



Dave Yost • Auditor of State



VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of Village Council:

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

We have audited the accompanying financial statements and related notes of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2013 and 2012.

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

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

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

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

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

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

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

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

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

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

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position thereof for the years then ended.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Highland Hills, Cuyahoga County, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 30, 2014

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>					
Property and Other Local Taxes	\$112,849	\$117,341	\$0	\$0	\$230,190
Municipal Income Tax	2,883,485	0	223,649	0	3,107,134
Intergovernmental	67,701	17,508	0	68,364	153,573
Special Assessments	0	41,382	0	0	41,382
Charges for Services	14,038	75,467	0	0	89,505
Fines, Licenses and Permits	163,217	0	0	0	163,217
Earnings on Investments	469	0	0	0	469
Miscellaneous	31,728	0	0	0	31,728
<i>Total Cash Receipts</i>	<u>3,273,487</u>	<u>251,698</u>	<u>223,649</u>	<u>68,364</u>	<u>3,817,198</u>
<b>Cash Disbursements</b>					
Current:					
Security of Persons and Property	1,082,804	534,430	0	0	1,617,234
Community Environment	333,192	0	0	0	333,192
Basic Utility Services	0	80,654	0	0	80,654
Transportation	348,662	0	0	0	348,662
General Government	1,403,216	0	0	0	1,403,216
Capital Outlay	0	0	0	47,205	47,205
Debt Service:					
Principal Retirement	0	0	136,274	0	136,274
Interest and Fiscal Charges	0	0	84,242	0	84,242
<i>Total Cash Disbursements</i>	<u>3,167,874</u>	<u>615,084</u>	<u>220,516</u>	<u>47,205</u>	<u>4,050,679</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>105,613</u>	<u>(363,386)</u>	<u>3,133</u>	<u>21,159</u>	<u>(233,481)</u>
<b>Other Financing Receipts</b>					
Sale of Capital Assets	8,530	0	0	0	8,530
<i>Total Other Financing Receipts</i>	<u>8,530</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,530</u>
<i>Net Change in Fund Cash Balances</i>	114,143	(363,386)	3,133	21,159	(224,951)
<i>Fund Cash Balances, January 1</i>	<u>969,509</u>	<u>(587,104)</u>	<u>(3,133)</u>	<u>(69,916)</u>	<u>309,356</u>
<b>Fund Cash Balances, December 31</b>					
Restricted	0	105,508	0	7,429	112,937
Unassigned (Deficit)	1,083,652	(1,055,998)	0	(56,186)	(28,532)
<i>Fund Cash Balances, December 31</i>	<u>\$1,083,652</u>	<u>(\$950,490)</u>	<u>\$0</u>	<u>(\$48,757)</u>	<u>\$84,405</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)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Proprietary Fund Type	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$640,184	\$64,137	\$704,321
Fines, Licenses and Permits	0	145,097	145,097
<i>Total Operating Cash Receipts</i>	<u>640,184</u>	<u>209,234</u>	<u>849,418</u>
<b>Operating Cash Disbursements</b>			
Personal Services	99,615	0	99,615
Contractual Services	304,401	237,618	542,019
Supplies and Materials	2,404	0	2,404
<i>Total Operating Cash Disbursements</i>	<u>406,420</u>	<u>237,618</u>	<u>644,038</u>
<i>Net Change in Fund Cash Balances</i>	233,764	(28,384)	205,380
<i>Fund Cash Balances, January 1</i>	<u>253,261</u>	<u>298,707</u>	<u>551,968</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$487,025</u></u>	<u><u>\$270,323</u></u>	<u><u>\$757,348</u></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)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>					
Property and Other Local Taxes	\$129,871	\$157,939	\$0	\$0	\$287,810
Municipal Income Tax	3,076,518	0	239,355	0	3,315,873
Intergovernmental	75,690	18,188	0	158,281	252,159
Special Assessments	0	43,982	0	0	43,982
Charges for Services	17,360	57,813	0	0	75,173
Fines, Licenses and Permits	215,200	0	0	0	215,200
Earnings on Investments	487	0	0	0	487
Miscellaneous	65,942	0	0	0	65,942
<i>Total Cash Receipts</i>	<u>3,581,068</u>	<u>277,922</u>	<u>239,355</u>	<u>158,281</u>	<u>4,256,626</u>
<b>Cash Disbursements</b>					
Current:					
Security of Persons and Property	906,788	437,205	0	0	1,343,993
Community Environment	321,944	0	0	0	321,944
Basic Utility Services	0	99,965	0	0	99,965
Transportation	310,828	0	0	0	310,828
General Government	1,515,019	0	0	0	1,515,019
Capital Outlay	0	0	0	177,762	177,762
Debt Service:					
Principal Retirement	0	0	136,274	0	136,274
Interest and Fiscal Charges	0	0	103,081	0	103,081
<i>Total Cash Disbursements</i>	<u>3,054,579</u>	<u>537,170</u>	<u>239,355</u>	<u>177,762</u>	<u>4,008,866</u>
<i>Net Change in Fund Cash Balances</i>	526,489	(259,248)	0	(19,481)	247,760
<i>Fund Cash Balances, January 1</i>	<u>443,020</u>	<u>(327,856)</u>	<u>(3,133)</u>	<u>(50,435)</u>	<u>61,596</u>
<b>Fund Cash Balances, December 31</b>					
Restricted	0	88,000	0	7,429	95,429
Unassigned (Deficit)	969,509	(675,104)	(3,133)	(77,345)	213,927
<i>Fund Cash Balances, December 31</i>	<u>\$969,509</u>	<u>(\$587,104)</u>	<u>(\$3,133)</u>	<u>(\$69,916)</u>	<u>\$309,356</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)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Type	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$578,370	\$144,963	\$723,333
Fines, Licenses and Permits	0	196,657	196,657
<i>Total Operating Cash Receipts</i>	<u>578,370</u>	<u>341,620</u>	<u>919,990</u>
<b>Operating Cash Disbursements</b>			
Personal Services	211,410	0	211,410
Contractual Services	157,422	313,604	471,026
Supplies and Materials	53,198	0	53,198
<i>Total Operating Cash Disbursements</i>	<u>422,030</u>	<u>313,604</u>	<u>735,634</u>
<i>Net Change in Fund Cash Balances</i>	156,340	28,016	184,356
<i>Fund Cash Balances, January 1</i>	<u>96,921</u>	<u>270,691</u>	<u>367,612</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$253,261</u></u>	<u><u>\$298,707</u></u>	<u><u>\$551,968</u></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, 2013 AND 2012**

**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 and police and fire protection services, road maintenance, general government services and a Mayor's Court.

The Village belongs to the Ohio Plan Risk Management, Inc. jointly administered self-insurance risk management program. Note 8 to the financial statements provides additional information for this entity.

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 has no investments during 2013 and 2012.

**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, 2013 AND 2012  
(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 Fund:

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

**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 funds:

Energy Grant Fund – This fund receives federal grant monies passed through Cuyahoga County. These funds are used for retrofitting light fixtures at the Village hall and fire station.

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 has the following 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**

The Village's fiduciary funds are 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, 2013 AND 2012  
(Continued)

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

E. **Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

1. **Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. **Estimated Resources**

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

3. **Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2013 and 2012 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, 2013 AND 2012  
(Continued)

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

F. **Fund Balance (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, 2013 AND 2012  
(Continued)**

**2. Equity in Pooled Deposits**

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

	2013	2012
Demand deposits	\$841,753	\$861,324

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institutions' public entity risk pools.

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$4,197,886	\$3,282,017	(\$915,869)
Special Revenue	377,966	251,698	(126,268)
Debt Service	239,552	223,649	(15,903)
Capital Projects	15,345	68,364	53,019
Enterprise	698,150	640,184	(57,966)
Agency	175,733	209,234	33,501
Total	\$5,704,632	\$4,675,146	(\$1,029,486)

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$4,153,150	\$3,167,874	\$985,276
Special Revenue	584,026	615,084	(31,058)
Debt Service	239,354	220,516	18,838
Capital Projects	7,950	47,205	(39,255)
Enterprise	725,360	406,420	318,940
Agency	87,000	237,618	(150,618)
Total	\$5,796,840	\$4,694,717	\$1,102,123

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**3. Budgetary Activity (Continued)**

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,392,025	\$3,581,068	\$189,043
Special Revenue	319,106	277,922	(41,184)
Debt Service	0	239,355	239,355
Capital Projects	126,151	158,281	32,130
Enterprise	461,389	578,370	116,981
Agency	525,050	341,620	(183,430)
Total	\$4,823,721	\$5,176,616	\$352,895

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,348,327	\$3,054,579	\$293,748
Special Revenue	563,992	537,170	26,822
Debt Service	239,515	239,355	160
Capital Projects	66,519	177,762	(111,243)
Enterprise	464,316	422,030	42,286
Agency	74,000	313,604	(239,604)
Total	\$4,756,669	\$4,744,500	\$12,169

Contrary to Ohio Rev. Code §5705.10(I), the Village had negative fund balances in the Fire Levy, Lighting Assessment, Issue II, CDBG – 2002 Exterior, Municipal Complex Renovation, Fire Training Grant, Harvard Road Resurfacing, Transition Assistance and Building Standards Funds at December 31, 2013, and in the Fire Levy, Lighting Assessment, General Obligation Bond Retirement, Issue II, Energy Grant, CDBG – 2002 Exterior, Municipal Complex Renovation, Fire Training Grant, Harvard Road Resurfacing, Transition Assistance and Building Standards Funds at December 31, 2012, respectively.

Contrary to Ohio Rev. Code §5705.39, appropriations exceeded estimated resources in the Fire Levy, Lighting Assessment, Special Fire Grant, Special Police Grant and Rental Operations Funds at December 31, 2013, and the Fire Levy, General Obligation Bond Retirement, Energy Grant, Special Fire Grant and Rental Operations Funds at December 31, 2012.

Contrary to Ohio Rev. Code §5705.41(B), the Village had expenditures that exceeded appropriations as of December 31, 2013 in the Fire Levy, Lighting Assessment, Energy Grant, Fire Training and Equipment, Tenant's Deposits and Mayor's Court funds. In addition, the Village had expenditures that exceeded appropriations as of December 31, 2012 in the Fire Training and Equipment, Harvard Road Resurfacing, Contractor's Deposits, Tenant's Deposits and Mayor's Court funds.

Contrary to Ohio Rev. Code §5705.41(D), the Village did not properly encumber numerous purchases during 2013 and 2012.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**4. Property Tax**

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

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

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

**5. 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 Central 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.

**6. Debt**

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. In 2005, the Village issued \$2,565,000 in refunding bonds to fund the renovation of the existing municipal building. In 2012, the Village entered into a cooperative agreement for the Village Community Center with the Council of Cuyahoga County in which these bonds were defeased. Cuyahoga County issued bonds to the Village in the amount of \$1,725,000 on December 13, 2012.

The Village's long-term debt activity for the year ended December 31, 2013 was as follows:

	Interest Rate	Balance 1/1/2013	Additions	Reductions	Balance 12/31/2013
Building Improvement Bonds 2006 Issue (Original Amount \$430,000)	5.5%	\$350,496	\$0	(\$17,181)	\$333,315
County Bonds 2012 Issue (Original Amount \$1,725,000)	3.0%	1,725,000	0	(120,000)	1,605,000
<b>Total</b>		<b>\$2,075,496</b>	<b>\$0</b>	<b>(\$137,181)</b>	<b>\$1,938,315</b>

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**6. Debt (Continued)**

The Village's long-term debt activity for the year ended December 31, 2012 was as follows:

	<u>Interest Rate</u>	<u>Balance 1/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2012</u>
Various Purpose Refunding Bonds 2005 Issue (Original Amount \$2,565,000)	3.25 - 4.375%	\$2,020,000	\$0	(\$2,020,000)	\$0
Building Improvement Bonds 2006 Issue (Original Amount \$430,000)	5.5%	366,770	0	(16,274)	350,496
County Bonds 2012 Issue (Original Amount \$1,725,000)	3.0%	<u>0</u>	<u>1,725,000</u>	<u>0</u>	<u>1,725,000</u>
Total		<u>\$2,386,770</u>	<u>\$1,725,000</u>	<u>(\$2,036,274)</u>	<u>\$2,075,496</u>

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

Year ending December 31:	2006 Building Improvement Bonds		2012 County Bonds		Totals	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$18,140	\$18,086	\$125,000	\$66,150	\$143,140	\$84,236
2015	19,150	17,075	125,000	62,400	144,150	79,475
2016	20,218	16,007	125,000	58,650	145,218	74,657
2017	21,345	14,880	135,000	52,400	156,345	67,280
2018	22,536	13,690	140,000	45,650	162,536	59,340
2019-2023	132,988	48,140	790,000	143,650	922,988	191,790
2024-2026	<u>98,938</u>	<u>9,738</u>	<u>165,000</u>	<u>11,400</u>	<u>263,938</u>	<u>21,138</u>
Total	<u>\$333,315</u>	<u>\$137,616</u>	<u>\$1,605,000</u>	<u>\$440,300</u>	<u>\$1,938,315</u>	<u>\$577,916</u>

**7. Retirement Systems**

The Village's certified Fire Fighters and 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.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**7. Retirement Systems (Continued)**

The Ohio Revised Code also prescribes contribution rates. For 2012 and the first half of 2013, OP&F participants contributed 10% of their wages. As of July 1, 2013, the contribution rate increased to 10.75%. For 2013 and 2012, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. For 2013 and 2012, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2013.

**8. Risk Management**

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government 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.

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% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 and 767 members as of December 31, 2013 and 2012 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.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**8. Risk Management (Continued)**

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Assets	\$13,774,304	\$13,100,381
Liabilities	<u>(7,968,395)</u>	<u>(6,687,193)</u>
Members' Equity	<u>\$5,805,909</u>	<u>\$6,413,188</u>

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**9. 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.

**10. 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.

**11. Joint Economic Development Zone Agreement**

The Village has a Joint Economic Development Zone Agreement with the City of Cleveland (the City) entered into pursuant to Ohio Revised Code Section 715.69. The City owns property currently situated in the Village and desires to develop the property to create job opportunities as well as tax and other revenue. The Village is responsible for constructing improvements and providing municipal services. The two municipalities have agreed to share in the zone agreement income tax revenues generated from this agreement. The City and the Village will each receive 50% of the income tax revenue. CCA administers this income tax. During 2013, \$1,048,124 of gross zone income tax was collected, of which \$524,062 represents the Village's portion. During 2012, \$944,795 of gross zone agreement income tax revenue was collected, of which \$472,397 represents the Village's portion.



# Dave Yost • Auditor of State

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

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

To the Members of Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated October 30, 2014 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-001, 2013-002, and 2013-010 described in the accompanying schedule of findings to be material weaknesses.

***Compliance and Other Matters***

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-003 through 2013-009.

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

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 30, 2014

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012

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

FINDING NUMBER 2013-001

**Bank Reconciliations – Material Weakness**

A necessary step in the internal control over financial reporting is to determine the accuracy of both the balance of the bank and the balance of cash in the accounting records. The reconciliation process accounts for the differences between the balances appearing on the bank statements and the balance of cash according to the Village's records.

Bank account reconciliations were not reconciled on a timely basis during 2013 and 2012. The year-end reconciliations for 2013 and 2012 were not completed until May 2014. The reconciliations provided no evidence they were reviewed by a supervisor.

A lack of review and timely preparation of the reconciliations led to errors going undetected. The overall fund balance on the Village's financial statements did not agree to the Village's reconciled fund balance at December 31, 2013. The resulting unreconciled difference totaled \$5,080.

Reconciliations should be prepared and reviewed on a timely basis. Without accurate bank reconciliations the Village has no assurance that the cash balances recorded in the Village's records are correct. Consequently, the Village may be spending money it does not have available. The management of the Village is also not provided with timely and accurate financial information is vital to the continued operations of the Village, which could also have a negative material effect or impact on the Village's financial statements.

We recommend the Village complete its bank reconciliations in a timely manner, and have Council or another individual within management review and approve them for accuracy.

**Official's Response:** In the span of 24 months, audits for six years of financial information were completed, most of which resulting in significant adjustments to the financial statements and accounting records. It took the Village until May of 2014 to correct and make adjustments for findings from the previous audits, and to pull those adjustments through the Village's accounting system. The \$5,080 has been subsequently reconciled within the payroll adjustments. The Village now has segregated signoffs within management on the bank reconciliations, and the reconciliations will be forwarded to the audit committee going forward.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012

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

(Continued)

FINDING NUMBER 2013-002

**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 by the Village to their financial statements and, where applicable, accounting system:

- In 2013, the Village misposted an adjusting entry, resulting in Special Revenue Fund intergovernmental receipts and security of persons and property disbursements being overstated by \$18,878; and
- In 2012, the Village did not post Ohio Public Works Commission receipts and corresponding expenditures, resulting in Capital Projects Fund intergovernmental receipts and capital outlay disbursements being understated by \$130,281.

Furthermore, the Village did not make updates to its accounting system for budgetary amendments.

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 took action to improve the internal controls over financial reporting by hiring and training additional staff and implementing new software. The Village attempted to transfer the balance of a misnamed account for the \$18,878. The Village has since posted payroll expenditures to close this account. The \$130,281 was a transaction that was processed on behalf of the Village by the Ohio Public Works Commission.

FINDING NUMBER 2013-003

**Timely Deposits – Material Noncompliance**

Ohio Rev. Code §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 2013, the following receipts were not deposited on the following business day:

- Six of seven Rental receipts tested, or \$156,130 out of \$169,855; and
- Four of five contractor and tenant deposits tested, or \$12,190 out of \$17,190.

During 2012, the following receipts were not deposited on the following business day:

- Four of seven Rental receipts tested, or \$99,612 out of \$163,686; and
- Two of four Contractor and Tenant deposits tested, or \$92,170 out of \$107,170.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012

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

(Continued)

FINDING NUMBER 2013-003  
(Continued)

**Timely Deposits – Material Noncompliance (Continued)**

In addition, 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 34 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 has implemented billing software for the rental operations department which has improved the timeliness of collections.

FINDING NUMBER 2013-004

**Reporting to OPERS, OP&F and the IRS – Material Noncompliance**

Ohio Rev. Code §145.47 states each public employee who is a contributor to the public employees retirement system (OPERS) shall contribute eight per cent of the contributor's earnable salary to the employees' savings fund, except that the public employees retirement board may raise the contribution rate to a rate not greater than ten per cent of the employee's earnable salary.

The head of each state department, institution, board, and commission, and the fiscal officer of each local authority subject to this section, shall transmit to the system for each contributor subsequent to the date of coverage an amount equal to the applicable per cent of each contributor's earnable salary at such intervals and in such form as the system shall require. The head of each state department and the fiscal officer of each local authority subject to this section shall transmit promptly to the system a report of contributions at such intervals and in such form as the system shall require, showing thereon all the contributions and earnable salary of each contributor employed, together with warrants, checks, or electronic payments covering the total of such deductions. A penalty shall be added when such report, together with warrants, checks, or electronic payments to cover the total amount due from the earnable salary of all amenable employees of such employer, is filed thirty or more days after the last day of such reporting period. The system, after making a record of all receipts under this division, shall deposit the receipts with the treasurer of state for use as provided by this section.

The penalty for failing to timely transmit a report, pay the total amount due, or both is as follows:

- a) At least one but not more than ten days past due, an amount equal to one per cent of the total amount due;
- b) At least eleven but not more than thirty days past due, an amount equal to two and one-half per cent of the total amount due; and
- c) Thirty-one or more days past due, an amount equal to five per cent of the total amount due.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2013-004**

(Continued)

**Reporting to OPERS, OP&F and the IRS – Material Noncompliance (Continued)**

Ohio Rev. Code §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; and
- 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.

26 U.S.C. §3403 states employers are liable for the payment of employee income tax required to be deducted and withheld.

Based on confirmations received from OPERS and OP&F, the Village did not submit the following remittances in a timely manner:

- Public Employees remittances were submitted late in seven out of 12 months in 2013;
- Police and Fire Fund remittances were submitted late in 11 out of 12 months in 2013;
- Public Employees remittances were submitted late in nine out of 12 months in 2012;
- Police and Fire Fund remittances were submitted late in nine out of 12 months in 2012;

In addition, the Village did not submit income tax remittances for nine out of the first 10 months in 2013 and all 12 months in 2012 until December 2013.

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

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2013-004  
(Continued)**

**Reporting to OPERS, OP&F and the IRS – Material Noncompliance (Continued)**

We recommend the Village report and remit the monies to OPERS, OP&F and the IRS in a timely manner, as required by the above Ohio Rev. Code Sections.

**Official's Response:** The Village had a pending potentially material assessment from the Ohio Public Employees Retirement System that was not resolved until the end of fiscal year 2013. At the end of fiscal year 2013, the Village was able to release funds reserved for the material assessment to close out all outstanding pension liabilities.

**FINDING NUMBER 2013-005**

**Appropriations in Excess of Estimated Resources – Material Noncompliance**

Ohio Rev. Code §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, 2013:			
Fire Levy	\$529,026	\$281,525	\$247,501
Lighting Assessment	55,000	40,348	14,652
Special Fire Grant	3,000	0	3,000
Special Police Grant	4,950	0	4,950
Rental Operations	725,360	698,150	27,210
As of December 31, 2012:			
Fire Levy	460,678	146,586	314,092
General Obligation Bond Retirement	239,515	0	239,515
Energy Grant	63,000	0	63,000
Special Fire Grant	3,519	1,490	2,029
Rental Operations	464,316	461,389	2,927

In addition, the Village's overall appropriations exceeded estimated resources by \$92,208 as of December 31, 2013.

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

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012**

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

(Continued)

**FINDING NUMBER 2013-005  
(Continued)**

**Appropriations in Excess of Estimated Resources – Material Noncompliance (Continued)**

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:** In the span of 24 months, audits for six years of financial information were completed, most of which resulting in significant adjustments to the financial statements and accounting records, which due to timing, effected the amounts used for appropriations. The Village we will be in compliance with this recommendation going forward.

**FINDING NUMBER 2013-006**

**Expenditures in Excess of Appropriations – Material Noncompliance**

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

We noted the following funds had expenditures plus encumbrances exceeding appropriations for the following amounts:

Fund	Appropriations	Expenditures	Variance
As of December 31, 2013:			
Fire Levy	\$529,026	\$534,431	\$5,405
Lighting Assessment	55,000	80,654	25,654
Energy Grant	0	46,552	46,552
Fire Training and Equipment	0	653	653
Tenant's Deposits	7,000	22,654	15,654
Mayor's Court	0	145,807	145,807
As of December 31, 2012:			
Fire Training and Equipment	0	3,519	3,519
Harvard Road Resurfacing	0	130,281	130,281
Contractor's Deposits	70,000	106,286	36,286
Tenant's Deposits	4,000	8,944	4,944
Mayor's Court	0	198,374	198,374

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

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012

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

(Continued)

FINDING NUMBER 2013-006  
(Continued)

**Expenditures in Excess of Appropriations – Material Noncompliance (Continued)**

We recommend the Village compare expenditures and encumbrances to appropriations in all funds which are legally required to be budgeted 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:** In the span of 24 months, audits for six years of financial information were completed, most of which resulting in significant adjustments to the financial statements and accounting records, which due to timing, effected the amounts used for appropriations. The Village we will be in compliance with this recommendation going forward.

FINDING NUMBER 2013-007

**Negative Cash Fund Balances – Material Noncompliance**

Ohio Rev. Code §5705.10(I) 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, 2013:

<u>Fund</u>	<u>Amount</u>
Fire Levy	\$939,757
Lighting Assessment	116,243
Issue II	35,367
CDBG - 2002 Exterior	1,258
Municipal Complex Renovation	1,481
Fire Training Grant	1,454
Harvard Road Resurfacing	16,626
Transition Assistance	1,161
Building Standards	4

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012

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

(Continued)

FINDING NUMBER 2013-007  
(Continued)

**Negative Cash Fund Balances – Material Noncompliance (Continued)**

The following funds had deficit cash balances as of December 31, 2012:

<u>Fund</u>	<u>Amount</u>
Fire Levy	\$598,134
Lighting Assessment	76,971
General Obligation Bond Retirement Issue II	3,133
Energy Grant	35,367
CDBG - 2002 Exterior	18,962
Municipal Complex Renovation	1,258
Fire Training Grant	1,481
Harvard Road Resurfacing	3,651
Transition Assistance	16,626
Building Standards	1,161
	4

This could result 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:** Most of the deficit funds balances noted above are for unused accounts. The Village will comply with this recommendation by transferring funds into these accounts to close out these balances. The remainder of deficit fund balances were due to audit timing, since in the span of 24 months, audits for six years of financial information were completed, which resulted in significant adjustments to the financial statements and accounting records.

**FINDING NUMBER 2013-008**

**Proper Certification of Funds – Material Noncompliance**

Ohio Rev. Code §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.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012

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

(Continued)

FINDING NUMBER 2013-008  
(Continued)

**Proper Certification of Funds – Material Noncompliance (Continued)**

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.

Six of 15 disbursements tested, or \$11,814 out of \$26,121, in 2013 and nine of 13 disbursements tested, or \$64,547 out of \$66,151, in 2012, 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.

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 this recommendation.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012

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

(Continued)

FINDING NUMBER 2013-009

**Annual Financial Reporting – Material Noncompliance**

Ohio Rev. Code §117.38 states that an entity must file a complete and accurate financial report on an annual basis. The report shall be certified by the proper officer or board and filed with the auditor of state within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year.

Although the Village filed annual financial reports with Local Government Services for 2013 and 2012, the filed reports contained balances and totals which did not agree to the Village's accounting system, and in many cases, were significantly misstated. By not filing accurate financial reports on time, the Village is not fulfilling their duties of accountability and transparency to the public.

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.

**Official's Response:** In the span of 24 months, audits for six years of financial information were completed, most of which resulting in significant adjustments to the financial statements and accounting records. It took the Village until May of 2014 to correct and make adjustments for findings from the previous audits, and to pull those adjustments through the Village's accounting system. As a result of this delay and in order to remain in adherence with reporting deadlines, the annual financial reports submitted for 2013 and 2012 had various misstatements. The Village will comply with this recommendation going forward.

FINDING NUMBER 2013-010

**Service Organization Controls, Report and Monitoring – Material Weakness**

In 2013 and 2012, the Village utilized T.G. Higgins Business Services Inc. for its Emergency Medical Services (EMS) billing. The company bills Village customers who use ambulance services. The Village is responsible for implementing effective internal control structure policies and procedures for those transactions to ensure the service organization has an adequate internal control structure. An SSAE 16 Service Organization Control Report establishes the standard and provides guidance on the audit of the service organization.

T.G. Higgins did not have an SSAE 16 Report prepared for 2013 or 2012. Furthermore, the Village performed no control procedures regarding its EMS billing for 2013 or 2012.

Failure to perform adequate control procedures resulted in the Village not timely posting receipts during 2013 and 2012, causing a loss in receipts.

In order to ensure effective internal control structure policies and procedures are in place, we recommend the Village require T.G. Higgins Business Services to have an annual SSAE 16 Service Organization Control Report prepared. Reports of the EMS service organization should be reviewed and maintained in order to ensure the integrity of the processing transactions. We also recommend the Village adopt a formal policy addressing the control procedures to be performed on the documents for the EMS services.

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

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid.
2011-001	Financial Reporting	No	Re-Issued as Finding 2013-002
2011-002	Posting of Tax Levies for Bond Retirement	Yes	Corrected
2011-003	Timely Deposits	No	Re-Issued as Finding 2013-003
2011-004	Reporting to Ohio Police & Fire Pension Fund	No	Re-Issued as part of Finding 2013-004
2011-005	Certification of Available Resources	N/A	No longer valid
2011-006	Appropriations in Excess of Estimated Resources	No	Re-Issued as Finding 2013-005
2011-007	Expenditures Plus Encumbrances in Excess of Appropriations	No	Re-Issued as Finding 2013-006
2011-008	Negative Cash Fund Balances	No	Re-Issued as Finding 2013-007
2011-009	Proper Certification of Funds	No	Re-Issued as Finding 2013-008
2011-010	Annual Financial Reporting	No	Re-Issued as Finding 2013-009

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# 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  
NOVEMBER 13, 2014**