change in Fund Balance	(1,128,842)	(513,190)	(189,768)	323,422
Fund Balance Beginning of Year	278,945	278,945	278,945	0
Prior Year Encumbrances Appropriated	257,581	257,581	257,581	0
Fund Balance End of Year	(\$592,316)	\$23,336	\$346,758	\$323,422

See accountant's compilation report

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, 2017*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property Taxes	\$566,500	\$566,500	\$586,611	\$20,111
Intergovernmental	83,520	83,520	86,485	2,965
<i>Total Revenues</i>	650,020	650,020	673,096	23,076
Expenditures				
Current:				
Security of Persons and Property	675,000	675,000	675,000	0
<i>Net Change in Fund Balance</i>	(24,980)	(24,980)	(1,904)	23,076
<i>Fund Balance Beginning of Year</i>	32,766	32,766	32,766	0
<i>Fund Balance End of Year</i>	<u>\$7,786</u>	<u>\$7,786</u>	<u>\$30,862</u>	<u>\$23,076</u>

See accountant's compilation report

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
Road Levy Fund
For the Year Ended December 31, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Property Taxes	\$451,033	\$451,033	\$471,418	\$20,385
Intergovernmental	8,967	8,967	9,372	405
<i>Total Revenues</i>	460,000	460,000	480,790	20,790
Expenditures				
Current:				
Transportation	540,406	540,406	416,169	124,237
<i>Net Change in Fund Balance</i>	(80,406)	(80,406)	64,621	145,027
<i>Fund Balance Beginning of Year</i>	89,197	89,197	89,197	0
Unexpended Prior Year Encumbrances	406	406	406	0
<i>Fund Balance End of Year</i>	<u>\$9,197</u>	<u>\$9,197</u>	<u>\$154,224</u>	<u>\$145,027</u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Fund Net Position
Enterprise Fund
December 31, 2017

	Waste Water
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$253,195
<i>Noncurrent Assets</i>	
Non-Depreciable Capital Assets	124,417
Depreciable Capital Assets, Net	2,172,890
<i>Total Noncurrent Assets</i>	2,297,307
<i>Total Assets</i>	2,550,502
Deferred Outflows of Resources	
Pension	10,795
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	1,346
Intergovernmental Payable	43,102
Accrued Interest Payable	7,156
Bonds Payable	5,000
OPWC Loans Payable	14,195
<i>Total Current Liabilities</i>	70,799
<i>Long-Term Liabilities (net of current portion)</i>	
Bonds Payable	275,400
OPWC Loans Payable	113,566
Net Pension Liability	28,080
<i>Total Long-Term Liabilities</i>	417,046
<i>Total Liabilities</i>	487,845
Deferred Inflows of Resources	
Pension	6,350
Net Position	
Net Investment in Capital Assets	1,889,146
Unrestricted	177,956
<i>Total Net Position</i>	\$2,067,102

See accountant's compilation report
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, 2017*

	Waste Water
Operating Revenues	
Charges for Services	\$111,176
Operating Expenses	
Personal Services	16,939
Services and Supplies	85,616
Depreciation	62,803
<i>Total Operating Expenses</i>	165,358
<i>Operating Income (Loss)</i>	(54,182)
Non Operating Revenues (Expenses)	
Interest and Fiscal Charges	(12,356)
<i>Change in Net Position</i>	(66,538)
<i>Net Position Beginning of Year</i>	2,133,640
<i>Net Position End of Year</i>	\$2,067,102

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2017

	<u>Waste Water</u>
Increases (Decreases) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$111,176
Cash Payments to Suppliers for Services and Supplies	(89,074)
Cash Payments for Employee Services and Benefits	(18,738)
	<u>3,364</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(8,693)
Principal Paid on Bonds	(4,800)
Interest Paid on Bonds	(12,478)
Principal Paid on OPWC Loans	(14,196)
	<u>(40,167)</u>
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	
Net Increase (Decrease) in Cash and Cash Equivalents	(36,803)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>289,998</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$253,195</u></u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating Income (Loss)	<u>(\$54,182)</u>
<i>Adjustments:</i>	
Depreciation	62,803
(Increase) Decrease in Deferred Outflows of Resources - Pension	3,574
Increase (Decrease) in Liabilities:	
Accounts Payable	(2,658)
Accrued Wages and Benefits	(263)
Intergovernmental Payable	(1,040)
Net Pension Liability	628
Increase (Decrease) in Deferred Inflows of Resources	(5,498)
	<u>57,546</u>
<i>Total Adjustments</i>	
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>\$3,364</u></u>
 See accountant's compilation report See accompanying notes to the basic financial statements	

City of Kirtland, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017

	<u>Private Purpose Trust</u>	
	<u>Cemetery</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,386	<u>\$411,355</u>
Liabilities		
Deposits Held and Due to Others	<u>0</u>	<u>\$411,355</u>
Net Position		
Held in Trust for Perpetual Care	<u>\$2,386</u>	

See accountant's compilation report

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, 2017

	<u>Cemetery</u>
Additions	\$0
Deductions	<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 accountant's compilation report

See accompanying notes to the basic financial statements

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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 21 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 as follows.

Basis of Presentation

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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
For the Year Ended December 31, 2017

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
For the Year Ended December 31, 2017

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 8). 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 represent 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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 13.

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 until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and 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, income taxes, intergovernmental grants and rental revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Total Governmental Fund Balances to Net Position of Governmental Activities found on Page 19. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 13).

Pensions For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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

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

Budgetary Process

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

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

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

Cash and Cash Equivalents

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

During 2017, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2017 amounted to \$5,987, which includes \$4,476 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.

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 acquisition values as of the date received. The City maintains a capitalization threshold of \$2,500 with the exception of land as land was included regardless of cost. 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 incurred during the construction of proprietary fund capital assets is 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:

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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.

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, compensated absences and net pension liability 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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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).

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. City Council assigned fund balance to cover a gap between estimated revenues and appropriations in 2018's budget.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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.

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.

Estimates

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

Note 3 – Change in Accounting Principle

For 2017, the City implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2016-1*. These changes were incorporated in the City's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 4 – Accountability

Accountability

The following funds had deficit fund balances as of December 31, 2017:

Capital Projects Funds:	
Worrell Road Resurfacing	4,448
Sperry Road	5,050
Tibbetts Road Resurfacing	5,050
SR 306 and SR 6 - Various Projects	47,737

The deficit in the Worrell Road Resurfacing, Sperry Road, Tibbetts Road Resurfacing, and State Route 306 and 6 capital projects funds are the result of the recognition of accrued interest payables and notes payable on a modified basis of accounting. The general fund is liable for any deficits in these funds and provides transfers when cash is required, rather than when accruals occur.

Note 5 – Fund Balances

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

Fund Balances	General	Fire Emergency Levy	Road Levy	State Route 306 and State Route 6	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable:</u>						
Inventory	\$48,840	\$0	\$0	\$0	\$0	\$48,840
<u>Restricted for:</u>						
Police Department Operations	0	0	0	0	12,751	12,751
Police Pension	0	0	0	0	7,075	7,075
Fire Department Operations	0	30,862	0	0	0	30,862
Road Levy	0	0	154,224	0	0	154,224
Senior Citizens	0	0	0	0	153,686	153,686
Street and Highway Construction,						
Maintenance and Repair	0	0	0	0	45,852	45,852
Emergency Medical Services	0	0	0	0	9,522	9,522
Other Purposes	0	0	0	0	93,161	93,161
<u>Total Restricted</u>	<u>0</u>	<u>30,862</u>	<u>154,224</u>	<u>0</u>	<u>322,047</u>	<u>507,133</u>
<u>Assigned to:</u>						
Year 2017 Operations	180,727	0	0	0	0	180,727
Purchases on Order						
General Government	507	0	0	0	0	507
Security of Persons and Property	8,696	0	0	0	0	8,696
<u>Total Assigned</u>	<u>189,930</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>189,930</u>
Unassigned (Deficit)	120,106	0	0	(47,737)	(14,548)	57,821
Total Fund Balances (Deficit)	<u>\$358,876</u>	<u>\$30,862</u>	<u>\$154,224</u>	<u>(\$47,737)</u>	<u>\$307,499</u>	<u>\$803,724</u>

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 6 - Budgetary Basis of Accounting

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

The major differences between the budget basis and the GAAP basis are as follows:

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

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

	Net Change in Fund Balances		
	General	Fire Emergency Levy	Road Levy
GAAP Basis	(\$212,339)	(\$1,904)	\$64,900
Net Adjustment for Revenue Accruals	(1,334,830)	0	0
Net Adjustment for Expenditure Accruals	1,393,705	0	(279)
Encumbrances	(36,304)	0	0
Budget Basis	<u>(\$189,768)</u>	<u>(\$1,904)</u>	<u>\$64,621</u>

Note 7 - 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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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;
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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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;
3. Obligations of the City.

Investments

As of December 31, 2017, the City had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>	<u>Standard and Poor's Rating</u>	<u>Percent of Total Investments</u>
Net Asset Value Per Share: Star Ohio	\$583,236	Average 52.1 days	AAAm	N/A

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 AAAm by Standard & 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 8 – Receivables

Receivables at December 31, 2017, consisted primarily of property taxes, municipal income taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues.

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

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of 2016 taxes.

2017 real property taxes were levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

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. 2017 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2017, was \$13.05 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2017 property tax receipts were based are as follows:

	<u>Assessed Values</u>
Real Property	
Residential/Agricultural	\$223,695,280
Other Real Estate	11,508,170
Public Utility Personal Property	<u>9,804,440</u>
Total Valuation	<u><u>\$245,007,890</u></u>

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, 2017, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2017 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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Intergovernmental Receivable

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

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$155,696
Homestead and Rollback	117,895
Gasoline Excise Tax	90,067
Gasoline Tax	45,545
Motor Vehicle License Tax	31,633
Permissive Tax	31,065
Grants Receivable	8,990
Other	4,391
Total	<u><u>\$485,282</u></u>

Note 9 – Interfund Transfers

The following interfund transfers took place in 2017:

<u>Transfers To</u>	<u>Transfers From</u>
	Other Governmental Funds
General	\$70,381
Other Governmental Funds	<u>145,460</u>
Total	<u><u>\$215,841</u></u>

The major capital equipment special revenue fund transferred \$145,460 to the general obligation bond retirement fund for debt payment requirements. The FEMA fire grant fund transferred \$70,381 to the general fund to replenish the general fund for the costs associated with purchasing power for the emergency medical service units.

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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Litigation

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

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance 1/1/2017	Additions	Deductions	Balance 12/31/2017
Governmental Activities:				
<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	6,378,652	64,849	0	6,443,501
Machinery and Equipment	4,772,609	668,227	(21,574)	5,419,262
Infrastructure:				
Roads	32,890,752	546,448	0	33,437,200
Storm Sewer	1,032,484	0	0	1,032,484
<i>Total Capital Assets, being depreciated</i>	45,074,497	1,279,524	(21,574)	46,332,447
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(3,549,586)	(173,179)	0	(3,722,765)
Machinery and Equipment	(3,167,732)	(365,545)	21,574	(3,511,703)
Infrastructure:				
Roads	(24,591,614)	(909,328)	0	(25,500,942)
Storm Sewer	(611,763)	(41,299)	0	(653,062)
<i>Total Accumulated Depreciation</i>	(31,920,695)	(1,489,351) *	21,574	(33,388,472)
<i>Total Capital Assets being depreciated, Net</i>	13,153,802	(209,827)	0	12,943,975
<i>Governmental Activities Capital Assets, Net</i>	\$14,518,404	(\$209,827)	\$0	\$14,308,577

* Depreciation expense was charged to governmental activities as follows:

General Government	\$71,115
Security of Persons and Property	225,776
Transportation	1,120,969
Community Environment	2,714
Leisure Time Activities	68,777
Total	\$1,489,351

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	Balance 1/1/2017	Additions	Deductions	Balance 12/31/2017
Business-Type Activities:				
<i>Capital Assets, not being depreciated</i>				
Land	\$124,417	\$0	\$0	\$124,417
<i>Capital Assets, being depreciated</i>				
Buildings, Structures and Improvements	155,783	8,693	0	164,476
Machinery and Equipment	46,505	0	0	46,505
Infrastructure:				
Sewer Lines	2,798,671	0	0	2,798,671
<i>Total Capital Assets, being depreciated</i>	3,000,959	8,693	0	3,009,652
<i>Less Accumulated Depreciation:</i>				
Buildings, Structures and Improvements	(134,755)	(3,451)	0	(138,206)
Machinery and Equipment	(34,028)	(1,814)	0	(35,842)
Infrastructure:				
Sewer Lines	(605,176)	(57,538)	0	(662,714)
<i>Total Accumulated Depreciation</i>	(773,959)	(62,803)	0	(836,762)
<i>Total Capital Assets being depreciated, Net</i>	2,227,000	(54,110)	0	2,172,890
<i>Business-Type Activities Capital Assets, Net</i>	\$2,351,417	(\$54,110)	\$0	\$2,297,307

Note 12 - 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 2016, the City contracted with various insurance agencies for various types of insurance. The type, coverage, and deductibles for the City's insurance follows:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Type	Coverage	Deductible
Wichert Insurance Agency:		
Commercial Property	\$12,063,299	\$1,000
Earthquake and Flood	500,000	25,000
Boiler Machinery and Machinery	12,063,285	1,000
Leased/Rental Equipment	185,000	1,000
Inland Marine	826,450	1,000
Commercial General Liability	1,000,000	0
Umbrella Liability	4,000,000	0
Commercial Automotive	1,000,000	500
Uninsured Motorists	50,000	0
Love Insurance Agency:		
Law Enforcement	1,000,000	5,000
Public Officials	1,000,000	5,000
Employment Practices	1,000,000	7,500

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 13 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	<u>1.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$212,062 for 2017. Of this amount, \$33,113 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F 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. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit. (See OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits.)

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$301,346 for 2017. Of this amount, \$35,218 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.012365%	0.0662470%	
Prior Measurement Date	<u>0.012889%</u>	<u>0.0671060%</u>	
Change in Proportionate Share	<u>-0.0005240%</u>	<u>-0.0008590%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,807,881	\$4,196,018	\$7,003,899
Pension Expense	\$564,944	\$525,592	\$1,090,536

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$3,806	\$1,187	\$4,993
Changes of assumptions	445,364	0	445,364
Net difference between projected and actual earnings on pension plan investments	418,159	408,044	826,203
Changes in proportion and differences between City contributions and proportionate share of contributions	0	84,104	84,104
City contributions subsequent to the measurement date	<u>212,062</u>	<u>301,346</u>	<u>513,408</u>
Total Deferred Outflows of Resources	<u>\$1,079,391</u>	<u>\$794,681</u>	<u>\$1,874,072</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$16,711	\$9,661	\$26,372
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>55,217</u>	<u>38,808</u>	<u>94,025</u>
Total Deferred Inflows of Resources	<u>\$71,928</u>	<u>\$48,469</u>	<u>\$120,397</u>

\$513,408 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Year Ending December 31:	OPERS	OP&F	Total
2018	\$320,347	\$167,309	\$487,656
2019	340,492	167,309	507,801
2020	146,820	130,332	277,152
2021	(12,258)	(15,346)	(27,604)
2022	0	(4,002)	(4,002)
Thereafter	0	(736)	(736)
Total	<u>\$795,401</u>	<u>\$444,866</u>	<u>\$1,240,267</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

	December 31, 2016	December 31, 2015
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For 2016, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For 2015, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2015. The prior experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$4,289,666	\$2,807,881	\$1,573,075

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
	plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.6 percent simple for increases based on the lesser of the increase in CPI and 3 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00 %	

Note: Assumptions are geometric.

* levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$5,588,599	\$4,196,018	\$3,015,787

Changes between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact to the City's net pension liability.

Note 14 - Postemployment Benefits

Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$16,312, \$31,968, and \$32,084, respectively. For 2017, 84.39 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides 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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at 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 - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements 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 OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F 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 OP&F for the years ended December 31, 2017, 2016, and 2015 were \$308,414, \$303,704, and \$292,521, respectively, of which \$7,068, \$6,981, and \$6,714, respectively, was allocated to the healthcare plan. For 2017, 88.38 percent has been contributed for both police and firefighters with the balance being reported as an *intergovernmental payable*. The full amount has been contributed for 2016 and 2015.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 15 – 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 thirteen 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 2015, 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 52.5 hours per week, they would earn 6.115 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 January 1, 2015 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 2015. Employees pay ten percent of the premium up to a maximum of \$150 per month effective January 2015. 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 16 - 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 17 – Short-Term Obligations

A summary of note transactions for the year ended December 31, 2017 follows:

	Balance 12/31/16	Additions	Reductions	Balance 12/31/17
General Fund:				
2010 Plow Truck	\$15,000	\$20,000	(\$15,000)	\$20,000
Emergency Radio Equipment	10,000	10,000	(10,000)	10,000
Service Plow Truck - 2012	25,000	25,000	(25,000)	25,000
Service Plow Truck - 2013	10,000	25,000	(10,000)	25,000
Truck (Service Department) - 2014	10,000	15,000	(10,000)	15,000
Computer System Upgrades - 2014	10,000	10,000	(10,000)	10,000
Roof HVAC System (City Hall) - 2016	10,000	10,000	(10,000)	10,000
Plow Truck (Service Department) - 2017	0	15,000	0	15,000
Roof HVAC System (Fire Station) - 2017	0	5,000	0	5,000
Road Equipment - 2017	0	10,000	0	10,000
Fire Squad - 2017	0	10,000	0	10,000
Total General Fund	90,000	155,000	(90,000)	155,000
Major Capital Equipment Fund:				
Ambulance	10,000	10,000	(10,000)	10,000
Sperry Road Improvements:				
Road Improvements - 2015	5,000	5,000	(5,000)	5,000
Tibbetts Road Fund:				
Tibbetts Road Completion - 2014	5,000	5,000	(5,000)	5,000
Worrell Road Resurfacing Fund:				
Worrell Road Resurfacing - 2017	0	10,000	0	10,000
State Route 306 and 6 Fund:				
State Route 306 and 6 Intersection	5,000	5,000	(5,000)	5,000
State Route 306 Slope Stabilization	0	5,000	0	5,000
State Route 6 and Sperry Road	10,000	10,000	(10,000)	10,000
State Route 6 Resurfacing	15,000	15,000	(15,000)	15,000
Lakeland Traffic Signal/306	10,000	10,000	(10,000)	10,000
Lakeland Turn Lanes (Phase II) - 2014	10,000	5,000	(10,000)	5,000
Total State Route 306 and 6 Fund	50,000	50,000	(50,000)	50,000
Total	\$160,000	\$235,000	(\$160,000)	\$235,000

All the notes are backed by the full faith and credit of the City of Kirtland and mature within one year. The maturity date for all outstanding notes is June 30, 2017 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 \$235,000 liability above represents the portion of these notes which will be paid down in 2018. The remaining balance of these notes is reported as a long-term liability (See Note 18).

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 18 - 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 Refunding Bonds - 2016:	2.38		
State Route 306 Improvement		662,729	December 1, 2026
Parks and Recreation Purposes		408,318	December 1, 2026
Service Facility		125,636	December 1, 2026
Senior Center		62,817	December 1, 2026
<i>Ohio Public Works Commission Loans:</i>			
Route 306 Widening Phase II - 2005	0.00	50,000	January 31, 2026
Route 306 and Route 6 Intersection - 2015	0.00	50,000	July 1, 2030
Route 306 at Lakeland Community College - 2015	0.00	49,600	January 31, 2030
<i>Long-term Notes:</i>			
2010 Plow Truck	2.00	25,000	June 21, 2018
Fire Squad - 2009	2.00	40,000	June 21, 2018
Emergency Radios - 2011	2.00	10,000	June 21, 2018
Truck (Service Department) - 2012	2.00	65,000	June 21, 2018
Truck (Service Department) - 2013	2.00	140,000	June 21, 2018
Truck (Service Department) - 2014	2.00	155,000	June 21, 2018
Plow Truck - Service Department - 2015	2.00	180,000	June 21, 2018
Roof and HVAC System (City Hall) - 2015	2.00	240,000	June 21, 2018
Roof and HVAC System (Fire Station) - 2015	2.00	100,000	June 21, 2018
Computer System Upgrades - 2014	2.00	75,000	June 21, 2018
Arborhurst and Singlefoot Roads - 2016	2.00	200,000	June 21, 2018
Road Equipment - 2016	2.00	100,000	June 21, 2018
Fire Squad - 2016	2.00	200,000	June 21, 2018
Fire Engine - 2017	2.00	400,000	June 21, 2018
City Hall Roof (Phase II) - 2017	2.00	100,000	June 21, 2018
Sperry Road Improvements - 2015	2.00	35,000	June 21, 2018
Tibbetts Road Completion - 2014	2.00	35,000	June 21, 2018
Worrell Road Resurfacing - 2016	2.00	45,000	June 21, 2018
State Route 306 and 6 Intersection - 2012	2.00	70,000	June 21, 2018
State Route 6 and Sperry Road - 2012	2.00	70,000	June 21, 2018
State Route 6 Resurfacing - 2012	2.00	115,000	June 21, 2018

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

	Balance 1/1/17	Additions	Reductions	Balance 12/31/17	Amounts Due in One Year
Business-Type Activities:					
<i>General Obligation Bonds:</i>					
Templeview Sewer Project	\$285,200	\$0	(\$4,800)	\$280,400	\$5,000
<i>OPWC Loan:</i>					
Templeview Sewer	141,957	0	(14,196)	127,761	14,195
<i>Net Pension Liability:</i>					
OPERS	22,327	5,753	0	28,080	0
<i>Total Business-Type Activities</i>	<u>\$449,484</u>	<u>\$5,753</u>	<u>(\$18,996)</u>	<u>\$436,241</u>	<u>\$19,195</u>
Governmental Activities:					
<i>General Obligation Bonds:</i>					
Various Purpose Refunding Bonds 2016:					
State Route 306 Improvement	662,729	0	(54,986)	607,743	61,564
Parks and Recreation Purposes	408,318	0	(33,878)	374,440	37,930
Service Facility	125,636	0	(10,424)	115,212	11,671
Senior Center	62,817	0	(5,212)	57,605	5,835
<i>Total General Obligation Bonds</i>	<u>1,259,500</u>	<u>0</u>	<u>(104,500)</u>	<u>1,155,000</u>	<u>117,000</u>
<i>OPWC Loans:</i>					
Route 306 Widening, Phase II 2005	23,750	0	(2,500)	21,250	2,500
Route 306 and Route 6 Intersection	36,842	0	(2,631)	34,211	2,632
Route 306 at Lakeland Community College	41,825	0	(3,100)	38,725	3,100
<i>Total OPWC Loans</i>	<u>\$102,417</u>	<u>\$0</u>	<u>(\$8,231)</u>	<u>\$94,186</u>	<u>\$8,232</u>

(continued)

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	Balance 1/1/17	Additions	Reductions	Balance 12/31/17	Amounts Due in One Year
Governmental Activities (continued):					
Long-Term Notes Payable:					
2010 Plow Truck	\$25,000	\$5,000	(\$25,000)	\$5,000	\$0
Emergency Radio Equipment	10,000	0	(10,000)	0	0
Truck (Service Department) - 2012	65,000	40,000	(65,000)	40,000	0
Truck (Service Department) - 2013	140,000	115,000	(140,000)	115,000	0
Truck (Service Department) - 2014	155,000	140,000	(155,000)	140,000	0
Plow Truck (Service Department) - 2015	180,000	165,000	(180,000)	165,000	0
Roof and HVAC System (City Hall)	240,000	230,000	(240,000)	230,000	0
Roof and HVAC System (Fire Station)	100,000	95,000	(100,000)	95,000	0
Computer System Upgrades - 2014	75,000	65,000	(75,000)	65,000	0
Arborhurst and Singlefood Roads - 2016	200,000	200,000	(200,000)	200,000	0
Road Equipment - 2016	100,000	90,000	(100,000)	90,000	0
Fire Squad - 2016	200,000	190,000	(200,000)	190,000	0
Fire Engine - 2017	0	400,000	0	400,000	0
City Hall Roof (Phase II) - 2017	0	100,000	0	100,000	0
Ambulance - 2012	40,000	30,000	(40,000)	30,000	0
Sperry Road Improvements -2015	35,000	30,000	(35,000)	30,000	0
Tibbetts Road Completion - 2014	35,000	30,000	(35,000)	30,000	0
Worrell Road Resurfacing - 2016	45,000	35,000	(45,000)	35,000	0
State Route 306 and 6 Intersection	70,000	65,000	(70,000)	65,000	0
State Route 6 and Sperry Road	70,000	60,000	(70,000)	60,000	0
State Route 6 Resurfacing	115,000	100,000	(115,000)	100,000	0
Lakeland Traffic Signal/306	10,000	0	(10,000)	0	0
Lakeland Turn Lanes (Phase II) - 2014	55,000	50,000	(55,000)	50,000	0
State Route 306 Slope Stabilization - 2016	75,000	70,000	(75,000)	70,000	0
Total Long-Term Notes Payable	2,040,000	2,305,000	(2,040,000)	2,305,000	0
Other Long-Term Obligations:					
Compensated Absences	296,609	30,011	(4,322)	322,298	27,845
Capital Leases	178,199	0	(58,970)	119,229	61,870
Total Other Long-Term Obligations	474,808	30,011	(63,292)	441,527	89,715
Net Pension Liability:					
OPERS	2,210,210	569,590	0	2,779,800	0
OPF	4,316,976	0	(120,958)	4,196,018	0
Total Net Pension Liability	6,527,186	569,590	(120,958)	6,975,818	0
Total Governmental Activities	\$10,403,911	\$2,904,601	(\$2,336,981)	\$10,971,531	\$214,947

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.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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 2016, the City issued general obligation bonds, in the amount of \$1,259,500 to currently refund bonds previously issued in 2006. The current refunding was undertaken to take advantage of lower interest rates. The bonds were issued with an interest rate of 2.38 percent and were issued for a ten year period with final maturity on December 1, 2026. The bonds will be retired through the general obligation bond retirement debt service fund.

The City, in effect, decreased its aggregate debt service payments for governmental activities by \$164,584 over the next ten years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$133,892.

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 2017, the City issued \$2,540,000 in bond anticipation notes which were used to retire the 2016 2,220,000 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. Capital leases will be paid from the road levy fund. The City pays obligations related to employee compensation from the fund benefitting from their service. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the general fund and the waste water enterprise fund. For additional information related to the net pension liability see Note 13.

The City's overall legal debt margin was \$21,936,642 with an unvoted debt margin of \$9,686,248 at December 31, 2017. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2017 are as follows:

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	Governmental Activities			Business-Type Activity		
	General Obligation Bonds		OPWC Loan	General Obligation Bonds		OPWC Loan
	Principal	Interest	Principal	Principal	Interest	Principal
2018	\$117,000	\$26,097	\$8,232	\$5,000	\$13,319	\$14,195
2019	119,500	23,282	8,231	5,200	13,082	14,196
2020	122,500	20,403	8,232	5,400	12,835	14,196
2021	125,000	17,457	8,232	5,700	12,578	14,196
2022	127,500	14,453	8,231	5,900	12,307	14,196
2023-2027	543,500	26,245	37,408	33,600	57,077	56,783
2028-2032	0	0	15,620	41,700	48,370	0
2033-2037	0	0	0	51,800	37,545	0
2038-2042	0	0	0	64,100	24,121	0
2043-2047	0	0	0	62,000	7,519	0
Total	<u>\$1,155,000</u>	<u>\$127,937</u>	<u>\$94,186</u>	<u>\$280,400</u>	<u>\$238,753</u>	<u>\$127,762</u>

Note 19 - Capital Leases

The City has entered into capitalized leases for road machinery and for 2 police interceptor vehicles. The leases meet the criteria of a capital lease, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

	Governmental Activities
Road Machinery	\$188,758
Police Interceptor Vehicles	71,017
Less: Accumulated Depreciation	(133,417)
Total	<u>\$126,358</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2017.

	Governmental Activities
2018	66,058
2019	40,430
2020	18,165
Total Minimum Lease Payments	124,653
Less: Amount representing interest	(5,424)
Present Value of Minimum Lease Payments	<u>\$119,229</u>

Capital lease payments have been reclassified and reflected as debt service in the fund financial statement for the general fund. These expenditures are reflected as program expenditures on a budgetary basis.

City of Kirtland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 20 – Encumbrances

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

	<u>Amount</u>		<u>Amount</u>
Governmental Funds:		Proprietary Fund:	
General	\$36,304	Waste Water	<u>\$1,496</u>
Other Governmental Funds	<u>3,333</u>		
Total Governmental Funds	<u>\$39,637</u>		

Note 21 – 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 2017. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Suite 20, Solon, Ohio 4413.

Note 22 – Subsequent Events

During June, 2018, the City retired \$2,305,000 in general obligation bond anticipation notes and issued \$2,540,000 in new notes. The new notes have a maturity of June 20, 2019 and an interest rate of 3.00 percent.

During June 2018, the City issued a \$150,000 note to finance safety system upgrades. The new notes have a maturity of June 20, 2019 and an interest rate of 3.00 percent.

During June 2018, the City issued a \$250,000 note to finance service department vehicles. The new notes have a maturity of June 20, 2019 and an interest rate of 3.00 percent.

During June 2018, the City issued a \$100,000 note to finance the Wisner road stabilization project. The new notes have a maturity of June 20, 2019 and an interest rate of 3.00 percent.

Required Supplementary Information

City of Kirtland, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Four Years (1)

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.012365%	0.012889%	0.013139%	0.013139%
City's Proportionate Share of the Net Pension Liability	\$2,807,881	\$2,232,537	\$1,584,711	\$1,548,917
City's Covered-Employee Payroll	\$1,598,392	\$1,604,217	\$1,610,883	\$1,567,092
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	175.67%	139.17%	98.38%	98.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

City of Kirtland, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Four Years (1)

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0662470%	0.0671060%	0.0645996%	0.0645996%
City's Proportionate Share of the Net Pension Liability	\$4,196,018	\$4,316,976	\$3,346,528	\$3,146,203
City's Covered-Employee Payroll	\$1,396,114	\$1,342,602	\$1,266,312	\$1,297,154
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	300.55%	321.54%	264.27%	242.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

City of Kirtland, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Five Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$212,062	\$191,807	\$192,506	\$193,306	\$203,722
Contributions in Relation to the Contractually Required Contribution	<u>(212,062)</u>	<u>(191,807)</u>	<u>(192,506)</u>	<u>(193,306)</u>	<u>(203,722)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,631,246	\$1,598,392	\$1,604,217	\$1,610,883	\$1,567,092
Contributions as a Percentage of Covered-Employee Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2013 is not available. An additional column will be added each year.

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City of Kirtland, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$301,346	\$296,723	\$285,807	\$270,435
Contributions in Relation to the Contractually Required Contribution	<u>(301,346)</u>	<u>(296,723)</u>	<u>(285,807)</u>	<u>(270,435)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,413,663	\$1,396,114	\$1,342,602	\$1,266,312
Contributions as a Percentage of Covered-Employee Payroll	21.32%	21.25%	21.29%	21.36%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$235,746	\$189,023	\$190,546	\$182,156	\$182,068	\$181,481
<u>(235,746)</u>	<u>(189,023)</u>	<u>(190,546)</u>	<u>(182,156)</u>	<u>(182,068)</u>	<u>(181,481)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,297,154	\$1,255,268	\$1,263,338	\$1,202,174	\$1,208,891	\$1,206,877
18.17%	15.06%	15.08%	15.15%	15.06%	15.04%

City of Kirtland, Ohio
Notes to Required Supplementary Information
For the Year Ended December 31, 2017

Changes in Assumptions - OPERS

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	December 31, 2017	December 31, 2016 and Prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported for 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.