



Dave Yost • Auditor of State

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Governmental Fund Types - For the Year Ended December 31, 2011	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2011	6
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Governmental Fund Types - For the Year Ended December 31, 2010	7
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2010	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters - Required by <i>Government Auditing Standards</i>	21
Schedule of Findings.....	23
Schedule of Prior Audit Findings.....	35

This page intentionally left blank.



Dave Yost • Auditor of State

Village of Highland Hills
Cuyahoga County
3700 Northfield Road
Highland Hills, Ohio 44122

To the Members of 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 an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village 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 adverse 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 "Dave Yost".

Dave Yost
Auditor of State

December 30, 2013

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Highland Hills
Cuyahoga County
3700 Northfield Road
Highland Hills, Ohio 44122

To the Members of Village Council:

We have audited the accompanying financial statements of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2011 and 2010. 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. 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, 2011 and 2010 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, 2011 and 2010, 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 as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of the Village of Highland Hills, Cuyahoga County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 2, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 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. 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.

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

Dave Yost
Auditor of State

December 30, 2013

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Local Taxes	\$137,825	\$162,706	\$0	\$0	\$300,531
Municipal Income Tax	2,858,930	0	238,667	0	3,097,597
Intergovernmental	77,245	14,753	0	64,271	156,269
Special Assessments	0	33,592	0	0	33,592
Charges for Services	44,575	59,542	0	0	104,117
Fines, Licenses and Permits	298,576	0	0	0	298,576
Earnings on Investments	488	0	0	0	488
Miscellaneous	88,630	0	0	0	88,630
<i>Total Cash Receipts</i>	<u>3,506,269</u>	<u>270,593</u>	<u>238,667</u>	<u>64,271</u>	<u>4,079,800</u>
Cash Disbursements					
Current:					
Security of Persons and Property	1,092,642	353,986	0	0	1,446,628
Community Environment	352,258	0	0	0	352,258
Basic Utility Services	0	106,717	0	0	106,717
Transportation	404,400	0	0	0	404,400
General Government	1,364,416	0	133	0	1,364,549
Capital Outlay	0	0	0	68,155	68,155
Debt Service:					
Principal Retirement	0	0	130,415	0	130,415
Interest and Fiscal Charges	0	0	108,252	0	108,252
<i>Total Cash Disbursements</i>	<u>3,213,716</u>	<u>460,703</u>	<u>238,800</u>	<u>68,155</u>	<u>3,981,374</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>292,553</u>	<u>(190,110)</u>	<u>(133)</u>	<u>(3,884)</u>	<u>98,426</u>
<i>Fund Cash Balances, January 1</i>	<u>150,467</u>	<u>(137,746)</u>	<u>(3,000)</u>	<u>(46,551)</u>	<u>(36,830)</u>
Fund Cash Balances, December 31					
Restricted	0	69,812	0	7,429	77,241
Unassigned (Deficit)	443,020	(397,668)	(3,133)	(57,864)	(15,645)
<i>Fund Cash Balances, December 31</i>	<u>\$443,020</u>	<u>(\$327,856)</u>	<u>(\$3,133)</u>	<u>(\$50,435)</u>	<u>\$61,596</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts			
Charges for Services	\$514,838	\$36,341	\$551,179
Fines, Licenses and Permits	0	121,941	121,941
<i>Total Operating Cash Receipts</i>	<u>514,838</u>	<u>158,282</u>	<u>673,120</u>
Operating Cash Disbursements			
Personal Services	195,219	0	195,219
Contractual Services	238,484	192,953	431,437
Supplies and Materials	20,065	0	20,065
<i>Total Operating Cash Disbursements</i>	<u>453,768</u>	<u>192,953</u>	<u>646,721</u>
<i>Net Change in Fund Cash Balances</i>	61,070	(34,671)	26,399
<i>Fund Cash Balances, January 1</i>	<u>35,851</u>	<u>305,362</u>	<u>341,213</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$96,921</u></u>	<u><u>\$270,691</u></u>	<u><u>\$367,612</u></u>

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

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$174,799	\$176,027	\$0	\$0	\$350,826
Municipal Income Tax	2,597,452	0	237,791	0	2,835,243
Intergovernmental	83,320	15,400	0	32,450	131,170
Special Assessments	0	32,677	0	0	32,677
Charges for Services	27,048	34,074	0	0	61,122
Fines, Licenses and Permits	404,164	0	0	0	404,164
Earnings on Investments	969	0	0	0	969
Miscellaneous	83,708	0	0	0	83,708
<i>Total Cash Receipts</i>	<u>3,371,460</u>	<u>258,178</u>	<u>237,791</u>	<u>32,450</u>	<u>3,899,879</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	1,157,663	317,611	0	0	1,475,274
Community Environment	147,319	0	0	0	147,319
Basic Utility Service		66,364	0	0	66,364
Transportation	414,988	0	0	0	414,988
General Government	1,635,761	0	3,000	0	1,638,761
Capital Outlay	0	0	0	49,543	49,543
Debt Service:					
Redemption of Principal	0	0	124,600	0	124,600
Interest and Fiscal Charges	0	0	113,191	0	113,191
<i>Total Cash Disbursements</i>	<u>3,355,731</u>	<u>383,975</u>	<u>240,791</u>	<u>49,543</u>	<u>4,030,040</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	15,729	(125,797)	(3,000)	(17,093)	(130,161)
<i>Fund Cash Balances, January 1, Restated (See Note 2)</i>	<u>134,738</u>	<u>(11,949)</u>	<u>0</u>	<u>(29,458)</u>	<u>93,331</u>
<i>Fund Cash Balances, December 31</i>	<u>\$150,467</u>	<u>(\$137,746)</u>	<u>(\$3,000)</u>	<u>(\$46,551)</u>	<u>(\$36,830)</u>
<i>Reserve for Encumbrances, December 31</i>	<u>\$0</u>	<u>\$9,165</u>	<u>\$0</u>	<u>\$0</u>	<u>\$9,165</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$480,040	\$14,420	\$494,460
Fines, Licenses and Permits	0	95,248	95,248
<i>Total Operating Cash Receipts</i>	<u>480,040</u>	<u>109,668</u>	<u>589,708</u>
Operating Cash Disbursements:			
Personal Services	192,188	0	192,188
General Government	25,535	0	25,535
Contractual Services	244,200	226,550	470,750
<i>Total Operating Cash Disbursements</i>	<u>461,923</u>	<u>226,550</u>	<u>688,473</u>
<i>Excess of Receipts Over/(Under) Disbursements</i>	18,117	(116,882)	(98,765)
<i>Fund Cash Balances, January 1</i>	<u>17,734</u>	<u>422,244</u>	<u>439,978</u>
<i>Fund Cash Balances, December 31</i>	<u>\$35,851</u>	<u>\$305,362</u>	<u>\$341,213</u>
<i>Reserve for Encumbrances, December 31</i>	<u>\$1,143</u>	<u>\$0</u>	<u>\$1,143</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 Highland Hills, Cuyahoga County, (the Village) as a body corporate and politic. The Village is directed by a publicly elected six-member Council who serve four year terms. The Council members elect a Council President. The Mayor is elected to a four year term and votes only to break a tie in Council votes. The Village provides police and fire protection services, road maintenance, general governmental services and a Mayor's Court.

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. 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 invested in money market mutual funds which are recorded at share values the mutual fund reports.

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.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

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 Funds:

Fire Levy Fund – This fund receives property tax and state money to provide fire protection services.

Lighting Assessment Fund – This fund receives special assessment receipts for the operations of the Village's street lights.

3. Debt Service Fund

This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

4. 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:

Harvard Road Resurfacing Fund – This fund accounts for construction costs associated with the Harvard Road surface improvements.

5. Enterprise Fund

This fund accounts for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

Rental Operations Fund – The Village leases office space as well as tenant rental units in the building that also houses the Village's administrative offices. Revenues and expenses associated with the leasing of this rental space are accounted for in an enterprise fund.

6. Fiduciary Funds (Agency 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 funds account for rental deposits, contractor deposits and the Village's Mayor's Court.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

E. Budgetary Process

The Ohio Revised Code requires that each fund.

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. 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 reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2011 and 2010 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:

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.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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 HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

2. Change in Accounting Principle and Restatement of Net Assets/Fund Equity

For fiscal year 2011, the Village implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had no effect on the Village's fund balances.

In accordance with Village ordinances, the Village began presenting its Debt Service Fund on its financial statements for fiscal year 2010. Presenting this fund apart from the General Fund revealed that the Village had not been properly posting receipts of tax levies to cover the principal and interest debt payments. This resulted in a significant negative balance in the Debt Service Fund, and subsequent restatement of the Village's General and Debt Service Fund balances at December 31, 2009, as follows:

	Fund Balance at December 31, 2009	Adjustment to Cover Deficit Fund Balance	Adjusted Fund Balance at December 31, 2009
General	\$510,050	(375,312)	\$134,738
Debt Service	(\$375,312)	375,312	\$0

3. 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:

	<u>2011</u>	<u>2010</u>
Demand deposits	\$75,807	\$0
Money market mutual funds	357,027	308,011
Total deposits and investments	<u>\$432,834</u>	<u>\$308,011</u>

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

Investments: Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

4. Budgetary Activity

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,123,054	\$3,506,269	\$383,215
Special Revenue	414,999	270,593	(144,406)
Debt Service	0	238,667	238,667
Capital Projects	133,400	64,271	(69,129)
Enterprise	720,000	514,838	(205,162)
Agency	515,300	158,282	(357,018)
Total	\$4,906,753	\$4,752,920	(\$153,833)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,583,285	\$3,213,716	\$369,569
Special Revenue	482,467	460,703	21,764
Debt Service	241,933	238,800	3,133
Capital Projects	3,884	68,155	(64,271)
Enterprise	490,036	453,768	36,268
Agency	77,279	192,953	(115,674)
Total	\$4,878,884	\$4,628,095	\$250,789

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$4,175,080	\$3,371,460	(\$803,620)
Special Revenue	443,700	258,178	(185,522)
Debt Service	0	237,791	237,791
Capital Projects	31,749	32,450	701
Enterprise	430,000	480,040	50,040
Agency	104,700	109,668	4,968
Total	\$5,185,229	\$4,489,587	(\$695,642)

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

4. Budgetary Activity (Continued)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,275,383	\$3,355,731	(\$80,348)
Special Revenue	298,890	393,140	(94,250)
Debt Service	218,400	240,791	(22,391)
Capital Projects	64,000	49,543	14,457
Enterprise	391,469	463,066	(71,597)
Agency	61,870	226,550	(164,680)
Total	\$4,310,012	\$4,728,821	(\$418,809)

Contrary to Ohio Rev. Code Section 5705.10(H), the Village had negative fund balances in the Fire Levy, Lighting Assessment, General Obligation Bond Retirement, Issue II, CDBG – 2002 Exterior, Municipal Complex Renovation, Fire Training Grant, Harvard Road Resurfacing, Transition Assistance and Building Standards Funds at December 31, 2011, and in the Fire Levy, General Obligation Bond Retirement, Issue II, CDBG – 2002 Exterior, Municipal Complex Renovation, Harvard Road Resurfacing, Transition Assistance and Building Standards Funds at December 31, 2010, respectively.

Contrary to Ohio Rev. Code Section 5705.36(A)(4), appropriations exceeded actual resources plus encumbrances in the General, Fire Levy, Lighting Assessment and General Obligation Bond Retirement Funds at December 31, 2011, and the Fire Levy, Harvard Road Resurfacing and Building Standards Assessment Funds at December 31, 2010.

Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources in the General, Fire Levy, Lighting Assessment, and General Obligation Bond Retirement Funds at December 31, 2011, and the General Obligation Bond Retirement, Special Fire Grant and Harvard Road Resurfacing Funds at December 31, 2010.

Contrary to Ohio Rev. Code Section 5705.41(B), the Village had expenditures plus encumbrances that exceeded appropriations as of December 31, 2011 in the Lighting Assessment, Fire Training and Equipment, Harvard Road Resurfacing, Contractor's Deposits and Mayor's Court funds. In addition, the Village had expenditures plus encumbrances that exceeded appropriations as of December 31, 2010 in the General, Fire Levy, Lighting Assessment, General Obligation Bond Retirement, Fire Training and Equipment, Special Fire Grant, Rental Operations, Contractor's Deposits and Mayor's Court funds.

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not properly encumber numerous purchases during 2011 and 2010.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

5. 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.

6. Local Income Tax

The Village levies a municipal income tax of 2.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Cleveland Collection Agency (CCA) either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually. CCA collects taxes on the Village's behalf and remits them to the Village on a monthly basis.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

7. Debt

In 2005, the Village issued \$2,565,000 in debt to fund the renovation of the existing municipal building. In 2006, the Village issued \$430,000 in building improvement bonds. This debt was also to fund building improvements for the Village's municipal building.

The Village's long-term debt activity for the year ended December 31, 2011, was as follows:

Governmental Activities	<u>Interest Rate</u>	<u>Balance 1/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2011</u>
Various Purpose Refunding Bonds 2005 Issue (Original Amount \$2,565,000)	3.25 - 4.375%	\$2,135,000	\$0	(\$115,000)	\$2,020,000
Building Improvement Bonds 2006 Issue (Original Amount \$430,000)	5.5%	382,185	0	(15,415)	366,770
Total Governmental Activities		<u>\$2,517,185</u>	<u>\$0</u>	<u>(\$130,415)</u>	<u>\$2,386,770</u>

The Village's long-term debt activity for the year ended December 31, 2010, was as follows:

Governmental Activities	<u>Interest Rate</u>	<u>Balance 1/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2010</u>
Various Purpose Refunding Bonds 2005 Issue (Original Amount \$2,565,000)	3.25 - 4.375%	\$2,245,000	\$0	(\$110,000)	\$2,135,000
Building Improvement Bonds 2006 Issue (Original Amount \$430,000)	5.5%	396,785	0	(14,600)	382,185
Total Governmental Activities		<u>\$2,641,785</u>	<u>\$0</u>	<u>(\$124,600)</u>	<u>\$2,517,185</u>

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

7. Debt (Continued)

The following is a summary of the Village's future annual debt service requirements:

Year ending December 31:	2005 Refunding Bonds		2006 Building Improvement Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$120,000	\$83,129	\$16,274	\$19,952	\$136,274	\$103,081
2013	125,000	78,329	17,181	19,044	142,181	97,373
2014	135,000	73,329	18,140	18,086	153,140	91,415
2015	135,000	68,266	19,150	17,075	154,150	85,341
2016	140,000	63,035	20,218	16,007	160,218	79,042
2017-2021	800,000	224,675	119,311	61,815	919,311	286,490
2022-2026	565,000	54,275	156,496	24,632	721,496	78,907
Total	<u>\$2,020,000</u>	<u>\$645,038</u>	<u>\$366,770</u>	<u>\$176,611</u>	<u>\$2,386,770</u>	<u>\$821,649</u>

8. 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 2011 and 2010, OP&F participants contributed 10% of their wages. For 2011 and 2010, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2011 and 2010, 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 for 2011 and 2010.

Effective August 3, 1992, any new part-time Village fire fighters are no longer covered by Ohio Public Employees Retirement System and must contribute to social security. The Village's liability is 6.2 percent of wages paid.

9. Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

9. Risk Management (Continued)

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (41.5% effective November 1, 2011, 40% through October 31, 2011 and 17.5% through October 31, 2010) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 782 and 761 members as of December 31, 2011 and 2010 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Assets	\$12,501,280	\$12,036,541
Liabilities	(5,328,761)	(4,845,056)
Members' Equity	<u>\$7,172,519</u>	<u>\$7,191,485</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

10. Contingent Liabilities

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

11. Agreement with Another Village

The Village of Highland Hills has an agreement with the Village of North Randall whereby the Village of Highland Hills picks up the garbage for North Randall residents for no monthly fees in exchange for the Village of North Randall providing central dispatch services for the Village of Highland Hills for a nominal monthly fee.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

12. Subsequent Event

In October 2012, the Village entered into a cooperative agreement for the Village Community Center with the Council of Cuyahoga County in which the \$1,900,000 of the Village's Building Improvement and Refunding Bonds, Series 2005, dated as of October 18, 2005, were defeased. Cuyahoga County issued bonds to the Village of Highland Hills in the amount of \$1,725,000 on December 13, 2012.



Dave Yost • 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 Highland Hills
Cuyahoga County
3700 Northfield Road
Highland Hills, Ohio 44122

To the Members of Village Council:

We have audited the financial statements of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated December 30, 2013, wherein the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United State of America. We also noted the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-002 through 2011-010.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated December 30, 2013.

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.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

December 30, 2013

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

FINDING NUMBER 2011-001

Financial Reporting – Material Weakness

Sound financial reporting is the responsibility of the Finance Director, Mayor, and Village Council, and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, the Village's accounting system for 2011:

- The Village did not post income tax receipts to its Debt Service Fund, resulting in General Fund income tax revenue being overstated and Debt Service Fund income tax revenue being understated by \$238,667;
- The Village misposted various auto registration, gasoline tax and motor vehicle license tax receipts, resulting in an overstatement of intergovernmental receipts in the General Fund totaling \$12,928, and understatements in the Gasoline Tax, Street Construction Maintenance and Repair, and State Highway Special Revenue Funds of \$8,531, \$2,771 and \$1,626, respectively;
- The Village did not post Ohio Public Works Commission receipts and corresponding expenditures, resulting in Capital Projects Fund intergovernmental receipts and capital outlay expenditures being understated by \$64,271;
- The Village did not post \$108,575 in Mayor's Court receipts and corresponding expenditures to its Agency Fund, resulting in Fines, Licenses and Permits receipts and Contractual Services disbursements being understated by \$108,575; and
- The Village misposted debt activity to the General Fund which resulted in an overstatement of \$18,112 in disbursements in the General Fund and understatements of Retirement of Principal and Interest and Fiscal Charges in the Debt Service Fund of \$7,707 and \$10,405, respectively.

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, the Village's accounting system for 2010:

- The Village did not post income tax receipts to its Debt Service Fund, resulting in General Fund income tax revenue being overstated and Debt Service Fund income tax revenue being understated by \$237,791;
- The Village misposted various auto registration, gasoline tax and motor vehicle license tax receipts, resulting in an overstatement of intergovernmental receipts in the General Fund totaling \$14,543, and understatements in the Gasoline Tax, Street Construction Maintenance and Repair, and State Highway Special Revenue Funds of \$8,566, \$1,772 and \$4,205, respectively;
- The Village did not post Ohio Public Works Commission receipts and corresponding expenditures, resulting in Capital Projects Fund intergovernmental receipts and capital outlay expenditures being understated by \$23,569;
- The Village did not post \$108,575 in Mayor's Court receipts and corresponding expenditures to its Agency Fund, resulting in Fines, Licenses and Permits receipts and Contractual Services disbursements being understated by \$108,575; and
- The Village misposted debt activity to the General Fund which resulted in an overstatement of \$18,113 in disbursements in the General Fund and an understatement of \$18,113 in Interest and Fiscal Charges in the Debt Service Fund.

Furthermore, the Village made numerous incorrect accounting system adjustments at both year-ends, routinely did not update its accounting system to support various transactions, and did not make updates to system reports for budgetary amendments.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

(Continued)

FINDING NUMBER 2011-001
(Continued)

Financial Reporting – Material Weakness (Continued)

The lack of controls over the posting of financial transactions and financial reporting resulted in several errors and mispostings that required adjustments.

We recommend the Village take appropriate measures to ensure that all financial reports are in agreement, all balances reflect the actual financial activity of the Village and all annual financial reports depict the accurate financial position of the Village.

Official's Response: The Village has taken action to improve the internal controls over financial reporting through hiring additional staff, staff training and new software implementation.

FINDING NUMBER 2011-002

Posting of Tax Levies for Bond Retirement – Material Noncompliance

Ohio Rev. Code Section 5705.10(B) states "all revenue derived from general or special levies for debt charges, whether within or in excess of the ten-mill limitation, which is levied for the debt charges on serial bonds, notes, or certificates of indebtedness having a life less than five years, shall be paid into the bond retirement fund; and all such revenue which is levied for the debt charges on all other bonds, notes, or certificates of indebtedness shall be paid into the sinking fund."

Section 9 of Village Ordinance 2006-24, pertaining to its 2006 bond issuance, states "there shall be levied on all the taxable property in the Village in addition to all other taxes, a direct tax annually during the period the Bonds are outstanding in an amount to pay the debt charges on the Bonds when due, which tax shall not be less than the interest and sinking fund tax required by Section 11 of Article XII of the Ohio Constitution. The tax shall be within the ten-mill limitation imposed by law, shall be and is ordered computed, certified, levied and extended upon the tax duplicate and collected by the same officers, in the same manner at the same time that taxes for general purposes for each of those years are certified, levied, extended and collected, and shall be placed before and in preference to all other items and for the full amount thereof. The proceeds of the tax levy shall be placed in the Bond Retirement Fund, which is irrevocably pledged for the payment of the debt charges on the Bonds when and as the same fall due. In each year to the extent proceeds from the Village's municipal income tax are available for the payment of debt charges on the Bonds and are appropriated for the purpose, the amount of the tax shall be reduced by the amount of the income tax so available and appropriated."

During 2011 and 2010, the Village did not receipt any funds into its Debt Service Fund. This resulted in significant deficit fund balances at December 31, 2011 and December 31, 2010, and subsequent adjustment to the Village's financial statements and accounting system.

We recommend the Village post tax levy receipts to the Debt Service Fund in accordance with the above Ohio Rev. Code Section and Village Ordinance.

Official's Response: The Village will comply with the recommendation.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

(Continued)

FINDING NUMBER 2011-003

Timely Deposits – Material Noncompliance

Ohio Rev. Code Section 9.38 states public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, a public office may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than three business days after receiving it.

During 2011, we noted the following receipts were not deposited on the following business day:

- 11 out of 13 Rental Deposit receipts tested, or \$109,479 out of \$118,474;
- Three out of six Emergency Medical Service receipts tested, or \$13,599 out of \$16,735; and
- Four out of six Contract and Tenant deposits tested, or \$6,340 out of \$7,100.

During 2010, we noted the following receipts were not deposited on the following business day:

- 10 out of 12 Rental Deposit receipts tested, or \$140,605 out of \$184,051;
- One out of five Emergency Medical Service receipts tested, or \$1,889 out of \$10,412; and
- Two out of two Contract and Tenant deposits tested, or \$1,630 out of \$1,630.

In addition, we noted the Village has not approved a policy allowing any personnel to hold receipts beyond the next business day. The time between receipt and deposit of these monies by the Village ranged from two to 31 days.

The failure to deposit public money with the treasurer of the public office or to a designated depository allows funds to remain on hand and increases the risk of a possibility of theft.

We recommend the Village's employees deposit the public money collected in accordance with the above requirements.

Official's Response: The Village will review Ohio Rev. Code Section 9.38 to determine if the Village can develop a policy or legislation to accommodate the extensive rental receipts that are collected generally in one day for which it takes additional time to reconcile and deposit. In addition the Village has implemented billing software for the rental operations which should improve the timeliness of collections.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

(Continued)

FINDING NUMBER 2011-004

Reporting to Ohio Police & Fire Pension Fund – Material Noncompliance

Ohio Rev. Code Section 742.32 states the fiscal officer of each employer shall transmit monthly to the secretary of the board of trustees of the Ohio police and fire pension fund (OP&F) a report of employee deductions in such form as the board requires. The report shall show all deductions for the fund made pursuant to Section 742.31 of the Revised Code and shall be accompanied by payments covering the total of such deductions. The report shall also include the name of each member for whom deductions were made and the portion of the payment attributed to that member. Separate payments shall be so transmitted for that portion of such deductions made from the salaries of members of the police department and for that portion of such deductions made from the salaries of members of the fire department. The report and payment are due the last day of the month following the last day of the reporting period. A penalty determined under Section 742.352 of the Revised Code shall be assessed if any of the following occur:

- (A) The report is received by the board after the due date or is not in the form required by the board.
- (B) Payments to cover the total amount due from the salaries of all employees of the employer are received by the board after the due date.

The penalty shall be added to and collected on the next succeeding regular employer billing. If the penalty is not paid within sixty days after it is added to the regular employer billing, interest at a rate determined by the board may be charged on the total amount due and the amount of the penalty from the date the amount is due to the date of payment.

The secretary of the board, after making a record of all such receipts and crediting each employee's individual account with the amount deducted from the employee's salary, shall deposit the receipts with the treasurer of state for use as provided by this chapter. Where an employer fails to deduct contributions for any employee and transmit such amounts to the fund, the board may make a determination of the employee's liability for contributions and certify to the employer the amounts due for collection in the same manner and subject to the same penalties as payments due the employer's contributions funds.

Based on confirmations received from OP&F, the Village did not file the required reports or remit the monies as required by this Ohio Rev. Code Section through May 2010.

We also noted the following:

- Police Fund remittances were submitted late in six out of 12 months in 2011;
- Fire Fund remittances were submitted late in five out of 12 months in 2011;
- Police Fund remittances were submitted late in eight out of 12 months in 2010; and
- Fire Fund remittances were submitted late in eight out of 12 months in 2010.

Failure to submit timely reports resulted in penalties and interest being assessed against the Village.

In addition, the Village changed their pick-up plan in 2010 and failed to notify OP&F, resulting in additional noncompliance issues and penalties.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

(Continued)

**FINDING NUMBER 2011-004
(Continued)**

Reporting to Ohio Police & Fire Pension Fund – Material Noncompliance (Continued)

We recommend the Village report and remit the monies to OP&F as required by the above Ohio Rev. Code Sections and respond to follow-up requests from OP&F in a timely manner.

This matter has been referred to the Ohio Police and Fire Fund.

Official's Response: The Village will comply with the recommendation.

FINDING NUMBER 2011-005

Certification of Available Resources – Material Noncompliance

Ohio Rev. Code Section 5705.36(A)(4) requires the fiscal officer to file a reduced amended certificate if the revenue to be collected by the subdivision will be less than the amount included in an official certificate and the amount of the deficiency will reduce available resources below the current level of appropriation. The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

The Village did not obtain reduced amended certificates of estimated resources which would have reduced the available resources below the current level for the following variances:

Fund	Appropriations	Actual Receipts including Unencumbered Balance	Variance
As of December 31, 2011:			
General Fund	\$3,583,285	\$3,556,269	\$27,016
Fire Levy	387,658	222,248	165,410
Lighting Assessment	94,809	62,092	32,717
General Obligation Bond Retirement	241,933	238,667	3,266
As of December 31, 2010:			
Fire Levy	254,780	235,101	19,679
Harvard Road Resurfacing	47,500	23,569	23,931
Building Standards Assessment	170	0	170

Appropriating more money than received led to negative fund balances.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

(Continued)

**FINDING NUMBER 2011-005
(Continued)**

Certification of Available Resources – Material Noncompliance (Continued)

We recommend the Village compare actual receipts to appropriations on a monthly basis and obtain an amended certificate of estimated resources as needed.

Official's Response: The Village will comply with the recommendation.

FINDING NUMBER 2011-006

Appropriations in Excess of Estimated Resources – Material Noncompliance

Ohio Rev. Code Section 5705.39 states the total appropriations from each fund shall not exceed the total estimated resources.

The Village had appropriations in excess of estimated resources in the following funds for the following amounts:

Fund	Appropriations	Estimated Resources	Variance
As of December 31, 2011:			
General Fund	\$3,583,285	\$3,123,054	\$460,231
Fire Levy	387,658	329,099	58,559
Lighting Assessment	94,809	80,500	14,309
General Obligation Bond Retirement	241,933	0	241,933
As of December 31, 2010:			
General Obligation Bond Retirement	218,400	0	218,400
Special Fire Grant	6,500	0	6,500
Harvard Road Resurfacing	47,500	0	47,500

In addition, the Village's overall appropriations exceeded estimated resources by \$105,531 as of December 31, 2011.

Appropriating monies in excess of estimated resources led to deficit spending.

We recommend the Village monitor the budgetary activity on a regular basis and either decrease appropriations or obtain increased amended certificates of estimated resources.

Official's Response: The Village will comply with the recommendation.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

(Continued)

FINDING NUMBER 2011-007

Expenditures Plus Encumbrances in Excess of Appropriations – Material Noncompliance

Ohio Rev. Code Sections 5705.41 (B) and (D) prohibit a subdivision or taxing unit from expending money unless it has been appropriated.

During our testing, we noted the following funds had expenditures plus encumbrances exceeding appropriations for the following amounts:

Fund	Appropriations	Expenditures Plus Encumbrances	Variance
As of December 31, 2011:			
Lighting Assessment	\$94,809	\$106,717	\$11,908
Fire Training and Equipment	0	3,884	3,884
Harvard Road Resurfacing	0	64,271	64,271
Contractor's Deposits	60,363	80,448	20,085
Mayor's Court	0	108,575	108,575
As of December 31, 2010:			
General Fund	3,275,383	3,355,731	80,348
Fire Levy	254,780	325,907	71,127
Lighting Assessment	42,844	67,233	24,389
General Obligation Bond Retirement	218,400	240,791	22,391
Fire Training and Equipment	0	1,273	1,273
Special Fire Grant	6,500	6,594	94
Rental Operations	391,469	463,066	71,597
Contractor's Deposits	41,700	135,391	93,691
Mayor's Court	0	88,424	88,424

In addition, although the Village budgeted at the legal level of control, due to numerous adjustments to its accounting system, we were unable to determine the accurate expenditure amounts at this level.

Failure to monitor budgetary expenditures and appropriations could result in unauthorized expenditures.

We recommend the Village compare expenditures and encumbrances to appropriations in all funds which are legally required to be budgeted, at the legal level of control, prior to making expenditure commitments, and make all necessary adjustments to the amounts appropriated to ensure compliance with the above requirements. This comparison, and amendment if necessary, should be completed on a monthly basis at a minimum.

Official's Response: The Village will comply with the recommendation.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

(Continued)

FINDING NUMBER 2011-008

Negative Cash Fund Balances – Material Noncompliance

Ohio Rev. Code Section 5705.10(H) states money that is paid into a fund must be used only for the purposes for which such fund has been established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance.

The following funds had deficit cash balances as of December 31, 2011:

<u>Fund</u>	<u>Amount</u>
Fire Levy	\$376,680
Lighting Assessment	20,988
General Obligation Bond Retirement Issue II	3,133
CDBG - 2002 Exterior	35,367
Municipal Complex Renovation	1,258
Fire Training Grant	1,481
Harvard Road Resurfacing	3,132
Transition Assistance	16,626
Building Standards	1,161
	4

The following funds had deficit cash balances as of December 31, 2010:

<u>Fund</u>	<u>Amount</u>
Fire Levy	\$244,942
General Obligation Bond Retirement Issue II	3,000
CDBG - 2002 Exterior	35,367
Municipal Complex Renovation	1,258
Harvard Road Resurfacing	1,481
Transition Assistance	16,626
Building Standards	1,161
	4

This resulted in deficit spending by the Village or other funds paying for expenditures on their behalf.

We recommend the cash balances be monitored on a regular basis and transfers or advances should be made from the General Fund in order to avoid deficit balances.

Official's Response: The Village will comply with the recommendation.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

(Continued)

FINDING NUMBER 2011-009

Proper Certification of Funds – Material Noncompliance

Ohio Rev. 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 that 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 Rev. Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that 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 that 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.

During our non-payroll testing, we noted eight out of 13 disbursements tested, or \$32,632 out of \$77,998, in 2011 and eight out of 14 disbursements tested, or \$66,056 out of \$248,366, in 2010, respectively, which were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions for these transactions. Failure to properly certify the availability of funds resulted in overspending funds and negative cash fund balances.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

(Continued)

FINDING NUMBER 2011-009
(Continued)

Proper Certification of Funds – Material Noncompliance (Continued)

During our encumbrance testing, we noted one out of three encumbrances tested, or \$248 out of \$944, in 2011 was not certified by the fiscal officer at the time of commitment was incurred and there was no evidence the Village followed the aforementioned exceptions for these transactions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, 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. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Village certify that 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) requires 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 will comply with the recommendation.

FINDING NUMBER 2011-010

Annual Financial Reporting – Material Noncompliance

Ohio Rev. Code Section 117.38 states that an entity must file a complete and accurate financial report on an annual basis. This section also provides, in part, that "at the time the annual financial report is filed with the auditor of state, the chief fiscal officer, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer."

The Village did not file their annual financial reports within the prescribed deadlines in either 2011 or 2010. The 2011 and 2010 reports were not filed until April 9, 2012 and August 31, 2011, respectively.

Furthermore, during our review of the Village's annual financial report filed with Local Government Services for 2011 and 2010, we noted the report balances and totals did not agree to the Village's accounting system. In addition, no evidence was provided, by the Village, that a public notice was published. By not filing accurate financial reports on time and publishing an annual notice, the Village is not fulfilling their duties of accountability and transparency to the public.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

(Continued)

FINDING NUMBER 2011-010

(Continued)

Annual Financial Reporting – Material Noncompliance (Continued)

We recommend the Village compile and present their financial statements in a complete, accurate and timely manner, in accordance with its accounting records and the above Ohio Rev. Code Section. We also recommend at the time the report is filed with the Auditor of State, the Village, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the Village Hall.

Official's Response: The Village has complied with this recommendation, as the 2012 financial report was filed on time.

This page intentionally left blank.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Financial Reporting	No	Re-Issued as Finding 2011-001
2009-002	Bank Reconciliations	No	Re-Issued as Management Letter comment
2009-003	Timely Deposits	No	Re-Issued as Finding 2011-003
2009-004	Reporting to OPERS and OP&F	No	Re-Issued as Finding 2011-004
2009-005	Certification of Available Resources	No	Re-Issued as Finding 2011-005
2009-006	Appropriations in Excess of Estimated Resources	No	Re-Issued as Finding 2011-006
2009-007	Expenditures Plus Encumbrances in Excess of Appropriations	No	Re-Issued as Finding 2011-007
2009-008	Negative Cash Fund Balances	No	Re-Issued as Finding 2011-008
2009-009	Proper Certification of Funds	No	Re-Issued as Finding 2011-009
2009-010	Annual Financial Reporting	No	Re-Issued as Finding 2011-010
2009-011	Unlawful Interest in a Public Contract	Yes	Finding No Longer Valid

This page intentionally left blank.



Dave Yost • Auditor of State

VILLAGE OF HIGHLAND HILLS

CUYAHOGA 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
JANUARY 9, 2014**