



Dave Yost • Auditor of State

VILLAGE OF KIRTLAND HILLS
LAKE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Governmental Fund Types - For the Year Ended December 31, 2014	3
Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Fiduciary Fund Type - For the Year Ended December 31, 2014	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Governmental Fund Types - For the Year Ended December 31, 2013	5
Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Fiduciary Fund Type - For the Year Ended December 31, 2013	6
Notes to the Financial Statements	7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	13
Schedule of Findings.....	15
Schedule of Prior Audit Findings.....	17

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Dave Yost • Auditor of State

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 of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Kirtland Hills, Lake County, (the Village) as of and for the years ended December 31, 2014 and 2013.

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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; 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 opinions.

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(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

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, 2014 and 2013, or changes in financial position thereof 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 Village of Kirtland Hills, Lake County as of December 31, 2014 and 2013, 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 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2016, 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.



Dave Yost
Auditor of State
Columbus, Ohio

May 12, 2016

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS) - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$746,046	\$12,644	\$0	\$758,690
Intergovernmental Receipts	228,811	38,983	101,359	369,153
Charges for Services	8,876	0	0	8,876
Fines, Licenses, and Permits	151,353	16,345	0	167,698
Earnings on Investments	600,079	20	0	600,099
Miscellaneous	165,443	0	0	165,443
Total Cash Receipts	1,900,608	67,992	101,359	2,069,959
Cash Disbursements:				
Current:				
Security of Persons and Property	1,174,452	33,770	0	1,208,222
Public Health Services	16,492	0	0	16,492
Leisure Time Activities	1,945	0	0	1,945
Community Environment	334	0	0	334
Basic Utility Services	68,620	0	0	68,620
Transportation	206,509	201,110	0	407,619
General Government	336,661	175	0	336,836
Capital Outlay	0	0	1,874,424	1,874,424
Total Cash Disbursements	1,805,013	235,055	1,874,424	3,914,492
Total Receipts Over/(Under) Disbursements	95,595	(167,063)	(1,773,065)	(1,844,533)
Other Financing Receipts and (Disbursements):				
Transfers-In	0	45,000	0	45,000
Transfers-Out	(45,000)	0	0	(45,000)
Total Other Financing Receipts/(Disbursements)	(45,000)	45,000	0	0
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	50,595	(122,063)	(1,773,065)	(1,844,533)
Fund Cash Balances, January 1, 2014	720,460	426,329	14,736,071	15,882,860
Fund Cash Balances, December 31, 2014				
Restricted	0	304,266	12,963,006	13,267,272
Unassigned	771,055	0	0	771,055
Fund Cash Balances, December 31, 2014	<u>\$771,055</u>	<u>\$304,266</u>	<u>\$12,963,006</u>	<u>\$14,038,327</u>

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

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS) - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Fiduciary Fund Type
	Agency
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	\$12,926
Total Non-Operating Cash Receipts	12,926
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	67,223
Total Non-Operating Cash Disbursements	67,223
Net Receipts Over/(Under) Disbursements	(54,297)
Fund Cash Balances, January 1, 2014	80,815
Fund Cash Balances, December 31, 2014	\$26,518

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

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS) - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$803,559	\$12,923	\$0	\$816,482
Intergovernmental Receipts	208,825	39,450	214,149	462,424
Charges for Services	8,022	946	0	8,968
Fines, Licenses, and Permits	75,441	19,919	0	95,360
Earnings on Investments	533,692	39	0	533,731
Miscellaneous	28,579	0	0	28,579
	<u>1,658,118</u>	<u>73,277</u>	<u>214,149</u>	<u>1,945,544</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	1,264,429	26,019	0	1,290,448
Public Health Services	15,992	0	0	15,992
Leisure Time Activities	1,501	0	0	1,501
Community Environment	550	0	0	550
Basic Utility Services	66,337	0	0	66,337
Transportation	343,155	39,390	0	382,545
General Government	232,542	170	617	233,329
Capital Outlay	0	0	623,451	623,451
	<u>1,924,506</u>	<u>65,579</u>	<u>624,068</u>	<u>2,614,153</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(266,388)</u>	<u>7,698</u>	<u>(409,919)</u>	<u>(668,609)</u>
Other Financing Receipts and (Disbursements):				
Transfers-In	0	0	41,094	41,094
Transfers-Out	(41,094)	0	0	(41,094)
	<u>(41,094)</u>	<u>0</u>	<u>41,094</u>	<u>0</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(307,482)	7,698	(368,825)	(668,609)
Fund Cash Balances, January 1, 2013	<u>1,027,942</u>	<u>418,631</u>	<u>15,104,896</u>	<u>16,551,469</u>
Fund Cash Balances, December 31, 2013				
Restricted	0	426,329	14,736,071	15,162,400
Unassigned	720,460	0	0	720,460
	<u>720,460</u>	<u>426,329</u>	<u>14,736,071</u>	<u>15,882,860</u>
Fund Cash Balances, December 31, 2013				

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

VILLAGE OF KIRTLAND HILLS
LAKE COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS) - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Fiduciary Fund Type</u>
	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>\$11,880</u>
Total Non-Operating Cash Receipts	<u>11,880</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>17,866</u>
Total Non-Operating Cash Disbursements	<u>17,866</u>
Net Receipts Over/(Under) Disbursements	(5,986)
Fund Cash Balances, January 1, 2013	<u>86,801</u>
Fund Cash Balances, December 31, 2013	<u><u>\$80,815</u></u>

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, 2014 AND 2013**

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 receive 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. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits 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. 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 accounts for and reports all financial resources not accounted for and reported 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:

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

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

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 government. 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 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, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. Estimated Resources

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

A summary of 2014 and 2013 budgetary activity appears in Note 3.

F. Fund Balance

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:

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

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.

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.

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

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 deposits and investments at December 31 was as follows:

	2014	2013
Demand deposits	\$31,339	\$57,481
Total deposits	<u>31,339</u>	<u>57,481</u>
US Treasury Bonds and Notes	0	1,950,015
STAR Ohio	146,550	5,386
Fidelity Money Market Funds	282,887	83,833
US Federal Agency Notes	13,604,069	13,866,960
Total investments	<u>14,033,506</u>	<u>15,906,194</u>
Total deposits and investments	<u>\$14,064,845</u>	<u>\$15,963,675</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation. Although the Village followed all state statutory requirements for these deposits, noncompliance with the federal requirements could potentially subject the Village to a successful claim 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 the money market mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2014 and December 31, 2013 follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,671,743	\$1,900,608	\$228,865
Special Revenue	70,885	112,992	42,107
Capital Projects	0	101,359	101,359
Total	<u>\$1,742,628</u>	<u>\$2,114,959</u>	<u>\$372,331</u>

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,941,930	\$1,850,013	\$91,917
Special Revenue	258,275	235,055	23,220
Capital Projects	286,200	1,874,424	(1,588,224)
Total	<u>\$2,486,405</u>	<u>\$3,959,492</u>	<u>(\$1,473,087)</u>

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,623,032	\$1,658,118	(\$964,914)
Special Revenue	164,536	73,277	(91,259)
Capital Projects	0	255,243	255,243
Total	\$2,787,568	\$1,986,638	(\$800,930)

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,968,530	\$1,965,600	\$2,930
Special Revenue	154,925	65,579	89,346
Capital Projects	580,000	624,068	(44,068)
Total	\$2,703,455	\$2,655,247	\$48,208

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority for Capital Improvements, River Oaks Bridge Maintenance and the Law Enforcement Trust funds for the year ended December 31, 2014.

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.

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

5. 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. OP&F participants contributed 10% for January 1, 2013 until June 30, 2013, 10.75% for July 1, 2013 until June 30, 2014, and 11.5% for July 1, 2014 until December 31, 2014 of their wages. For 2014 and 2013, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2014 and 2013, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2014.

VILLAGE OF KIRTLAND HILLS
LAKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

6. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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



Dave Yost • Auditor of State

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

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 cash balances, receipts, and disbursements by fund type of the Village of Kirtland Hills, Lake County, (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon dated May 12, 2016, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

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 opinions 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2014-002 to be a significant deficiency.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Village'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.



Dave Yost
Auditor of State
Columbus, Ohio

May 12, 2016

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013**

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

FINDING NUMBER 2014-001

Noncompliance – Expenditures exceeding Appropriations

Ohio Rev. Code §5705.41(B) prohibits a subdivision from expending money unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Village may not exceed appropriations at the legal level of control for all funds.

The following funds had expenditures in excess of appropriations at year end in violation of 5705.41 (B):

2014 - Fund	Appropriations	Expenditures	Variance
Capital Improvements	\$286,200	\$1,874,424	(\$1,588,224)
River Oaks Bridge Maintenance.	10,000	15,153	(5,153)
Law Enforcement Trust	7,000	13,835	(6,835)

We recommend, the Village verify that all expenditures have proper appropriation authority prior to expending funds and compare appropriations to expenditures at the legal level of control to maintain compliance with the above requirements. Furthermore, management should review their accounting system and determine if reports can be generated at the legal level of control adopted by Council.

Official's Response:

A large part of the amount of expenditures in excess of appropriations for the Capital Improvements fund was due to changing the way the Village's investments are reported. The Village had carried its investments at market value. Since the Village is reporting on a cash basis, during 2014, the investments were adjusted from market value to original cost and the adjustment was recognized in the Capital Improvements fund. Since this was not an actual expenditure, but rather an accounting adjustment, the amount was not appropriated. The Village reviews its expenditures and appropriations and makes sure that all expenditures have been appropriated on an ongoing basis. The balance of the expenditures in excess of appropriations noted in your finding was due to invoices that were received late and after the last council meeting for 2014.

For 2014 expenditures in excess of appropriations for: Capital Improvements, River Oaks Bridge Maintenance and Law Enforcement, management will request Village Council to retroactively approve the appropriations in excess of that originally appropriated. Management will look more closely to not allow expenditures to exceed expenditure appropriated by Council.

VILLAGE OF KIRTLAND HILLS
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013

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

FINDING NUMBER 2014-002

Significant Deficiency – Credit Card Policy

The Village provides various employees with the use of credit cards, but has not established a formal policy regarding their use.

The use of Village provided credit cards should be specified in policies established by the Village Council. The policies should, at a minimum, identify authorized users; guidelines for allowable use/purchases; method of reimbursement (if personal use is allowed); specific unallowable uses; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by Council.

Lack of formal policies regarding the above mentioned items resulted in unauthorized credit card usage or reimbursement for items not considered to be for a proper public purpose. The Village recovered all of the improper expenditure amounts through court action against the former police chief.

We recommend the Village Council establish formal policies regarding the use of Village credit cards.

Official's Response:

The Village is in the process of drafting a credit card policy which will be presented to Village Council for approval in the near future.

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	Issue II Projects	Yes	
2012-02	Expenditures Exceeding Appropriations	No	Repeated as 2014-001
2012-03	Fund Balance Classification	Yes	
2012-04	Improper Transfers	Yes	

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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
MAY 26, 2016