



**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**REGULAR AUDIT**

**YEARS ENDED DECEMBER 31, 2012 & 2011**





# Dave Yost • Auditor of State

Village Council  
Village of Kirtland Hills  
8026 Chillicothe Road  
Kirtland Hills, Ohio 44060

We have reviewed the *Independent Auditor's Report* of the Village of Kirtland Hills, Lake County, prepared by Canter & Associates, for the audit period January 1, 2011 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Kirtland Hills is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

September 25, 2013

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**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

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## INDEPENDENT AUDITOR'S REPORT

Village of Kirtland Hills  
Lake County  
8026 Chillicothe Road  
Kirtland Hills, Ohio 44060

To the Village Council:

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

We have audited the accompanying financial statements and related notes of the Village of Kirtland Hills, Lake County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

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

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

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

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

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Kirtland Hills, Lake County as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03permits, described in Note 1.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, during 2011 the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



**Canter & Associates**  
Poland, Ohio

June 28, 2013

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$770,492	\$13,060	\$0	\$783,552
Intergovernmental	922,080	68,259	353,263	1,343,602
Charges for Services	8,068	0	0	8,068
Fines, Licenses, Permits, and Fees	93,231	26,065	0	119,296
Earnings on Investments	842,856	120	0	842,976
Miscellaneous	16,422	0	0	16,422
<b>Total Cash Receipts</b>	<u>2,653,149</u>	<u>107,504</u>	<u>353,263</u>	<u>3,113,916</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	1,290,035	27,168	0	1,317,203
Public Health Services	16,642	0	0	16,642
Leisure Time Activities	2,610	0	0	2,610
Basic Utility Service	62,500	0	0	62,500
Transportation	336,806	26,536	0	363,342
General Government	245,571	164	8,000	253,735
Capital Outlay	23,579	290,213	841,895	1,155,687
<b>Total Cash Disbursements</b>	<u>1,977,743</u>	<u>344,081</u>	<u>849,895</u>	<u>3,171,719</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>675,406</u>	<u>(236,577)</u>	<u>(496,632)</u>	<u>(57,803)</u>
<b>Other Financing Receipts/(Disbursements):</b>				
Sale of Fixed Assets	15,095			15,095
Transfers In	0	175,000	663,076	838,076
Transfers Out	(838,076)	0	0	(838,076)
<b>Total Other Financing Receipts/(Disbursements)</b>	<u>(822,981)</u>	<u>175,000</u>	<u>663,076</u>	<u>15,095</u>
<b>Net Change in Fund Cash Balances</b>	<u>(147,575)</u>	<u>(61,577)</u>	<u>166,444</u>	<u>(42,708)</u>
<b>Fund Cash Balances, January 1</b>	<u>1,175,517</u>	<u>480,208</u>	<u>14,938,452</u>	<u>16,594,177</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$1,027,942</b></u>	<u><b>\$418,631</b></u>	<u><b>\$15,104,896</b></u>	<u><b>\$16,551,469</b></u>
<b>Restricted</b>		<b>418,631</b>		<b>418,631</b>
<b>Assigned</b>			<b>15,104,896</b>	<b>15,104,896</b>
<b>Unassigned</b>	<u><b>1,027,942</b></u>			<u><b>1,027,942</b></u>
<b>Total Fund Cash Balances, December 31</b>	<u><b>\$1,027,942</b></u>	<u><b>\$418,631</b></u>	<u><b>\$15,104,896</b></u>	<u><b>\$16,551,469</b></u>

*The notes to the financial statements are an integral part of this statement.*



**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
FIDUCIARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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	<u>Agency</u>
<b>Cash Receipts:</b>	
Fines, Licenses, Permits, and Fees	\$13,073
<b>Other Financing Receipts/(Disbursements):</b>	
Other Financing Uses	<u>(3,200)</u>
Net Change in Fund Cash Balance	9,873
Fund Cash Balances, January 1	<u>76,928</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$86,801</u></u></b>

*The notes to the financial statements are an integral part of this statement.*

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$756,223	\$12,818	\$0	\$769,041
Intergovernmental	413,184	60,604	268,617	742,405
Charges for Services	8,691	0	0	8,691
Fines, Licenses, Permits, and Fees	84,676	21,109	0	105,785
Earnings on Investments	735,898	161	0	736,059
Miscellaneous	19,195	0	0	19,195
<b>Total Cash Receipts</b>	<u>2,017,867</u>	<u>94,692</u>	<u>268,617</u>	<u>2,381,176</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	1,264,430	38,569	0	1,302,999
Public Health Services	17,286	0	0	17,286
Leisure Time Activities	2,534	0	0	2,534
Basic Utility Service	68,587	0	0	68,587
Transportation	317,495	44,234	0	361,729
General Government	211,312	143	0	211,455
Capital Outlay	0	0	625,815	625,815
<b>Total Cash Disbursements</b>	<u>1,881,644</u>	<u>82,946</u>	<u>625,815</u>	<u>2,590,405</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>136,223</u>	<u>11,746</u>	<u>(357,198)</u>	<u>(209,229)</u>
<b>Other Financing Receipts/(Disbursements):</b>				
Sale of Fixed Assets	8,375			8,375
Transfers In	0	50,000	92,138	142,138
Transfers Out	(142,138)	0	0	(142,138)
<b>Total Other Financing Receipts/(Disbursements)</b>	<u>(133,763)</u>	<u>50,000</u>	<u>92,138</u>	<u>8,375</u>
<b>Net Change in Fund Cash Balances</b>	<u>2,460</u>	<u>61,746</u>	<u>(265,060)</u>	<u>(200,854)</u>
<b>Fund Cash Balances, January 1</b>	<u>1,173,057</u>	<u>418,462</u>	<u>15,203,512</u>	<u>16,795,031</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$1,175,517</b></u>	<u><b>\$480,208</b></u>	<u><b>\$14,938,452</b></u>	<u><b>\$16,594,177</b></u>
<b>Restricted</b>		<b>480,208</b>		<b>480,208</b>
<b>Assigned</b>			<b>14,938,452</b>	<b>14,938,452</b>
<b>Unassigned</b>	<u><b>1,175,517</b></u>			<u><b>1,175,517</b></u>
<b>Total Fund Cash Balances, December 31</b>	<u><b>\$1,175,517</b></u>	<u><b>\$480,208</b></u>	<u><b>\$14,938,452</b></u>	<u><b>\$16,594,177</b></u>

*The notes to the financial statements are an integral part of this statement.*

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
FIDUCIARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	<u>Agency</u>
<b>Cash Receipts:</b>	
Fines, Licenses, Permits, and Fees	\$15,197
<b>Other Financing Receipts/(Disbursements):</b>	
Other Financing Uses	<u>(8,900)</u>
Net Change in Fund Cash Balance	6,297
Fund Cash Balances, January 1	<u>70,631</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$76,928</u></u></b>

*The notes to the financial statements are an integral part of this statement.*

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Kirtland Hills, Lake County, (the Village) as a body corporate and politic. A publicly-elected seven-member Council directs the Village. The Village provides general government services, including maintenance of roads, zoning, and police services. The Village contracts with the City of Kirtland to provide fire protection services and ambulance services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

**B. Basis of Accounting**

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash and Investments**

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively. The Village values U.S. Agency and Treasury Notes at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Fund:

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

Street Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**3. Capital Project Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project fund:

Capital Improvements Fund – This fund receives grants and general fund transfers to fund major capital outlay for the Village.

**4. Fiduciary Funds**

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other governments. The Village's agency fund accounts for performance bond deposits which are held by the Village until work has been performed in a satisfactory manner. Upon completion of the bonded work, the contractor requests the refund of the initial bond deposit.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, department, object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Fund Balance**

In 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which had no effect on fund balances. Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *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.

**3. Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

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

The Village 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.

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Property, Plant, and Equipment**

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS**

The Village maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<u>2012</u>	<u>2011</u>
Demand deposits	\$5,160	(\$6,435)
Total deposits	<u>5,160</u>	<u>(6,435)</u>
Investments:		
STAR Ohio	5,915	3,361
Vanguard Money Market	0	25,297
Fidelity Money Market	13,607	240,370
U.S. Agency and Treasury Notes	16,613,588	16,408,512
Total investments	<u>16,633,110</u>	<u>16,677,540</u>
Total deposits and investments	<u>\$16,638,270</u>	<u>\$16,671,105</u>

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**Investments:** The financial institution holds the Village's U.S. Agency and Treasury Notes and maintains records identifying the Village as owner of these securities.

Investments in STAR Ohio and money market mutual funds are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

**2012 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,988,741	\$2,668,244	\$679,503
Special Revenue	104,631	282,504	177,873
Capital Projects	1,035,000	1,016,339	(18,661)
Total	<u>\$3,128,372</u>	<u>\$3,967,087</u>	<u>\$838,715</u>

**2012 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,133,898	\$2,815,819	(\$681,921)
Special Revenue	688,360	344,081	344,279
Capital Projects	890,000	849,895	40,105
Total	<u>\$3,712,258</u>	<u>\$4,009,795</u>	<u>(\$297,537)</u>

**2011 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,004,729	\$2,026,242	\$21,513
Special Revenue	80,751	144,692	63,941
Capital Projects	487,138	360,755	(126,383)
Total	<u>\$2,572,618</u>	<u>\$2,531,689</u>	<u>(\$40,929)</u>

**2011 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,950,765	\$2,023,782	(\$73,017)
Special Revenue	156,300	82,946	73,354
Capital Projects	1,229,700	625,815	603,885
Total	<u>\$3,336,765</u>	<u>\$2,732,543</u>	<u>\$604,222</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General fund by \$73,017 and \$681,921 for the years ended December 31, 2011 and 2012, respectively.



**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**5. DEBT**

As of December 31, 2012 no new debt was issued during the audit period.

**6. RETIREMENT SYSTEMS**

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012 and 2011, OPERS members contributed 10%, respectively, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

**7. RISK MANAGEMENT**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.



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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Village of Kirtland Hills  
Lake County  
8026 Chillicothe Road  
Kirtland Hills, Ohio 44060

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Kirtland Hills (the Village), Lake County, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2013 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits. In addition, we noted the Village in 2011 adopted Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*".

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies in internal control. We consider findings 2012-01, 2012-02, 2012-03, and 2012-04 to be significant deficiencies.

**Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2012-01, 2012-02, and 2012-04.

***Entity's Response to Findings***

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

***Purpose of this Report***

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



**Canter & Associates**  
Poland, Ohio

June 28, 2013

**VILLAGE OF KIRTLAND HILLS  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 & 2012**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-01**

**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**

**Issue II Projects**

AOS Bulletin 2002-004 stipulates that all payments made to vendors by OPWC for Issue II projects awarded to a political subdivision should be recorded as receipts (intergovernmental line item) and disbursements (capital outlay line item) in the Capital Projects fund on the entity's financial statements. In addition, all labor and equipment usage reports should be completed to accurately document that in-kind contribution requirements have been met in accordance with the OPWC grant agreement. All Issue II disbursements made from funds other than the Capital Projects Fund must be segregated from the regular disbursements of said fund in order to demonstrate compliance with matching requirements.

The Village properly recorded the receipts and disbursements, however, they did not establish a Capital Projects Fund as required. The OPWC receipts and disbursements were recorded in the Street Construction, Maintenance and Repair Fund.

For 2011 and 2012 the financial statements reflect the OPWC receipts and disbursements in the Capital Projects Fund and the Village agreed and posted the adjustments.

We recommend the Village establish the proper fund to account for the funds received and disbursed.

**Managements Response:**

The Clerk was unaware of the requirement of receipts and disbursements be recorded in the Capital Projects Fund. Future receipts and disbursements will be recorded in the Capital Projects Fund.

**FINDING NUMBER 2012-02**

**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**

**Ohio Rev. Code Section 5705.41(B)** requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2011 and 2012, object level expenditures plus outstanding encumbrances exceeded appropriations within the following funds:

2011	
General Fund	\$73,017
2012	
General Fund	\$681,921

### **FINDING NUMBER 2012-02 (continued)**

In addition, appropriations posted to the Village's appropriation reports did not always agree to the Village's actual annual appropriation measure plus supplemental appropriations. The Clerk/Treasurer should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the object level to avoid overspending. In addition, the Clerk/Treasurer should periodically review the Village's appropriations reports to ensure appropriation amounts are posted accurately and timely.

#### **Managements Response:**

The expenditures exceeded appropriations because management did not believe transfers were required to be budgeted. These violations are due to transfers from the general fund to the SCMR and Capital Projects Funds. In the future all transfers will be budgeted for.

### **FINDING NUMBER 2012-03**

#### **SIGNIFICANT DEFICIENCY**

##### **FUND BALANCE CLASSIFICATION**

Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, introduces five fund balance classifications and clarifies the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are nonspendable, restricted, committed, assigned and unassigned.

The restricted fund balance includes amounts when constraints are placed on the use of resources either by externally imposed creditors or imposed by enabling legislation. The assigned fund balance includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

The Village classified all funds in the Special Revenue and Capital Projects Funds as unassigned. These amounts should have been classified as restricted and assigned respectively.

Adjustments were recorded to the 2011 and 2012 financial statements to classify the amounts as restricted and assigned.

In order to ensure the Village's governmental fund balances are reported in accordance with GASB 54, we recommend the Village review Auditor of State Bulletin 2011-004.

#### **Managements Response:**

GASB 54 is relatively new and fairly complex. Management will classify fund balances according to constraints as required by GASB 54.

**FINDING NUMBER 2012-04**

**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**

**Ohio Rev. Code Sections 5705.05-.06, 5705.14, 5705.15, and 5705.16** states no transfers can be made from one fund of a subdivision to any other fund with limited exceptions including money transferred from the general fund to any other fund of the subdivision [R.C. § 5705.14(E)]. Note: OAG Opinion 89-075 requires a governing board resolution passed by a simple majority of the board members to transfer funds.

The Village made a transfer from the Capital Projects Fund of \$300,000 to the Street Construction, Maintenance and Repair fund. This transfer constitutes an improper transfer and has been adjusted on the Village's records and in the financial statements.

We recommend the Village pass a formal resolution for transfers as well as consult legal authority for transfers if there is uncertainty as to their legality.

**Managements Response:**

Management did not realize it was improper to make transfers from the Capital Projects Fund. Future transfers will only be made as permitted.



# Dave Yost • Auditor of State

**VILLAGE OF KIRTLAND HILLS**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 8, 2013**