



**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 & 2004



Mary Taylor, CPA
Auditor of State

VILLAGE OF KIRTLAND HILLS
LAKE COUNTY

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Mary Taylor, CPA

Auditor of State

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 26, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Kirtland Hills, Lake County, Ohio, (the Village) as of and for the years ended December 31, 2006, December 31, 2005, and December 31, 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006, December 31, 2005, and December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2006, 2005, and 2004 the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006, 2005, and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006, December 31, 2005, and December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006, December 31, 2005, and December 31, 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Kirtland Hills, Lake County, Ohio, as of December 31, 2006, December 31, 2005, and December 31, 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006, December 31, 2005, and December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2007, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

June 26, 2007

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Agency	
Cash Receipts:					
Property and Local Taxes	\$769,635	\$11,720	\$0	\$0	\$781,355
Intergovernmental	372,535	60,269	2,314,623	0	2,747,427
Charges for Services	14,547	0	0	0	14,547
Fees, Licenses and Permits	0	0	0	26,958	26,958
Fines and Forfeitures	89,070	2,977	0	0	92,047
Donations and Contributions	533	0	0	0	533
Earnings on Investments	601,614	35,991	0	0	637,605
Miscellaneous	3,724	0	0	0	3,724
Total Cash Receipts	1,851,658	110,957	2,314,623	26,958	4,304,196
Cash Disbursements:					
Current:					
Security of Persons and Property	1,197,306	19,103	0	0	1,216,409
Public Health Services	16,669	0	0	0	16,669
Leisure Time Activities	2,030	0	0	0	2,030
Basic Utility Service	54,478	0	0	0	54,478
Transportation	258,601	190,806	0	0	449,407
General Government	240,863	137	28,185	0	269,185
Capital Outlay	38,597	4,700	233,420	0	276,717
Debt Service:					
Redemption of Principal	0	5,000	0	0	5,000
Total Cash Disbursements	1,808,544	219,746	261,605	0	2,289,895
Total Receipts Over/(Under) Disbursements	43,114	(108,789)	2,053,018	26,958	2,014,301
Other Financing Receipts / (Disbursements):					
Sale of Fixed Assets	3,903	0	0	0	3,903
Other Uses	0	0	0	(22,700)	(22,700)
Total Other Financing Receipts / (Disbursements)	3,903	0	0	(22,700)	(18,797)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	47,017	(108,789)	2,053,018	4,258	1,995,504
Fund Cash Balances, January 1, 2006	756,423	834,375	12,498,421	76,522	14,165,741
Fund Cash Balances, December 31, 2006	\$803,440	\$725,586	\$14,551,439	\$80,780	\$16,161,245

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 AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Agency	
Cash Receipts:					
Property and Local Taxes	\$744,073	\$11,331	\$0	\$0	\$755,404
Intergovernmental	341,089	58,178	2,222,181	0	2,621,448
Charges for Services	15,046	0	0	0	15,046
Fees, Licenses and Permits	0	0	0	26,310	26,310
Fines and Forfeitures	91,054	4,326	0	0	95,380
Rentals	38,663	0	0	0	38,663
Donations and Contributions	745	0	0	0	745
Earnings on Investments	558,578	10,607	0	0	569,185
Miscellaneous	3,940	0	0	0	3,940
Total Cash Receipts	1,793,188	84,442	2,222,181	26,310	4,126,121
Cash Disbursements:					
Current:					
Security of Persons and Property	1,044,710	16,609	0	0	1,061,319
Public Health Services	13,622	0	0	0	13,622
Leisure Time Activities	1,901	0	0	0	1,901
Basic Utility Service	52,433	0	0	0	52,433
Transportation	321,241	177,411	0	0	498,652
General Government	220,893	122	29,464	0	250,479
Capital Outlay	60,286	0	104,529	0	164,815
Debt Service:					
Redemption of Principal	0	5,000	0	0	5,000
Total Cash Disbursements	1,715,086	199,142	133,993	0	2,048,221
Total Receipts Over/(Under) Disbursements	78,102	(114,700)	2,088,188	26,310	2,077,900
Other Financing Receipts / (Disbursements):					
Sale of Fixed Assets	396,460	0	0	0	396,460
Other Uses	0	0	0	(15,660)	(15,660)
Transfers-In	0	440,000	0	0	440,000
Transfers-Out	(440,000)	0	0	0	(440,000)
Total Other Financing Receipts / (Disbursements)	(43,540)	440,000	0	(15,660)	380,800
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	34,562	325,300	2,088,188	10,650	2,458,700
Fund Cash Balances, January 1, 2005	721,861	509,075	10,410,233	65,872	11,707,041
Fund Cash Balances, December 31, 2005	\$756,423	\$834,375	\$12,498,421	\$76,522	\$14,165,741

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 AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Agency	
Cash Receipts:					
Property and Local Taxes	\$719,309	\$10,954	\$0	\$0	\$730,263
Intergovernmental	337,032	52,173	116,045	0	505,250
Charges for Services	13,517	0	0	0	13,517
Fees, Licenses and Permits	0	0	0	31,100	31,100
Fines and Forfeitures	103,727	3,138	0	0	106,865
Rentals	39,000	0	0	0	39,000
Donations and Contributions	1,848	0	0	0	1,848
Earnings on Investments	522,347	5,719	0	0	528,066
Miscellaneous	6,568	0	0	0	6,568
Total Cash Receipts	1,743,348	71,984	116,045	31,100	1,962,477
Cash Disbursements:					
Current:					
Security of Persons and Property	963,903	17,337	0	0	981,240
Public Health Services	11,245	0	0	0	11,245
Leisure Time Activities	2,717	0	0	0	2,717
Basic Utility Service	63,015	0	0	0	63,015
Transportation	295,643	194,753	0	0	490,396
General Government	200,047	115	0	0	200,162
Capital Outlay	40,552	0	93,786	0	134,338
Debt Service:					
Redemption of Principal	0	5,000	0	0	5,000
Total Cash Disbursements	1,577,122	217,205	93,786	0	1,888,113
Total Receipts Over/(Under) Disbursements	166,226	(145,221)	22,259	31,100	74,364
Other Financing Receipts / (Disbursements):					
Sale of Fixed Assets	3,400	0	0	0	3,400
Other Uses	0	0	0	(18,515)	(18,515)
Transfers-In	0	130,000	0	0	130,000
Transfers-Out	(130,000)	0	0	0	(130,000)
Total Other Financing Receipts / (Disbursements)	(126,600)	130,000	0	(18,515)	(15,115)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	39,626	(15,221)	22,259	12,585	59,249
Fund Cash Balances, January 1, 2004	682,235	524,296	10,387,974	53,287	11,647,792
Fund Cash Balances, December 31, 2004	\$721,861	\$509,075	\$10,410,233	\$65,872	\$11,707,041

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

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**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, AND 2004**

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, Ohio, (the Village) as a body corporate and politic. A publicly-elected seven-member Council directs the Village. The Village provides general government services, including road and bridge maintenance, and police services. The Village contracts with the City of Kirtland to provide fire 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 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 certificates of deposit and U.S. Treasury Notes at cost. Investments in STAR Ohio (the State Treasurer's investment pool) are valued at amounts reported by the State Treasurer.

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 proceeds from specific sources (other than for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant special revenue fund:

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, AND 2004
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (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 receipts restricted to acquiring or constructing major capital projects. The Village had the following significant capital project fund:

Capital Improvements Fund – This fund receives estate tax and grant receipts to fund major capital outlay for the Village.

4. Fiduciary Fund

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. The Village has no trust funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations 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 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. The County Budget Commission must also approve the annual appropriation measure. 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 also approve estimated resources.

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, AND 2004
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

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. The Village did not properly use the encumbrance method of accounting.

A summary of 2006, 2005, and 2004 budgetary activity appears in Note 3.

F. 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.

G. 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 Cash and Investments

The Village maintains a cash and investments pool for 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:

	2006	2005	2004
Demand deposits	\$474,538	\$33,511	\$8,224
Certificates of deposit	0	600,000	0
Petty cash	500	500	500
Total deposits	<u>475,038</u>	<u>634,011</u>	<u>8,724</u>
U.S. Agency and Treasury Notes	4,729,987	0	498,750
STAR Ohio	493,958	1,031,730	499,567
Vanguard Money Market Funds	10,462,262	12,500,000	10,700,000
Total investments	<u>15,686,207</u>	<u>13,531,730</u>	<u>11,698,317</u>
Total deposits and investments	<u><u>\$16,161,245</u></u>	<u><u>\$14,165,741</u></u>	<u><u>\$11,707,041</u></u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

At December 31, 2006 \$441,584 of deposits were not insured or collateralized, contrary to Ohio law.

Investments: The Federal Reserve holds the Village's U.S. Agency and Treasury Notes in book entry form in the name of the Village's financial institution. The financial institution maintains records identifying the Village as the owner of these securities.

Investments in STAR Ohio 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, 2006, 2005, AND 2004
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2006, December 31, 2005, and December 31, 2004 follows:

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,834,835	\$1,855,561	\$20,726
Special Revenue	93,662	110,957	17,295
Capital Projects	48,357	2,314,623	2,266,266
Total	\$1,976,854	\$4,281,141	\$2,304,287

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,916,289	\$1,808,544	\$107,745
Special Revenue	355,350	219,746	135,604
Capital Projects	294,857	261,605	33,252
Total	\$2,566,496	\$2,289,895	\$276,601

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,779,499	\$2,189,648	\$410,149
Special Revenue	510,283	524,442	14,159
Capital Projects	16,000	2,222,181	2,206,181
Total	\$2,305,782	\$4,936,271	\$2,630,489

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,184,112	\$2,155,086	\$29,026
Special Revenue	310,900	199,142	111,758
Capital Projects	166,500	133,993	32,507
Total	\$2,661,512	\$2,488,221	\$173,291

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,705,690	\$1,746,748	\$41,058
Special Revenue	68,831	201,984	133,153
Capital Projects	30,134	116,045	85,911
Total	\$1,804,655	\$2,064,777	\$260,122

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, AND 2004
(Continued)**

3. Budgetary Activity (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,740,800	\$1,707,122	\$33,678
Special Revenue	224,900	217,205	7,695
Capital Projects	165,000	93,786	71,214
Total	\$2,130,700	\$2,018,113	\$112,587

Contrary to Ohio Revised Code section 5705.41(D) the Village does not utilize purchase orders to certify the amount required to meet any contract or expenditure has been lawfully appropriated prior to receiving goods or services. The Village relies solely on the use of "Then and Now" certifications for all purchases.

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.

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

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission - 2001	20,000	0%
Total	\$20,000	

The Ohio Public Works Commission loan relates to improvements for Garfield Road. The loan will be repaid in semiannual installments of \$2,500 over 10 years. This debt is paid from the Special Revenue Street Repair Fund.

Amortization of the above debt, including interest, is scheduled as follows:

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, AND 2004
(Continued)**

5. Debt (Continued)

Year ending December 31:	<u>OPWC Loan</u>
2007	\$5,000
2008	5,000
2009	5,000
2010	5,000
Total	<u><u>\$20,000</u></u>

6. Retirement Systems

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees, including part-time Police Officers, 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 2006, 2005, and 2004, OP&F participants contributed 10% of their wages. For 2006, 2005, and 2004, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2006, 2005, and 2004, OPERS members, except part-time Police Officers, contributed 9, 8.5, and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7, 13.55, and 13.55%, respectively, of participants' gross salaries. For 2006, 2005, and 2004, OPERS part-time Police Officers contributed 10.1% of their gross salaries and the Village contributed an amount equaling 16.93, 16.7, and 16.7%, respectively. The Village has paid all contributions required through December 31, 2006.

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.



Mary Taylor, CPA

Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the Village of Kirtland Hills, Lake County, Ohio, (the Village) as of and for the years ended December 31, 2006, December 31, 2005, and December 31, 2004, and have issued our report thereon dated June 26, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated June 26, 2007.

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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 26, 2007.

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

June 26, 2007

VILLAGE OF KIRTLAND HILLS
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, AND 2004

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

FINDING NUMBER 2006-001

Noncompliance Citation and Significant Deficiency

Encumbrance of Funds

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

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

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

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

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

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

The Village does not utilize purchase orders to certify expenditures at the time the commitment was incurred. To certify expenditures the Village solely relies on using the "Then and Now" certification which occurs after goods or services are received. Council approves all "Then and Now" certificates in excess of \$1,000. Failure to properly certify the availability of funds prior to receiving goods or services can result in overspending funds and negative cash fund balances.

**VILLAGE OF KIRTLAND HILLS
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, AND 2004
(Continued)**

FINDING NUMBER 2006-001 (Continued)

Encumbrance of Funds (Continued)

Prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. The exceptions noted above are to be utilized infrequently and on a case by case basis, not on a daily basis for all expenditures. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Clerk-Treasurer certify the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

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

Official's Response:

The Village does not believe the use of purchase orders is beneficial to the operations of the Village. All expenditures are evaluated prior to payment to ensure adequate appropriations are available. Every expenditure is certified with a "Then and Now" certification and Council approves all "Then and Now" certifications in excess of \$1,000.



Mary Taylor, CPA
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
JULY 31, 2007**