



Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

January 25, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

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DAVE YOST
Auditor of State

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**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

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VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

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Mary Taylor, CPA

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Highland Hills, Cuyahoga County, Ohio (the Village), as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions 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 opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Highland Hills, Cuyahoga County, Ohio, as of December 31, 2007 and 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund and Fire Levy Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2006, the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Mary Taylor, CPA
Auditor of State

December 17, 2010

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

This discussion and analysis of the Village of Highland Hills (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2007, within the limitations of the Village's cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999.

Financial Highlights

Key financial highlights for 2007 are as follows:

General receipts accounted for \$3,841,492 or 82.3 percent of all receipts. Program specific receipts in the form of charges for services and sales, and capital grants and contributions accounted for \$824,235 or 17.7 percent of all receipts.

Total program disbursements were \$5,145,415 in Governmental Activities and \$187,861 in Business-Type Activities.

In total, net assets of Governmental Activities decreased \$886,878, which represents a 71.8 percent decrease from 2006. This decrease occurred due to an increase of \$879,354 in capital outlay expenditures in the Municipal Complex Renovation Fund. Revenues were received in this fund for the renovation in 2006 and expended in 2007. Net assets decreased in this fund by \$796,129 in 2007.

Outstanding debt decreased from \$3,174,000 to \$3,012,713 mainly because of the annual principal retirement of refunding and building improvement bonds of \$106,287 and the reduction of notes payable of \$55,000.

The Village completed over 90% of the renovation of the Village's administrative offices by December 31, 2007. The total renovation cost through December 31, 2007 was \$980,366. The total estimated cost of this renovation was \$1.1 million. This renovation was financed by the issuance of \$2,565,000 in refinancing debt which was issued in late 2005.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2007, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the Village into two types of activities:

Governmental activities. Most of the Village's basic services are reported here, including police, fire, and streets. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activity. The Village's rental operation activities are reported here.

Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into three categories: governmental, proprietary and fiduciary.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General Fund, Fire Levy Fund, and the Municipal Complex Renovation Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has one enterprise fund, the Rental Operations Fund. The Village collects monthly rental receipts from tenants who are lessees of the residential and commercial space in the Village's administration building. The Rental Operations Fund is considered a major fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Village's programs.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2007 compared to 2006 on a cash basis:

(Table 1)

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Equity in Pooled						
Cash and Cash Equivalents	\$348,723	\$1,235,601	\$460,150	\$240,821	\$808,873	\$1,476,422
Net Assets						
Restricted for:						
Other Purposes	289,984	988,979	460,150	240,821	750,134	1,229,800
Unrestricted	58,739	246,622			58,739	246,622
Total Net Assets	<u>\$348,723</u>	<u>\$1,235,601</u>	<u>\$460,150</u>	<u>\$240,821</u>	<u>\$808,873</u>	<u>\$1,476,422</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the Village's net assets totaled \$808,873, with the Business-Type Activities accounting for \$460,150 of this balance.

Table 2 reflects the changes in net assets on a cash basis in 2007 and 2006 for governmental activities, business-type activities and the total primary government.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

(Table 2)
Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$425,435	\$402,852	\$393,300	\$408,003	\$818,735	\$810,855
Capital Grants and Contributions	5,500	8,293			5,500	8,293
Total Program Receipts	430,935	411,145	393,300	408,003	824,235	819,148
General Receipts:						
Property and Other Local Taxes	365,825	179,941			365,825	179,941
Income Taxes	3,025,845	2,853,598			3,025,845	2,853,598
Grants and Entitlements Not Restricted to Specific Programs	162,321	232,443			162,321	232,443
Bond Proceeds		430,000				430,000
Note Proceeds	179,000	179,000			179,000	179,000
Interest	76,191	66,892			76,191	66,892
Miscellaneous	18,420	38,079	13,890	6,728	32,310	44,807
Total General Receipts	3,827,602	3,979,953	13,890	6,728	3,841,492	3,986,681
Total Receipts	4,258,537	4,391,098	407,190	414,731	4,665,727	4,805,829
Disbursements:						
General Government	1,371,411	1,285,011			1,371,411	1,285,011
Security of Persons and Property	1,293,486	1,306,381			1,293,486	1,306,381
Community Environment	722,516	858,330			722,516	858,330
Basic Utility Services	196,509	155,734			196,509	155,734
Transportation	196,509	155,734			196,509	155,734
Rental Operation Expenses			187,861	223,047	187,861	223,047
Capital Outlay	879,354				879,354	
Principal Retirement	340,287	495,000			340,287	495,000
Interest and Fiscal Charges	145,343	159,445			145,343	159,445
Total Disbursements	5,145,415	4,415,635	187,861	223,047	5,333,276	4,638,682
Excess (Deficiency) Before Transfers	(886,878)	(24,537)	219,329	191,684	(667,549)	167,147
Transfers		10,637		5,000		15,637
Increase (Decrease) in Net Assets	(886,878)	(13,900)	219,329	196,684	(667,549)	182,784
Net Assets, January 1	1,235,601	1,249,501	240,821	44,137	1,476,422	1,293,638
Net Assets, December 31	\$348,723	\$1,235,601	\$460,150	\$240,821	\$808,873	\$1,476,422

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Program receipts represent only 17.7 percent of 2007 total receipts and are primarily comprised of charges for services.

General receipts represent 82.3 percent of the Village's 2007 total receipts, and of this amount, over 88.6 percent are municipal income, property, and other taxes. State and federal grants and entitlements make up the majority of the balance of the Village's general receipts (4.2 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of the Mayor's Office Council, the Mayor's Court, Solicitor's Office, and other Village departments.

Security of Persons and Property are the costs of police, fire protection, and emergency medical services. Transportation is the cost of maintaining the roads. Community Development expenses are associated with the property, community development, and building departments.

Governmental Activities

If you look at the Statement of Activities on page 12, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government and security of persons and property. Salaries and related benefits for police, mayor, council, clerk-treasurer, solicitor, and general government accounted for 69% of disbursements for these two government activities and over 52% of total government activity expenses. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2007	2007	2006	2006
General Government	\$1,371,411	\$1,109,418	\$1,285,011	\$1,041,812
Security of Persons and Property	1,293,486	1,192,886	1,306,381	1,205,098
Community Environment	722,516	654,174	858,330	791,667
Basic Utility Services	196,509	196,509	155,734	155,734
Transportation	196,509	196,509	155,734	155,734
Capital Outlay	879,354	879,354		
Principal Retirement	340,287	340,287	495,000	495,000
Interest and Fiscal Charges	145,343	145,343	159,445	159,445
Total	<u><u>\$5,145,415</u></u>	<u><u>\$4,714,480</u></u>	<u><u>\$4,415,635</u></u>	<u><u>\$4,004,490</u></u>

The dependence upon property and income tax receipts is apparent as over 91 percent of governmental activities are supported through general receipts.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

The Village's Funds

Total governmental funds had receipts of \$4,079,537 and disbursements of \$5,145,415. The greatest change within governmental funds occurred within the Municipal Complex Renovation Fund. The fund balance of the Municipal Complex Renovation Fund decreased \$796,129 as the result of the expenditure of bond proceeds received in 2006.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of the year, the Village made no amendments to any of its funds from its original budget.

For the General Fund, actual receipts exceeded the final budgeted revenues and other financing sources by \$3,361,474. The primary factor contributing to this was income taxes not being included on the Certificate of Estimated Resources.

Actual disbursements and other financing uses of the General Fund were \$1,034,642 greater than the final budgeted amount of \$3,278,779 for these items. The primary factors contributing to actual disbursements exceeding appropriations were principal and interest payments and general government expenditures exceeding budgeted amounts.

Other Major Fund Budgeting Highlights

For the Fire Levy Fund, actual receipts and other financing sources were greater than budgeted by \$165,032. The primary factor for this difference was additional property tax revenues of \$164,042. A new tax levy took effect for this fund in 2007. The increase was partially offset by charges for services (ambulance fees) being \$70,345 less than budgeted. Transfers in from the General Fund were \$65,000 greater than budgeted. Salaries and related fringe benefits exceeded budget expenses by \$98,673.

Capital Assets and Debt Administration

Capital Assets

The Village maintains capital asset listings of its land, buildings, and vehicles. The Village does not maintain capital asset records for its infrastructure or furniture and fixtures. These records are not required to be presented in the financial statements.

Debt

At December 31, 2007, the Village had \$3,012,713 in outstanding bonded debt. During calendar year 2007, the 2006 bond anticipation note of \$179,000 was retired, and a new \$179,000 bond anticipation note was issued with \$55,000 being retired early in 2007. For further information regarding the Village's debt, refer to Note 6 and 7 to the basic financial statements.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Current Issues

The challenge for the Village is to provide quality services to the public while staying within the restrictions imposed by limited funding. The Village relies heavily on the local income tax which supplies about 71% of total governmental fund revenues. The overall continued employment of Village citizens at comparable salaries is essential for Village revenues to match subsequent year appropriations. Preliminary forecasts indicate that 2008 revenues and appropriations will be nearly identical.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Andrea Morris, Finance Director, Village of Highland Hills, 3700 Northfield Road, Highland Hills, Ohio 44122.

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Village of Highland Hills
Cuyahoga County
Statement of Net Assets - Cash Basis
December 31, 2007

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$348,723	\$460,150	\$808,873
Net Assets			
Restricted for:			
Other Purposes	289,984	460,150	750,134
Unrestricted	58,739		58,739
<i>Total Net Assets</i>	<u>\$348,723</u>	<u>\$460,150</u>	<u>\$808,873</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2007

	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets			
	Cash Disbursements	Charges for Services and Sales	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General Government	\$1,371,411	\$256,493	\$5,500	(\$1,109,418)		(\$1,109,418)
Security of Persons and Property	1,293,486	100,600		(1,192,886)		(1,192,886)
Community Environment	722,516	68,342		(654,174)		(654,174)
Basic Utility Services	196,509			(196,509)		(196,509)
Transportation	196,509			(196,509)		(196,509)
Capital Outlay	879,354			(879,354)		(879,354)
Debt Service:						
Principal Retirement	340,287			(340,287)		(340,287)
Interest and Fiscal Charges	145,343			(145,343)		(145,343)
Total Governmental Activities	5,145,415	425,435	5,500	(4,714,480)		(4,714,480)
Business Type Activity						
Rental Operations	187,861	393,300			205,439	205,439
Total	\$5,333,276	\$818,735	\$5,500	(4,714,480)	205,439	(4,509,041)
General Receipts						
Property Taxes Levied for:						
General Purposes				365,825		365,825
Municipal Income Taxes				3,025,845		3,025,845
Grants and Entitlements not Restricted to Specific Programs				162,321		162,321
Notes Issued				179,000		179,000
Interest				76,191		76,191
Miscellaneous				18,420	13,890	32,310
Total General Receipts				3,827,602	13,890	3,841,492
Change in Net Assets				(886,878)	219,329	(667,549)
Net Assets, Beginning of Year				1,235,601	240,821	1,476,422
Net Assets, End of Year				\$348,723	\$460,150	\$808,873

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2007

	General	Fire Levy	Municipal Complex Renovation	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$58,739	\$48,906	\$165,720	\$75,358	\$348,723
Fund Balances					
Reserved for Encumbrances	\$191,965	\$7,822	\$13,968	\$3,210	\$216,965
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	(133,226)				(133,226)
Special Revenue Funds		41,084		72,148	113,232
Capital Projects Funds			151,752		151,752
<i>Total Fund Balances</i>	<u>\$58,739</u>	<u>\$48,906</u>	<u>\$165,720</u>	<u>\$75,358</u>	<u>\$348,723</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	General	Fire Levy	Municipal Complex Renovation	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal Income Taxes	\$3,025,845				\$3,025,845
Property and Other Local Taxes	156,783	\$209,042			365,825
Charges for Services		49,655			49,655
Fines, Licenses and Permits	324,835				324,835
Intergovernmental	152,500	6,335		8,986	167,821
Special Assessments				50,945	50,945
Interest	76,191				76,191
Miscellaneous	18,420				18,420
<i>Total Receipts</i>	<u>3,754,574</u>	<u>265,032</u>		<u>59,931</u>	<u>4,079,537</u>
Disbursements					
Current:					
General Government	1,370,250			1,161	1,371,411
Security of Persons and Property	921,818	335,851		35,817	1,293,486
Community Environment	708,952		13,564		722,516
Basic Utility Services	196,509				196,509
Transportation	196,509				196,509
Capital Outlay	96,789		782,565		879,354
Debt Service:					
Principal Retirement	340,287				340,287
Interest and Fiscal Charges	145,343				145,343
<i>Total Disbursements</i>	<u>3,976,457</u>	<u>335,851</u>	<u>796,129</u>	<u>36,978</u>	<u>5,145,415</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(221,883)</u>	<u>(70,819)</u>	<u>(796,129)</u>	<u>22,953</u>	<u>(1,065,878)</u>
Other Financing Sources (Uses)					
Notes Issued	179,000				179,000
Transfers In		145,000			145,000
Transfers Out	(145,000)				(145,000)
<i>Total Other Financing Sources (Uses)</i>	<u>34,000</u>	<u>145,000</u>			<u>179,000</u>
<i>Net Change in Fund Balances</i>	<u>(187,883)</u>	<u>74,181</u>	<u>(796,129)</u>	<u>22,953</u>	<u>(886,878)</u>
<i>Fund Balances, Beginning of Year</i>	<u>246,622</u>	<u>(25,275)</u>	<u>961,849</u>	<u>52,405</u>	<u>1,235,601</u>
<i>Fund Balances, End of Year</i>	<u>\$58,739</u>	<u>\$48,906</u>	<u>\$165,720</u>	<u>\$75,358</u>	<u>\$348,723</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Receipts				
Municipal Income Taxes	\$0	\$0	\$3,025,845	\$3,025,845
Property and Other Local Taxes	155,000	155,000	156,783	1,783
Fines, Licenses and Permits	231,600	231,600	324,835	93,235
Intergovernmental	102,500	102,500	152,500	50,000
Interest	45,000	45,000	76,191	31,191
Miscellaneous	38,000	38,000	18,420	(19,580)
<i>Total receipts</i>	<u>572,100</u>	<u>572,100</u>	<u>3,754,574</u>	<u>3,182,474</u>
Disbursements				
Current:				
General Government	1,047,999	1,047,999	1,436,376	(388,377)
Security of Persons and Property	951,310	951,310	957,816	(6,506)
Community Environment	684,570	684,570	773,627	(89,057)
Basic Utility Services	139,365	139,365	209,092	(69,727)
Transportation	139,365	139,365	209,092	(69,727)
Capital Outlay	106,170	106,170	96,789	9,381
Debt Service:				
Principal Retirement	55,000	55,000	340,287	(285,287)
Interest and Fiscal Charges	10,000	10,000	145,343	(135,343)
<i>Total Disbursements</i>	<u>3,133,779</u>	<u>3,133,779</u>	<u>4,168,422</u>	<u>(1,034,643)</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(2,561,679)</u>	<u>(2,561,679)</u>	<u>(413,848)</u>	<u>2,147,831</u>
Other Financing Sources (Uses)				
Notes Issued			179,000	179,000
Transfers Out	(145,000)	(145,000)	(145,000)	
<i>Total Other Financing Sources (Uses)</i>	<u>(145,000)</u>	<u>(145,000)</u>	<u>34,000</u>	<u>179,000</u>
<i>Net Change in Fund Balance</i>	(2,706,679)	(2,706,679)	(379,848)	2,326,831
<i>Fund Balance, Beginning of Year</i>	143,566	143,566	143,566	
Prior Year Encumbrances Appropriated	103,056	103,056	103,056	
<i>Fund Balance, End of Year</i>	<u>(\$2,460,057)</u>	<u>(\$2,460,057)</u>	<u>(\$133,226)</u>	<u>\$2,326,831</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Fire Levy Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$45,000	\$45,000	\$209,042	\$164,042
Charges for Services	120,000	120,000	49,655	(70,345)
Intergovernmental			6,335	6,335
<i>Total Receipts</i>	165,000	165,000	265,032	100,032
Disbursements				
Current:				
Security of Persons and Property	245,000	245,000	343,673	(98,673)
<i>Excess of Receipts (Under) Disbursements</i>	(80,000)	(80,000)	(78,641)	1,359
Other Financing Sources				
Transfers In	80,000	80,000	145,000	65,000
<i>Net Change in Fund Balance</i>	0	0	66,359	66,359
<i>Fund Balance, Beginning of Year</i>	(35,055)	(35,055)	(35,055)	
Prior Year Encumbrances Appropriated	9,780	9,780	9,780	
<i>Fund Balance, End of Year</i>	(\$25,275)	(\$25,275)	\$41,084	\$66,359

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
December 31, 2007

Business-Type Activities

Rental Operations

Assets

Equity in Pooled Cash and Cash Equivalents

\$460,150

Net Assets

Restricted for Other Purposes

\$460,150

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Fund
For the Year Ended December 31, 2007

	<u>Business-Type Activities</u>
	<u>Rental Operations</u>
Operating Receipts	
Charges for Services	\$393,300
Other Operating Receipts	13,890
<i>Total Operating Receipts</i>	407,190
Operating Disbursements	
Personal Services	135,615
Contractual Services	41,742
Materials and Supplies	10,504
<i>Total Operating Disbursements</i>	187,861
<i>Change in Net Assets</i>	219,329
<i>Net Assets, Beginning of Year</i>	240,821
<i>Net Assets, End of Year</i>	\$460,150

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2007

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$251,825</u>
Net Assets	
Unrestricted	<u>\$251,825</u>

See accompanying notes to the basic financial statements

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Note 1 – Reporting Entity

The Village of Highland Hills, Cuyahoga County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. 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.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general governmental services, including police services, fire protection, and street maintenance, construction, and repair.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village.

Based on this criteria, the Village has no component units.

C. Public Entity Risk Pool

The Village participates in one public entity risk pool, the Ohio Government Risk Management Plan (OGRMP). Note 14 to the financial statements provide additional information for this entity.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

Note 2 – Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business-type activity is self-financing on a cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The proprietary fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into three categories, governmental, proprietary and fiduciary.

Note 2 – Summary of Significant Accounting Policies (continued)

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village's major governmental funds are the General Fund, Fire Levy Fund, and the Municipal Complex Renovation Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio. A description of these funds is as follows:

General Fund – The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

Fire Levy Fund – This Special Revenue fund provides ambulance services to Village residents and is administered by the Village Fire Department. This fund receives its funding from ambulance fees, real estate property taxes, and an annual transfer in from the General Fund.

Municipal Complex Renovation Fund – This fund accounts for the Village's current construction project. Cash receipts for this fund are proceeds from the issuance of long term bonds. Construction disbursements for this fund are anticipated until construction is completed which is anticipated to be in 2008.

The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund

The Village classifies funds financed primarily from user charges for goods or services as proprietary. The following is the Village's proprietary fund type:

Enterprise Fund – This fund accounts for the operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following major enterprise fund at December 31, 2007:

Rental Operations – 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.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications; pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. Agency funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. All Village fiduciary funds are agency funds. The Village's agency funds include the Mayor's Court fine collections and disbursements, the Contractor Deposit Fund for building construction, the Building Standards Assessment Fund, and the Tenant Security Deposit Fund which is used to collect and disburse tenant security deposits.

Note 2 – Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued liabilities and the related expenses) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. 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 must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriations measure. Unencumbered appropriations lapse at year end.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk-Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". Cash and cash equivalents that are held separately in accounts at a financial institution for retainage, bond reserves and debt service are reported as "Cash and Cash Equivalents with Fiscal Agents."

Note 2 – Summary of Significant Accounting Policies (continued)

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts, respectively.

During 2007, the Village invested in money market funds. This investment is recorded at the amount reported by Fifth Third Bank, Key Bank, and Huntington Bank at December 31, 2007. The money market balance was \$943,183 at December 31, 2007.

For these financial statements, all money market balances are reported as cash equivalents.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2007 was \$76,191 which includes \$70,658 assigned from other Village funds.

F. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement healthcare benefits.

J. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

Note 2 – Summary of Significant Accounting Policies (continued)

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for fire protection, the Village's renovation construction contract, and improvements to rental properties.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved and undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

M. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Accountability and Compliance

A. Accountability

The Village had the following deficit fund balances at December 31, 2007:

<u>Fund</u>	<u>Balance</u>
Transition Assistance	(\$1,161)
CDBG Home Exterior	(1,258)
Building Assessment	(7)
Tenants Deposits	(5,987)

B. Compliance

The Village expended monies in excess of appropriations in the General Fund, Fire Levy Fund, Rental Operations Fund, and the Municipal Complex Renovation Fund in violation of Ohio Revised Code section 5705.41(B). The Village appropriated monies in excess of estimated resources in the General Fund, Fire Levy Fund, and Lighting Assessment Fund in the amounts of \$2,460,057, \$25,275, and \$10,000, respectively, in violation of Ohio Revised Code section 5705.39.

Note 4 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and Fire Levy Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$191,965 for the General Fund and \$7,822 for the Fire Levy Fund.

Note 5 – Deposits and Investments

Monies held by the Village are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

Note 5 – Deposits and Investments (continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Village by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village's deposits may not be returned. At year end, \$941,478 of the Village's bank balance of \$1,168,668 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2007, the Village had no investments.

- (a) *Interest Rate Risk.* Interest rate risk arises because the fair value of investments changes as interest rates change. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes.
- (b) *Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."
- (c) *Credit Risk.* Credit risk is addressed by the Village's investment policy which requires that all investments are authorized by the Ohio Revised Code. The Village's investment policy allows for investments in Star Ohio which carries a rating of AAAM by Standard & Poors.

Village of Highland Hills
Notes to the Financial Statements
For the Year Ended December 31, 2007

Note 5 – Deposits and Investments (continued)

(d) *Concentration of Credit Risk.* Concentration of Credit Risk is defined by the Government Accounting Standards Board as having invested five percent or more of the Village's investment portfolio in securities of a single issuer. The Village places no limit on the amount that may be invested in any one issuer.

Note 6 – Bonded 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, 2007, was as follows:

	Interest Rate	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007
<u>Governmental Activities</u>					
Various Purpose					
Refunding Bonds					
2005 Issue (Original Amount \$2,565,000)	3.25 - 4.375%	\$2,565,000		(\$100,000)	\$2,465,000
Building Improvement Bonds					
2006 Issue (Original Amount \$430,000)	5.5%	430,000		(6,287)	423,713
Total Governmental Activities		<u>\$2,995,000</u>		<u>(\$106,287)</u>	<u>\$2,888,713</u>

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

Year	2005 Refunding Bonds		2006 Building Improvement Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$110,000	\$99,266	\$13,099	\$23,126	\$123,099	\$122,392
2009	110,000	95,416	13,829	22,396	123,829	117,812
2010	110,000	91,566	14,600	21,625	124,600	113,191
2011	115,000	87,441	15,415	20,811	130,415	108,252
2012	120,000	83,129	16,274	19,952	136,274	103,081
2013–2017	685,000	340,394	96,034	85,092	781,034	425,486
2018–2022	830,000	191,685	125,964	55,162	955,964	246,847
2023–2026	385,000	29,830	128,498	16,405	513,498	46,235
Totals	<u>\$2,465,000</u>	<u>\$1,018,727</u>	<u>\$423,713</u>	<u>\$264,569</u>	<u>\$2,888,713</u>	<u>\$1,283,296</u>

Village of Highland Hills
Notes to the Financial Statements
For the Year Ended December 31, 2007

Note 7 - Notes Payable

A summary of the note transactions for the year ended December 31, 2007, follows:

	Interest Rate	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007
<u>Governmental Activities</u>					
<u>Bond Anticipation Note</u>					
2006 Issue	5.17%	\$179,000	\$0	(\$179,000)	\$0
2007 Issue	4.25%	0	179,000	(55,000)	124,000

These notes were issued in anticipation of the issuance of bonds for the purpose of constructing improvements to various roads in the Village, constructing the Mill Creek Erosion Project in the Village, and constructing renovations to the Highland Hills government office building (Shaker House).

All note proceeds had been spent at December 31, 2007. The bond anticipation note is backed by the full faith and credit of the Village and matures within one year.

Note 8 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Property tax receipts received in 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) is for 2007 taxes.

2007 real property taxes are levied after October 1, 2007 on the assessed values as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2008.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes which became a lien on December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

2007 tangible property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008, and eliminated for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 3, with the remainder due September 20.

The full tax rate for all Village operations for the year ended December 31, 2007, was \$6.83 per \$1,000 of assessed value. The assessed values of real and personal property upon which 2007 property tax receipts were based are as follows:

Village of Highland Hills
Notes to the Financial Statements
For the Year Ended December 31, 2007

Note 8 – Property Taxes (continued)

Residential Real Property	\$4,901,070
Other Real Estate	23,649,370
Public Utility Property	888,290
Tangible Personal Property	1,002,825
Total Assessed Values	\$30,441,555

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Auditor periodically remits to the Village its portion of the taxes collected.

Note 9 – Income Taxes

The Village levies a 2.5 percent income tax on all income earned within the Village as well as on income of residents earned outside the Village. In the case of income earned outside of the Village, the Village allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employees within the Village are required to withhold income tax on employee earnings and remit the tax to the Central Collection Agency (CCA), on behalf of the Village, at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a final return annually. Taxes collected by CCA in one month are remitted to the Village in the following month. All income tax revenue is credited to the Village's General Fund.

Note 10 – Interfund Transfers

During 2007, the following transfers were made:

	Transfer In	Transfer Out
<u>Governmental Activities</u>		
General Fund		\$145,000
Fire Levy Fund	\$145,000	
Totals	\$145,000	\$145,000

Transfers represent the allocation of unrestricted receipts collected in the General Fund and other funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. The General Fund transfer to the Fire Levy Fund was made to provide additional resources for current operations.

Note 11 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

Plan Description - The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a costsharing, multiple employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit.

Note 11 – Defined Benefit Pension Plans (continued)

A. Ohio Public Employees Retirement System (continued)

Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll. The Village's contribution rate for 2007 was 13.85 percent. For 2007, the employer contribution allocated to the postemployment health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate of the Village of 14 percent.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$126,184, \$138,553, and \$120,699 respectively. The full amount has been contributed for all three years.

B. Ohio Police and Fire Pension Fund

Plan Description - The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The Village's contribution was 19.5 percent for police officers and 24 for firefighters. Contribution rates are established by State statute. For 2007, a portion of the Village's contribution equal to 6.75 percent of covered payroll was allocated to fund the postemployment healthcare plan. The Village's contributions to the Fund for police and firefighters were \$178,108, \$121,936, and \$108,726 and for the years ended December 31, 2007, 2006, and 2005. The full amount has been contributed for all three years.

Note 12 – Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

Note 12 – Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and combined Plans must have 10 or more years of qualified service credit. Health care coverage for disability benefit recipients and qualified survivor benefits recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determined the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The retirement board is also authorized to establish rules for the payment of a portion of the healthcare benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment healthcare plan.

The number of active contributing participants in the traditional and combined plans was 374,979. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130. Actual employer contributions for 2007, 2006, and 2005 which were used to fund postemployment benefits were \$50,168, \$45,510, and \$61,322, respectively. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006, (the latest information available) were \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the healthcare plan.

B. Police and Firemen's Disability and Pension Fund

Plan Description – The Village contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined postemployment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long term care to retirees, qualifying benefit recipients and their eligible dependents.

Note 12 – Postemployment Benefits (continued)

B. Police and Firemen's Disability and Pension Fund (continued)

OP&F provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&F meets the definition of an other postemployment benefit (OPEB) as described in GASB statement 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding policy – OP&F's postemployment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions to OP&F for the years ending December 31, 2007, 2006, and 2005 were \$178,108, \$121,936 and \$108,726, respectively, of which \$57,531, \$47,786 and \$42,609, respectively, was allocated to the healthcare plan. The OP&F's total health care expense for the year ended December 31, 2007 was \$93,205,319, which was net of member contributions of \$56,031,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2007, was 14,295 for police and 10,583 for firefighters.

Note 13 – Leases

The Village leases vehicles and other equipment under noncancelable leases. The Village disbursed \$54,245 to pay lease costs for the year ended December 31, 2007. Future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$69,714
2009	48,303
2010	10,875
2011	9,135
Total	<u>\$138,027</u>

Note 14 – Risk Management

Risk Pool Membership

The Village belongs to 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 over 550 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except the Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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:

	<u>2007</u>	<u>2006</u>
Assets	\$11,136,455	\$9,620,148
Liabilities	<u>(4,273,553)</u>	<u>(3,329,620)</u>
Members' Equity	<u>\$6,862,902</u>	<u>\$6,290,528</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

Note 15 – Contingent Liabilities

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

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 16 – 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.

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Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

This discussion and analysis of the Village of Highland Hills (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2006, within the limitations of the Village's cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999.

Financial Highlights

Key financial highlights for 2006 are as follows:

General receipts accounted for \$3,986,681 or 83 percent of all receipts. Program specific receipts in the form of charges for services and sales, and capital grants and contributions accounted for \$819,148 or 17 percent of all receipts.

Total program disbursements were \$4,415,635 in Governmental Activities and \$223,047 in Business-Type Activities.

In total, net assets of Governmental Activities decreased \$13,900, which represents a 1.1 percent decrease from 2005.

Outstanding debt increased from \$3,060,000 to \$3,174,000 mainly because of the issuance of building improvement bonds in 2006 for \$430,000.

The Village is in the process of the significant renovation of the Village's administrative offices. As of December 31, 2006, \$184,237 has been expended for this renovation. The total cost of this renovation is estimated to be \$1.1 million. This renovation was financed by the issuance of \$2,565,000 refunding debt which was issued in late 2005.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Village of Highland Hills
Management's Discussion and Analysis
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Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the Village into two types of activities:

Governmental activities. Most of the Village's basic services are reported here, including police, fire, and streets. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activity. The Village's rental operation activities are reported here.

Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into three categories: governmental, proprietary and fiduciary.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General Fund, Fire Levy Fund, and the Municipal Complex Renovation Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has one enterprise fund, the Rental Operations Fund. The Village collects monthly rental receipts from tenants who are lessees of the residential and commercial space in the Village's administration building. The Rental Operations Fund is considered a major fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Village's programs.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2006 compared to 2005 on a cash basis:

(Table 1)

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Equity in Pooled						
Cash and Cash Equivalents	\$1,235,601	\$1,249,501	\$240,821	\$44,137	\$1,476,422	\$1,293,638
Net Assets						
Restricted for:						
Other Purposes	988,979	840,133	240,821	44,137	1,229,800	884,270
Unrestricted	246,622	409,368			246,622	409,368
Total Net Assets	\$1,235,601	\$1,249,501	\$240,821	\$44,137	\$1,476,422	\$1,293,638

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the Village's net assets totaled \$1,476,422, with the Business-Type Activities accounting for \$240,821 of this balance.

Table 2 reflects the changes in net assets on a cash basis in 2006 and 2005 for governmental activities, business-type activities and the total primary government.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

(Table 2)
Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$402,852	\$324,545	\$408,003	\$471,180	\$810,855	\$795,725
Operating Grants and Contributions	0	19,260			0	19,260
Capital Grants and Contributions	8,293	64,038			8,293	64,038
Total Program Receipts	411,145	407,843	408,003	471,180	819,148	879,023
General Receipts:						
Property and Other Local Taxes	179,941	216,799			179,941	216,799
Income Taxes	2,853,598	2,613,742			2,853,598	2,613,742
Grants and Entitlements Not Restricted to Specific Programs	232,443	245,683			232,443	245,683
Bond Proceeds	430,000	1,155,000		1,410,000	430,000	2,565,000
Note Proceeds	179,000	495,000			179,000	495,000
Interest	66,892	10,347			66,892	10,347
Miscellaneous	38,079	42,121	6,728	43,243	44,807	85,364
Total General Receipts	3,979,953	4,778,692	6,728	1,453,243	3,986,681	6,231,935
Total Receipts	4,391,098	5,186,535	414,731	1,924,423	4,805,829	7,110,958
Disbursements:						
General Government	1,285,011	1,289,221			1,285,011	1,289,221
Security of Persons and Property	1,306,381	1,114,364			1,306,381	1,114,364
Community Environment	858,330	700,267			858,330	700,267
Basic Utility Services	155,734	167,157			155,734	167,157
Transportation	155,734	171,293			155,734	171,293
Rental Operation Expenses			223,047	359,413	223,047	359,413
Principal Retirement	495,000	585,000		1,219,798	495,000	1,804,798
Interest and Fiscal Charges	159,445	169,549		348,733	159,445	518,282
Total Disbursements	4,415,635	4,196,851	223,047	1,927,944	4,638,682	6,124,795
Excess (Deficiency) Before Transfers	(24,537)	989,684	191,684	(3,521)	167,147	986,163
Transfers	10,637	357,734	5,000	0	15,637	357,734
Increase (Decrease) in Net Assets	(13,900)	1,347,418	196,684	(3,521)	182,784	1,343,897
Net Assets, January 1	1,249,501	(97,917)	44,137	47,658	1,293,638	(50,259)
Net Assets, December 31	\$1,235,601	\$1,249,501	\$240,821	\$44,137	\$1,476,422	\$1,293,638

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Program receipts represent only 17 percent of total receipts and are primarily comprised of charges for services.

General receipts represent 83 percent of the Village's total receipts, and of this amount, over 76 percent are municipal income, property, and other taxes. State and federal grants and entitlements make up the balance of the Village's general receipts (6 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of the Mayor's Office Council, the Mayor's Court, Solicitor's Office, and other Village departments.

Security of Persons and Property are the costs of police, fire protection, and emergency medical services. Transportation is the cost of maintaining the roads. Community Development expenses are associated with the property, community development, and building departments.

Governmental Activities

If you look at the Statement of Activities on page 46, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government and security of persons and property. Salaries and related benefits for police, mayor, council, clerk-treasurer, solicitor, and general government accounted for 59% of disbursements for these two government activities and over 37% of total government activity expenses. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
General Government	\$1,285,011	\$1,041,812	\$1,289,221	\$1,075,481
Security of Persons and Property	1,306,381	1,205,098	114,364	1,035,559
Community Environment	858,330	791,667	700,267	597,123
Basic Utility Services	155,734	155,734	167,157	167,157
Transportation	155,734	155,734	171,243	171,243
Principal Retirement	495,000	495,000	585,000	585,000
Interest and Fiscal Charges	159,445	159,445	169,549	169,549
Total	<u>\$4,415,635</u>	<u>\$4,004,490</u>	<u>\$3,196,801</u>	<u>\$3,801,112</u>

The dependence upon property and income tax receipts is apparent as over 90 percent of governmental activities are supported through these general receipts.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The Village's Funds

Total governmental funds had receipts of \$3,782,098 and disbursements of \$4,415,635. The greatest decrease within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$162,746 as the result of the retirement of a \$495,000 bond anticipation note in 2006.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of the year, the Village made no amendments to any of its funds from its original budget for each fund.

For the General Fund, actual receipts exceeded the final budgeted revenues and other financing sources by \$580,970. The primary factors contributing to this were investment earnings, fines, licenses, and permits, and income taxes exceeding expectations.

Actual disbursements and other financing uses of the General Fund were \$722,091 greater than the final budgeted amount of \$3,361,531 for these items. The primary factors contributing to actual disbursements exceeding appropriations were in the police and public properties departments and debt service payments.

Other Major Fund Budgeting Highlights

For the Fire Levy Fund, actual receipts and other financing sources were less than budgeted by \$53,078. The primary factor for this difference was ambulance fees were less than anticipated. The less than anticipated ambulance fees were offset by an increase in transfers in from the General Fund of \$10,000 from the original budget. Salaries and related fringe benefits exceeded budget expenses by about \$40,000.

Capital Assets and Debt Administration

Capital Assets

The Village maintains capital asset listings of its land, buildings, and vehicles. The Village does not maintain capital asset records for its infrastructure or furniture and fixtures. These records are not required to be presented in the financial statements.

Debt

At December 31, 2006, the Village had \$3,174,000 in outstanding debt. During calendar year 2006, an additional \$430,000 in building improvement bonds were issued, the 2005 bond anticipation note of \$495,000 was retired, and a \$179,000 bond anticipation note was issued. For further information regarding the Village's debt, refer to Note 7 and 8 to the basic financial statements.

Village of Highland Hills
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Current Issues

The challenge for the Village is to provide quality services to the public while staying within the restrictions imposed by limited funding. The Village relies heavily on the local income tax which supplies about 75% of total governmental fund revenues. The overall continued employment of Village citizens at comparable salaries is essential for Village revenues to match subsequent year appropriations. Preliminary forecasts indicate that 2007 revenues and appropriations will be nearly identical.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Andrea Morris, Finance Director, Village of Highland Hills, 3700 Northfield Road, Highland Hills, Ohio 44122.

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Village of Highland Hills
Cuyahoga County
Statement of Net Assets - Cash Basis
December 31, 2006

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$1,235,601</u>	<u>\$240,821</u>	<u>\$1,476,422</u>
Net Assets			
Restricted for:			
Other Purposes	988,979	240,821	1,229,800
Unrestricted	<u>246,622</u>	<u> </u>	<u>246,622</u>
<i>Total Net Assets</i>	<u>\$1,235,601</u>	<u>\$240,821</u>	<u>\$1,476,422</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2006

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General Government	\$1,285,011	\$243,199		(\$1,041,812)		(\$1,041,812)
Security of Persons and Property	1,306,381	101,283		(1,205,098)		(1,205,098)
Community Environment	858,330	58,370	8,293	(791,667)		(791,667)
Basic Utility Services	155,734			(155,734)		(155,734)
Transportation	155,734			(155,734)		(155,734)
Debt Service:						
Principal Retirement	495,000			(495,000)		(495,000)
Interest and Fiscal Charges	159,445			(159,445)		(159,445)
<i>Total Governmental Activities</i>	<u>4,415,635</u>	<u>402,852</u>	<u>8,293</u>	<u>(4,004,490)</u>		<u>(4,004,490)</u>
Business Type Activity						
Rental Operations	223,047	408,003			184,956	184,956
Total	<u>\$4,638,682</u>	<u>\$810,855</u>	<u>\$8,293</u>	<u>(4,004,490)</u>	<u>184,956</u>	<u>(3,819,534)</u>
General Receipts						
Property Taxes Levied for:						
General Purposes				179,941		179,941
Municipal Income Taxes				2,853,598		2,853,598
Grants and Entitlements not Restricted to Specific Programs				232,443		232,443
Bonds Issued				430,000		430,000
Notes Issued				179,000		179,000
Interest				66,892		66,892
Miscellaneous				38,079	6,728	44,807
<i>Total General Receipts</i>				<u>3,979,953</u>	<u>6,728</u>	<u>3,986,681</u>
Transfers				10,637	5,000	15,637
Total General Receipts and Transfers				<u>3,990,590</u>	<u>11,728</u>	<u>4,002,318</u>
Change in Net Assets				(13,900)	196,684	182,784
<i>Net Assets, Beginning of Year</i>				<u>1,249,501</u>	<u>44,137</u>	<u>1,293,638</u>
<i>Net Assets, End of Year</i>				<u>\$1,235,601</u>	<u>\$240,821</u>	<u>\$1,476,422</u>

Village of Highland Hills
Cuyahoga County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2006

	General	Fire Levy	Municipal Complex Renovation	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$246,622	(\$25,275)	\$961,849	\$52,405	\$1,235,601
Fund Balances					
Reserved for Encumbrances	\$103,056	\$9,780	\$420	\$1,582	\$114,838
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	143,566				143,566
Special Revenue Funds		(35,055)		50,823	15,768
Capital Projects Funds			961,429		961,429
<i>Total Fund Balances</i>	<u>\$246,622</u>	<u>(\$25,275)</u>	<u>\$961,849</u>	<u>\$52,405</u>	<u>\$1,235,601</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Fire Levy	Municipal Complex Renovation	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal Income Taxes	\$2,853,598				\$2,853,598
Property and Other Local Taxes	140,664	\$39,277			179,941
Charges for Services	72,664	61,061			133,725
Fines, Licenses and Permits	228,905				228,905
Intergovernmental	227,381	1,584		11,771	240,736
Special Assessments				40,222	40,222
Interest	66,892				66,892
Miscellaneous	38,079				38,079
<i>Total Receipts</i>	<u>3,628,183</u>	<u>101,922</u>		<u>51,993</u>	<u>3,782,098</u>
Disbursements					
Current:					
General Government	1,285,011				1,285,011
Security of Persons and Property	959,387	251,099		95,895	1,306,381
Community Environment	710,255		144,474	3,601	858,330
Basic Utility Services	155,734				155,734
Transportation	155,734				155,734
Debt Service:					
Principal Retirement	495,000				495,000
Interest and Fiscal Charges	129,445		30,000		159,445
<i>Total Disbursements</i>	<u>3,890,566</u>	<u>251,099</u>	<u>174,474</u>	<u>99,496</u>	<u>4,415,635</u>
<i>Excess of Receipts (Under) Disbursements</i>	<u>(262,383)</u>	<u>(149,177)</u>	<u>(174,474)</u>	<u>(47,503)</u>	<u>(633,537)</u>
Other Financing Sources (Uses)					
Bonds Issued			430,000		430,000
Notes Issued	179,000				179,000
Transfers In	10,637	90,000			100,637
Transfers Out	(90,000)				(90,000)
<i>Total Other Financing Sources (Uses)</i>	<u>99,637</u>	<u>90,000</u>	<u>430,000</u>		<u>619,637</u>
<i>Net Change in Fund Balances</i>	<u>(162,746)</u>	<u>(59,177)</u>	<u>255,526</u>	<u>(47,503)</u>	<u>(13,900)</u>
<i>Fund Balances, Beginning of Year</i>	<u>409,368</u>	<u>33,902</u>	<u>706,323</u>	<u>99,908</u>	<u>1,249,501</u>
<i>Fund Balances, End of Year</i>	<u>\$246,622</u>	<u>(\$25,275)</u>	<u>\$961,849</u>	<u>\$52,405</u>	<u>\$1,235,601</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Receipts				
Municipal Income Taxes	\$2,700,000	\$2,700,000	\$2,853,598	\$153,598
Property and Other Local Taxes	157,000	157,000	140,664	(16,336)
Charges for Services	60,000	60,000	72,664	12,664
Fines, Licenses and Permits	148,100	148,100	228,905	80,805
Intergovernmental	96,750	96,750	227,381	130,631
Interest	10,000	10,000	66,892	56,892
Miscellaneous	35,000	35,000	38,079	3,079
<i>Total receipts</i>	<u>3,206,850</u>	<u>3,206,850</u>	<u>3,628,183</u>	<u>421,333</u>
Disbursements				
Current:				
General Government	1,069,928	1,069,928	1,308,090	(238,162)
Security of Persons and Property	931,870	931,870	974,695	(42,825)
Community Environment	660,023	660,023	763,636	(103,613)
Basic Utility Services	191,855	191,855	161,378	30,477
Transportation	191,855	191,855	161,378	30,477
Debt Service:				
Principal Retirement	216,000	216,000	495,000	(279,000)
Interest and Fiscal Charges	10,000	10,000	129,445	(119,445)
<i>Total Disbursements</i>	<u>3,271,531</u>	<u>3,271,531</u>	<u>3,993,622</u>	<u>(722,091)</u>
<i>Excess of Receipts (Under) Disbursements</i>	<u>(64,681)</u>	<u>(64,681)</u>	<u>(365,439)</u>	<u>(300,758)</u>
Other Financing Sources (Uses)				
Notes Issued			179,000	179,000
Transfers In	30,000	30,000	10,637	(19,363)
Transfers Out	(90,000)	(90,000)	(90,000)	
<i>Total Other Financing Sources (Uses)</i>	<u>(60,000)</u>	<u>(60,000)</u>	<u>99,637</u>	<u>159,637</u>
<i>Net Change in Fund Balance</i>	(124,681)	(124,681)	(265,802)	(141,121)
<i>Fund Balance, Beginning of Year</i>	205,260	205,260	205,260	
Prior Year Encumbrances Appropriated	204,108	204,108	204,108	
<i>Fund Balance, End of Year</i>	<u>\$284,687</u>	<u>\$284,687</u>	<u>\$143,566</u>	<u>(\$141,121)</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Fire Levy Fund
For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive (Negative)
Receipts				
Property and Other Local Taxes	\$45,000	\$45,000	\$39,277	(\$5,723)
Charges for Services	120,000	120,000	61,061	(58,939)
Intergovernmental			1,584	1,584
<i>Total receipts</i>	<u>165,000</u>	<u>165,000</u>	<u>101,922</u>	<u>(63,078)</u>
Disbursements				
Current:				
Security of Persons and Property	210,440	210,440	260,879	(50,439)
<i>Excess of Receipts (Under) Disbursements</i>	<u>(45,440)</u>	<u>(45,440)</u>	<u>(158,957)</u>	<u>(113,517)</u>
Other Financing Sources				
Transfers In	80,000	80,000	90,000	10,000
<i>Net Change in Fund Balance</i>	34,560	34,560	(68,957)	(103,517)
<i>Fund Balance, Beginning of Year</i>	23,919	23,919	23,919	
Prior Year Encumbrances Appropriated	9,983	9,983	9,983	
<i>Fund Balance, End of Year</i>	<u>\$68,462</u>	<u>\$68,462</u>	<u>(\$35,055)</u>	<u>(\$103,517)</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
December 31, 2006

Business-Type Activities

Rental Operations

Assets

Equity in Pooled Cash and Cash Equivalents

\$240,821

Net Assets

Restricted for Other Purposes

\$240,821

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Fund
For the Year Ended December 31, 2006

	<u>Business-Type Activities</u>
	<u>Rental Operations</u>
Operating Receipts	
Charges for Services	\$408,003
Other Operating Receipts	6,728
	<u>414,731</u>
<i>Total Operating Receipts</i>	<i>414,731</i>
Operating Disbursements	
Personal Services	169,650
Contractual Services	43,943
Materials and Supplies	9,454
	<u>223,047</u>
<i>Total Operating Disbursements</i>	<i>223,047</i>
<i>Income before Transfers</i>	<i>191,684</i>
Transfers In	5,000
	<u>196,684</u>
<i>Change in Net Assets</i>	<i>196,684</i>
<i>Net Assets, Beginning of Year</i>	<i>44,137</i>
	<u>44,137</u>
<i>Net Assets, End of Year</i>	<i>\$240,821</i>
	<u>\$240,821</u>

See accompanying notes to the basic financial statements

Village of Highland Hills
Cuyahoga County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$222,277</u>
Net Assets	
Unrestricted	<u>\$222,277</u>

See accompanying notes to the basic financial statements

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Note 1 – Reporting Entity

The Village of Highland Hills, Cuyahoga County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. 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.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general governmental services, including police services, fire protection, and street maintenance, construction, and repair.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village.

Based on this criteria, the Village has no component units.

C. Public Entity Risk Pool

The Village participates in one public entity risk pool, the Ohio Government Risk Management Plan (OGRMP). Note 15 to the financial statements provide additional information for this entity.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

Note 2 – Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business-type activity is self-financing on a cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The proprietary fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into three categories, governmental, proprietary and fiduciary.

Note 2 – Summary of Significant Accounting Policies (continued)

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village's major governmental funds are the General Fund, Fire Levy Fund, and the Municipal Complex Renovation Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio. A description of these funds is as follows:

General Fund – The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

Fire Levy Fund – This Special Revenue fund provides ambulance services to Village residents and is administered by the Village Fire Department. This fund receives its funding from ambulance fees, real estate property taxes, and an annual transfer in from the General Fund.

Municipal Complex Renovation Fund – This fund accounts for the Village's current construction project. Cash receipts for this fund are proceeds from the issuance of long term bonds. Construction disbursements for this fund are anticipated until construction is completed which is anticipated to be in 2008.

The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund

The Village classifies funds financed primarily from user charges for goods or services as proprietary. The following is the Village's proprietary fund type:

Enterprise Fund – This fund accounts for the operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following major enterprise fund at December 31, 2006:

Rental Operations – 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.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications; pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. Agency funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. All Village fiduciary funds are agency funds. The Village's agency funds include the Mayor's Court fine collections and disbursements, the Contractor Deposit Fund for building construction, the Building Standards Assessment Fund, and the Tenant Security Deposit Fund which is used to collect and disburse tenant security deposits.

Note 2 – Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued liabilities and the related expenses) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. 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 must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriations measure. Unencumbered appropriations lapse at year end.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk-Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". Cash and cash equivalents that are held separately in accounts at a financial institution for retainage, bond reserves and debt service are reported as "Cash and Cash Equivalents with Fiscal Agents."

Note 2 – Summary of Significant Accounting Policies (continued)

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts, respectively.

During 2006, the Village invested in nonnegotiable certificates of deposit and money market funds. The nonnegotiable certificates of deposit are reported at cost. The Village's money market fund investment is recorded at the amount reported by Fifth Third Bank and Key Bank at December 31, 2006. The December 31, 2006 certificates of deposit balance was \$617,702 and the money market balance was \$679,968.

For these financial statements, all certificates of deposit are reported as cash equivalents.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 was \$66,892 which includes \$55,718 assigned from other Village funds.

F. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 12 and 13, the employer contributions include portions for pension benefits and for postretirement healthcare benefits.

J. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

Note 2 – Summary of Significant Accounting Policies (continued)

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for fire protection, the Village's renovation construction contract, and improvements to rental properties.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved and undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

M. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Change in Basis of Accounting

Last year the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Village has implemented the cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

Note 4 – Accountability and Compliance

The Village had the following deficit fund balances at December 31, 2006:

A. Accountability

<u>Fund</u>	<u>Balance</u>
Fire Levy Fund	(\$25,275)
CDBG Home Exterior	(1,258)
Building Assessment	(26)
Tenants Deposits	(19,388)

Note 4 – Accountability and Compliance (continued)

B. Compliance

The Village expended monies in excess of appropriations in the General Fund, Fire Levy Fund, Rental Operations Fund, and the Municipal Complex Renovation Fund in violation of Ohio Revised Code section 5705.41(B). The Village appropriated monies in excess of estimated resources in the Bond Retirement Fund in the amount of \$10,000 in violation of Ohio Revised Code section 5705.39.

Note 5 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and Fire Levy Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$103,056 for the General Fund and \$9,780 for the Fire Levy Fund.

Note 6 – Deposits and Investments

Monies held by the Village are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

Note 6 – Deposits and Investments (continued)

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Village by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village's deposits may not be returned. At year end, \$1,584,456 of the Village's bank balance of \$1,810,953 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2006, the Village had no investments.

- (a) *Interest Rate Risk.* Interest rate risk arises because the fair value of investments changes as interest rates change. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes.
- (b) *Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Village of Highland Hills
Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 6 – Deposits and Investments (continued)

- (c) *Credit Risk.* Credit risk is addressed by the Village's investment policy which requires that all investments are authorized by the Ohio Revised Code. The Village's investment policy allows for investments in Star Ohio which carries a rating of AAAm by Standard & Poors.
- (d) *Concentration of Credit Risk.* Concentration of Credit Risk is defined by the Government Accounting Standards Board as having invested five percent or more of the Village's investment portfolio in securities of a single issuer. The Village places no limit on the amount that may be invested in any one issuer.

Note 7 – Bonded 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 is also to fund building improvements for the Village's municipal building.

The Village's long-term debt activity for the year ended December 31, 2006, was as follows:

	Interest Rate	Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006
<u>Governmental Activities</u>					
Various Purpose					
Refunding Bonds					
2005 Issue	3.25 - 4.375%	\$2,565,000	\$0	\$0	\$2,565,000
(Original Amount \$2,565,000)					
Building Improvement Bonds					
2006 Issue	5.5%	0	430,000	0	430,000
(Original Amount \$430,000)					
Total Governmental Activities		<u>\$2,565,000</u>	<u>\$430,000</u>	<u>\$0</u>	<u>\$2,995,000</u>

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

Year	2005 Refunding Bonds		2006 Building Improvement Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$100,000	\$102,516	\$6,288	\$33,701	\$106,288	\$136,217
2008	110,000	99,266	13,099	23,126	123,099	122,392
2009	110,000	95,416	13,829	22,396	123,829	117,812
2010	110,000	91,566	14,600	21,625	124,600	113,191
2011	115,000	87,441	15,415	20,811	130,415	108,252
2012–2016	655,000	366,088	90,963	90,164	745,963	456,252
2017–2021	800,000	224,675	119,311	61,815	919,311	286,490
2022–2026	565,000	54,275	56,495	24,632	721,495	78,907
Totals	<u>\$2,565,000</u>	<u>\$1,121,243</u>	<u>\$430,000</u>	<u>\$298,270</u>	<u>\$2,995,000</u>	<u>\$1,419,513</u>

Village of Highland Hills
Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 8 - Notes Payable

A summary of the note transactions for the year ended December 31, 2006, follows:

	Interest Rate	Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006
<u>Governmental Activities</u>					
<u>Bond Anticipation Note</u>					
2005 Issue	3.90%	\$495,000	\$0	(\$495,000)	\$0
2006 Issue	5.17%	0	179,000	(0)	179,000

These notes were issued in anticipation of the issuance of bonds for the purpose of constructing improvements to various roads in the Village, constructing the Mill Creek Erosion Project in the Village, and constructing renovations to the Highland Hills government office building (Shaker House).

All note proceeds had been spent at December 31, 2006. The bond anticipation note is backed by the full faith and credit of the Village and matures within one year.

Note 9 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Property tax receipts received in 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes which became a lien on December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and eliminated for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 3, with the remainder due September 20.

The full tax rate for all Village operations for the year ended December 31, 2006, was \$6.83 per \$1,000 of assessed value. The assessed values of real and personal property upon which 2006 property tax receipts were based are as follows:

Village of Highland Hills
Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 9 – Property Taxes (continued)

Residential Real Property	\$4,271,210
Other Real Estate	25,733,100
Public Utility Property	1,241,060
Tangible Personal Property	611,522
Total Assessed Values	\$31,856,892

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Auditor periodically remits to the Village its portion of the taxes collected.

Note 10 – Income Taxes

The Village levies a 2.5 percent income tax on all income earned within the Village as well as on income of residents earned outside the Village. In the case of income earned outside of the Village, the Village allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employees within the Village are required to withhold income tax on employee earnings and remit the tax to the Central Collection Agency (CCA), on behalf of the Village, at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a final return annually. Taxes collected by CCA in one month are remitted to the Village in the following month. All income tax revenue is credited to the Village's General Fund.

Note 11 – Interfund Transfers

During 2006, the following transfers were made:

	Transfer In	Transfer Out
<u>Governmental Activities</u>		
General Fund	\$10,637	\$90,000
Fire Levy Fund	90,000	-
<u>Business-Type Activities</u>		
Rental Operations	5,000	-
<u>Fiduciary Funds</u>		
Tenants' Deposits	-	10,637
Contractor's Deposits	-	5,000
Totals	\$105,637	\$105,637

Transfers represent the allocation of unrestricted receipts collected in the General Fund and other funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. The General Fund transfer to the Fire Levy Fund was made to provide additional resources for current operations. The transfers-out from the Tenants' Deposits (fiduciary funds) represents deposits that were kept due to damage costs, repairs, and similar items.

Note 12 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

All employees, other than non-administrative full-time police officers and firefighters participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The Village's contribution rate for pension benefits for 2006 was 13.7 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations for the years ended December 31, 2006, 2005, and 2004 were \$138,553, \$120,699 and \$123,811 respectively. The full amount has been contributed for all three years.

B. Ohio Police and Fire Pension Fund

The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The Village's contributions to the Fund for the years ended December 31, 2006, 2005, and 2004 were \$121,936, \$108,726, and \$97,148 respectively. The full amount has been contributed for all three years.

Note 13 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$45,510. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 were \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

Note 13 – Postemployment Benefits (continued)

B. Police and Firemen's Disability and Pension Fund (continued)

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The Village's actual contributions for 2006 that were used to fund postemployment benefits were \$44,857 for police and \$2,929 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 was \$120,373,722, which was net of member contributions of \$58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, was 14,120 for police and 10,563 for firefighters.

Note 14 – Leases

The Village leases vehicles and other equipment under noncancelable leases. The Village disbursed \$71,454 to pay lease costs for the year ended December 31, 2006. Future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$52,505
2008	57,099
2009	35,688
Total	<u>\$145,292</u>

Note 15 – Risk Management

Risk Pool Membership

The Village belongs to 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 over 550 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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.

Village of Highland Hills
Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 15 – Risk Management (continued)

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:

	<u>2006</u>	<u>2005</u>
Assets	\$9,620,148	\$8,219,430
Liabilities	<u>(3,329,620)</u>	<u>(2,748,639)</u>
Members' Equity	<u>\$6,290,528</u>	<u>\$5,470,791</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

Note 16 – Contingent Liabilities

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

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 17 – 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.

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Mary Taylor, CPA

Auditor of State

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

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

To the Members of the Village Council

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated December 17, 2010, wherein we noted the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Government* for the year ended December 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

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Internal Control Over Financial Reporting (Continued)

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings number 2007-001 and 2007-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated December 17, 2010.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-003 to 2007-013.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated December 17, 2010.

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 and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 17, 2010

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-001

Material Weakness Finding - Financial Reporting

Paragraph 18 of the *Statement on Auditing Standards 112* documents that the identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal control is a strong indicator of a material weakness even if management subsequently corrects the misstatement.

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

Financial reports and revenue and expense ledgers should be reviewed to ensure they accurately reflect the financial activity of the Village.

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, to the Villages accounting records for 2007:

1. The Village posted income tax revenues at net amount received rather than gross amount collected resulting in General Fund income tax revenue being understated \$52,477.
2. The Village misclassified and misposted revenues in the General Fund which resulted in property tax revenue being overstated by \$26,022, intergovernmental revenue being understated by \$26,849, miscellaneous revenue overstated by \$7,516, and income tax revenue being understated by \$8,720.
3. The Village misclassified and misposted revenue in the Fire Levy Fund which resulted in property tax revenues being overstated by \$6,335 and intergovernmental revenues being understated by \$6,335.
4. The Village misclassified and misposted revenue in the Motor Vehicle License Tax (MVL) Fund – Other Governmental Funds which resulted in property tax revenues being overstated by \$2,575 and intergovernmental revenues being understated by \$3,486.
5. The Village illegally transferred monies between the General Fund and the Fire Levy Fund in the amount of \$239,879, monies between the MVL) Fund and General Fund in the amount of \$9,574, monies between the Rental Operations Fund and General Fund in the amount of \$340,365, and monies between the Tenant's Deposit Fund – Fiduciary Fund and Rental Operations Fund in the amount of \$1,185 due to transferring amounts in access of the amount Council approved. See Finding 2007-013 in this report.
6. The Village had unrecorded and misposted debt activity in the General Fund which resulted in an understatement of sale of notes in the amount of \$179,000, an understatement of principal payments of \$54,371, and an understatement of interest payments of \$22,049.
7. The Village incorrectly reported restricted net assets based off outstanding encumbrances which resulted in Governmental Type Activities - Net Assets Restricted for Other Purposes and Unrestricted Net Assets to be overstated by \$41,668 and \$324,300, respectively, and Business Type Activities – Net Assets Restricted for Other Purposes to be understated by \$460,150.
8. The Village overstated outstanding encumbrances in the General Fund, Fire Levy Fund, Municipal Complex Renovation Fund, and Other Governmental Funds by \$102,658, \$9,775, \$420, and \$5,182, respectively.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-001 (Continued)

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, to the Villages accounting records for 2006:

1. The Village misclassified and misposted revenues in the General Fund which resulted in property tax revenue being overstated by \$14,994, intergovernmental revenue being understated by \$18,864, miscellaneous revenue overstated by \$9,080, income tax revenue understated by \$5,977, and fines licenses and permits understated by \$75.
2. The Village misclassified and misposted revenue in the Fire Levy Fund which resulted in property tax revenues being overstated by \$2,239 and intergovernmental revenues being understated by \$1,584.
3. The Village misclassified and misposted revenue in the MVLT Fund - Other Governmental Funds which resulted in property tax revenues being overstated by \$2,253 and intergovernmental revenues being understated by \$3,478.
4. The Village illegally transferred monies between the General Fund and the Fire Levy Fund in the amount of \$58,452 and monies between the Tenant's Deposit Fund - Fiduciary Fund and the Rental Operations Fund in the amount of \$1,981 due to transferring amounts in access of Council's approval. See Finding 2007-013 in this report.
5. The Village failed to record interest payments made for the 2005 Refunding Bonds and for those payments that were posted they were posted to the Municipal Complex Renovation Fund as interest and principal payments rather than the General Fund as interest payments. This resulted in General Fund interest payments being understated by \$114,761 and the Municipal Complex Renovation Fund interest and principal payments being overstated by \$13,293 and \$12,778, respectively.
6. The Village posted bond proceeds at the net amount received rather than the gross amount issued resulting in bond proceeds and interest and fiscal charges being understated by \$30,000 in the Municipal Complex Renovation Fund.
7. The Village failed to post the issuance of a \$179,000 Bond Anticipation Note and the corresponding principal retirement in the General Fund.
8. The Village posted income tax revenues at the net amount received rather than gross amount collected resulting in General Fund income tax revenue being understated \$90,445.
9. The Village incorrectly reported restricted net assets based off outstanding encumbrances which resulted in Governmental Type Activities - Net Assets Restricted for Other Purposes to be understated by \$590,816 and Business Type Activities – Net Assets Restricted for Other Purposes to be understated by \$240,841.
10. The Village misposted a reduction from charges for services and sales rather than grants and entitlements not restricted to specific programs on the Statement of Activities for the reclassification of an \$8,293 CDBG Grant – Governmental Activities as capital grants and contributions.
11. The Village overstated their outstanding encumbrances in the General Fund, Fire Levy Fund, Municipal Complex Renovation Fund, and Other Governmental Funds by \$255,386, \$14,761, \$9,170, and \$4,008 respectively.

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-001 (Continued)

We recommend the Village Council adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Village and thereby increasing the reliability of the financial data throughout the year.

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

FINDING NUMBER 2007-002

Material Weakness Finding - Bank Reconciliations

The Village has been outsourcing the monthly bank reconciliation process to a CPA firm, Watson Rice & Company. This firm was paid \$25,700 and \$20,400 in 2007 and 2006, respectively, to perform a monthly proof of cash of all Village accounts. Although this provides an independent control over cash reconciliations, the Finance Director decided not to utilize the work the Village paid for. As a result, the balance in the Village's accounting system was understated by \$133,695 in 2007 and overstated by \$116,942 in 2006.

We noted numerous adjustments presented by the CPA firm to the Finance Director. However, the Finance Director never posted any of the adjustments to the accounting system despite paying for the additional services. The adjustments related to old outstanding checks that were voided and were not inputted into the accounting system, posting errors, and bank charges not posted. This causes the accounting system to have incorrect fund balances. Also, any financial reports or data used from the accounting system would be misleading and inaccurate which hinders management's ability to properly monitor the Village's finances.

We recommend the Village review their bank reconciliation process and adopt new procedures to ensure the reconciliations are completed accurately and all necessary adjustments and corrections are posted to the accounting system in a timely manner. The Village should also consider performing the monthly bank reconciliation process by either the Clerk-Treasurer or finance staff. Once performed, the reconciliation should be reviewed by a separate employee who initials and dates the reconciliation. Also, adjustments should be reviewed and ensure they have been posted to the Village's accounting system and financial statements in order to properly reflect the reconciled balance of the Village.

Village's Response: The Village is currently reconciling on a monthly basis with the appropriate segregation of duties and reviews within the reconciling process.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-003

Material Noncompliance Finding - Finding for Recovery Repaid under Audit

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states that the Auditor of State’s Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

Robert Nash, Mayor, used his personal credit card or cash to pay for Senior Department trips and activities and then submitted the receipts to the Village for reimbursement. During a review of the receipts submitted we identified \$37 that was spent on alcoholic beverages.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Mayor Robert Nash in the amount of \$37, and in favor of the General Fund of the Village of Highland Hills.

Village’s Response: On April 25, 2010, Mayor Robert Nash repaid the Village’s General Fund \$37.

FINDING NUMBER 2007-004

Material Noncompliance Finding - Finding for Recovery Repaid Under Audit

The Village has established procedures to compare invoices with purchase orders prior to payment in order to ensure the expenditure is proper.

During a review of the Village’s expenditures, we noted an invoice from Creative Microsystems was paid twice by the Village for the same services rendered. The invoice, dated December 1, 2006 for \$3,950, was for the purchase of GAAP look-alike statement software, implementation training, and an annual fee. The invoice was first paid on December 5, 2006 with check #12981. The same invoice was then paid again on December 31, 2006 with check #13080. As a result, the Village overpaid Creative Microsystems \$3,950.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Creative Microsystems in the amount of \$3,950, and in favor of the General Fund of the Village of Highland Hills.

Village’s Response: Creative Microsystems repaid the Village’s General Fund \$3,950 on February 19, 2010.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-005

Material Noncompliance Finding - Finding for Recovery Repaid Under Audit

During a review of the payroll files, we discovered a letter granting the Village's Finance Director, Mr. Augustus Harper, a payroll advance of \$2,500. The letter was dated October 17, 2005 and was signed by Mr. Augustus Harper and the Mayor. The terms of the letter required Mr. Augustus Harper to repay the advance in ten equal installment of \$250 with a zero interest rate being assessed.

A review of Mr. Augustus Harper's payroll records disclosed that, to date, only \$750 of the advance had been repaid, with a \$1,750 balance outstanding.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby issued against Mr. Augustus Harper in the amount of \$1,750, and in favor of the General Fund of the Village of Highland Hills.

Village's Response: On April 20, 2010, Augustus Harper repaid the Village's General Fund \$1,500. On June 4, 2010, Augustus Harper repaid the Village's General Fund the remaining \$250.

FINDING NUMBER 2007-006

Material Noncompliance Finding - Finding for Recovery Repaid Under Audit

The Village retained the services of the firm Watson Rice & Company to provide various accounting services. During a review of the payments made to Watson Rice & Company, we noted an invoice from Watson Rice & Company was paid twice by the Village for the same services. The invoice, dated December 5, 2008 for \$3,100, was for the performance of a proof of cash for the month of October 2008. The initial invoice was paid on January 5, 2009 as part of check #17002 in the amount of \$6,850. The same invoice was again paid on February 13, 2009 as part of check #17135 in the amount of \$6,600.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Watson Rice & Co. in the amount of \$3,100, and in favor of the General Fund of the Village of Highland Hills.

Village's Response: On September 28, 2009, Watson Rice & Company agreed to credit the Village's account balance \$3,100.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-007

Material Noncompliance Finding – Village Employees not Contributing to OPERS

Ohio Revised Code §§ 145.47 and 145.48 require public employees who are members of the Public Employees Retirement System to contribute a percentage of their earnable salary or compensation to the PERS employees' fund. The fiscal officer of each local authority shall deduct from the compensation of each member on every payroll period subsequent to the date such employee became a member, an amount equal to the applicable percent of such member's earnable salary or compensation.

During the audit period, the Village used numerous personal service contractors for Village positions such as Clerk of Council, Service Department mechanics, Housekeepers, and Senior Department bus drivers. We recommend the Village contact OPERS for help in determining proper designations for Village personnel/contractors used.

This could result in a potential future liability to the Village for any employer and employee contributions.

This matter has been referred to the Ohio Public Employees Retirement System.

Village's Response: The Village is currently reviewing personal service contractors with representatives from the Ohio Public Employee Retirement System.

FINDING NUMBER 2007-008

Material Noncompliance Finding - Filing Annual Financial Reports

Ohio Revised Code § 117.38 provides that an annual financial report shall be filed with the Auditor of State within sixty days after fiscal year end. This section also states that at the time the report is filed with the Auditor of State, the fiscal officer must publish notice in a newspaper that the report has been completed and is available for public inspection at the office of the fiscal officer.

The Finance Director retained the services of the accounting firm of Watson Rice & Company (WR&C) to prepare its financial statements. WR&C submitted the 2007 and 2006 financial statements to the Finance Director but he never filed them with the Auditor of State, as required. Furthermore, the Village officer did not publish a notice in a newspaper that the report has been completed and is available for public inspection at the office of the fiscal officer.

Village's Response: The Village has taken action to comply with Ohio Revised Code § 117.38.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-009

Material Noncompliance Finding - Negative Cash Fund Balances

Ohio Revised Code § 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, 2007:

<u>Fund</u>	<u>Amount</u>
Transition Assistance	\$1,161
CDBG Home Exterior	1,258
Building Assessment	7
Tenants Deposits	5,987

The following funds had deficit cash balances as of December 31, 2006:

<u>Fund</u>	<u>Amount</u>
Fire Levy	\$25,275
CDBG Home Exterior	1,258
Building Assessment	26
Tenants Deposits	19,388

The Building Assessment and Tenants Deposits Funds are purely custodial in nature and are used to hold deposits made by individuals that will be returned after the service is provided. These Funds should not have a negative balance. The Building Assessment Fund had a positive balance in 2005 and the Tenants Deposits Fund had a negative balance starting in 2005.

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. For the Building Assessment Fund, the Village should review all activity beginning in 2006 in order to ascertain the source of the errors. For the Tenants Deposits Fund, the Village should review all activity in 2005 and prior in order to ascertain source of the errors.

Village's Response: The Village is currently monitoring cash balances to avoid deficit balances.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-010

Material Noncompliance Finding – Appropriations over Total Estimated Resources

Ohio Revised 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, 2007			
General	\$3,175,723	\$715,666	(\$2,460,057)
Fire Levy Fund	235,220	209,945	(25,275)
Lighting Assessment	52,000	41,916	(10,084)
As of December 31, 2006			
Bond Retirement	226,000	216,000	(10,000)

Appropriating monies in excess of estimated resources can lead to deficit spending.

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

Village’s Response: The Village is currently monitoring appropriations and estimated receipts to ensure that total appropriations from each fund do not exceed total estimated revenue.

FINDING NUMBER 2007-011

Material Noncompliance Finding - Proper Encumbering

Ohio Revised 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 Revised 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.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-011 (Continued)

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 testing of 85 expenditures during 2007 and 2006 we noted 58 instances (68%) in which the expenditures 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. 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 Clerk-Treasurer 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.

Village’s Response: The Village has taken action to certify purchases to which section 5705.41(D) applies. The Village is using purchase orders and “Then and Now” certificates when necessary.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-012

Material Noncompliance Finding – Expenditures Plus Encumbrances in Excess of Appropriations

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code.

The following funds had expenditures plus encumbrances in excess of appropriations as of December 31, 2007:

Fund/Function/Object	Appropriations Plus Carryover Encumbrances	Expenditures Plus Encumbrances	Variance
General Fund			
Police Department			
Travel & Transportation	\$0	\$194	(\$194)
Other Contractual Services	13,162	32,616	(19,454)
Operating Supplies	20,558	29,638	(9,080)
Repairs & Maintenance	15,806	33,639	(17,833)
Other Costs	8,291	11,037	(2,746)
Building Department			
Utilities	0	1,088	(1,088)
Professional Services	16,622	23,306	(6,684)
Repairs & Maintenance	150	1,028	(878)
Equipment Purchases	225	936	(711)
Community Development Department			
Personnel Benefits	7,275	39,413	(32,138)
Public Works Department			
Salaries	119,910	150,771	(30,861)
Other Contractual Services	17,508	62,522	(45,014)
Materials	20,083	56,306	(36,223)
Equipment Purchases	29,919	61,839	(31,920)
Other Costs	22,351	33,783	(11,432)
Public Properties Department			
Other Contractual Services	95,963	150,005	(54,042)
Operating Supplies	2,780	9,903	(7,123)
Other Costs	24,340	27,649	(3,309)
General Government			
Salary - Mayor	61,810	64,312	(2,502)
Salaries - Other	108,510	142,778	(34,268)
Utilities	46,720	51,773	(5,053)
Professional Services - Financial	21,140	44,050	(22,910)
Professional Services - Other	20,160	30,128	(9,968)
Interest Payments	0	113,712	(113,712)
Principal Payments	0	106,916	(106,916)
Operating Supplies	5,107	12,809	(7,702)

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-012 (Continued)

Fund/Function/Object	Appropriations Plus Carryover Encumbrances	Expenditures Plus Encumbrances	Variance
General Government (continued)			
Other Costs	40,324	84,160	(43,836)
Contingencies & Settlements	0	100,946	(100,946)
Village Council			
Salaries	53,110	53,136	(26)
Personnel Benefits	9,493	11,422	(1,929)
Travel & Education - K. Roberts	3,000	4,020	(1,020)
Travel & Education - B. Spearman	3,000	5,964	(2,964)
Travel & Education - C. Henderson	3,010	4,985	(1,975)
Travel & Education - S. Smith	3,010	4,046	(1,036)
Travel & Education - D. Love	3,010	6,108	(3,098)
Professional and Contract Services	1,171	17,128	(15,957)
Other Contractual Services	500	616	(116)
Office Supplies	500	1,102	(602)
Operating Supplies	600	1,537	(937)
Repairs & Maintenance	0	802	(802)
Equipment Purchases	75	1,685	(1,610)
Other Costs	3,120	4,006	(886)
Law Department			
Salaries	63,670	75,018	(11,348)
Other Professional Services	700	1,342	(642)
Operating Supplies	7,486	32,912	(25,426)
Mayors Court			
Salaries	79,590	80,229	(639)
Office Supplies	807	1,069	(262)
Repairs & Maintenance	200	240	(40)
Other Costs	8,411	20,437	(12,026)
Senior Department			
Travel & Transportation	0	292	(292)
Professional Services - Legal	0	1,772	(1,772)
Professional Services - Other	16,019	18,299	(2,280)
Operating Supplies	9,218	13,309	(4,091)
Repairs & Maintenance	5,651	9,619	(3,968)
Equipment Purchases	0	2,284	(2,284)
Rental Operations Fund			
Real Property Tax	41,805	44,129	(2,324)
Operating Supplies	9,175	10,435	(1,260)
Municipal Complex Renovation Fund			
Materials	251,236	661,919	(410,683)
Other Costs	4,320	8,931	(4,611)

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-012 (Continued)

The following funds had expenditures plus encumbrances in excess of appropriations as of December 31, 2006:

Fund/Function/Object	Appropriations Plus Carryover Encumbrances	Expenditures Plus Encumbrances	Variance
General Fund			
Police Department			
Other Contractual Services	\$ 12,500	\$ 13,441	\$ (941)
Operating Supplies	20,250	25,267	(5,017)
Repairs & Maintenance	17,750	25,793	(8,043)
Materials	2,750	3,963	(1,213)
Vehicle Maintenance	1,375	15,849	(14,474)
Other Costs	8,750	16,372	(7,622)
Building Department			
Personnel Benefits	9,550	10,085	(535)
Office Supplies	63	324	(261)
Operating Supplies	0	187	(187)
Equipment Purchases	0	9,266	(9,266)
Public Works Department			
Materials	19,875	39,496	(19,621)
Equipment Purchases	25,000	38,163	(13,163)
Vehicle Maintenance	16,250	17,629	(1,379)
Public Properties Department			
Utilities	200,000	214,349	(14,349)
Insurance	0	22,731	(22,731)
Operating Supplies	1,250	7,843	(6,593)
General Government			
Salary - Clerk-Treasurer	51,556	81,761	(30,205)
Salaries - Other	135,641	190,447	(54,806)
Utilities	50,125	57,157	(7,032)
Professional Services - Legal	0	2,560	(2,560)
Professional Services - Financial	18,750	51,965	(33,215)
Professional Services - Other	22,500	58,333	(35,833)
Tax Collection Expense	0	3,556	(3,556)
Auditor & Treasurer Fees	0	1,205	(1,205)
Election Expense	0	447	(447)
Operating Supplies	3,750	16,476	(12,726)
Equipment Purchases	21,250	34,826	(13,576)
Vehicle Maintenance	250	258	(8)
Contingencies & Settlements	0	66,224	(66,224)

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-012 (Continued)

Fund/Function/Object	Appropriations Plus Carryover Encumbrances	Expenditures Plus Encumbrances	Variance
Village Council			
Personnel Benefits	\$ 9,156	\$ 10,440	\$ (1,284)
Travel & Transportation	8,750	12,790	(4,040)
Travel & Education - K. Roberts	0	408	(408)
Travel & Education - C. Henderson	0	2,803	(2,803)
Travel & Education - P. Deberry	0	1,518	(1,518)
Travel & Education - S. Smith	0	2,228	(2,228)
Travel & Education - D. Love	0	3,331	(3,331)
Professional & Contract Services	0	9,079	(9,079)
Other Contractual Services	625	1,062	(437)
Office Supplies	625	698	(73)
Law Department			
Operating Supplies	7,500	21,631	(14,131)
Mayor's Court			
Professional Services - Other	0	198	(198)
Office Supplies	438	755	(317)
Other Costs	136,964	178,966	(42,002)
Senior Department			
Professional Services - Legal	0	1,785	(1,785)
Repairs & Maintenance	3,750	5,118	(1,368)
Other Costs	2,875	4,012	(1,137)
Fire Levy Fund			
Personnel Benefits	22,750	32,597	(9,847)
Professional Services	1,250	7,177	(5,927)
Office Supplies	750	1,084	(334)
Operating Supplies	6,000	10,472	(4,472)
Repairs & Maintenance	2,500	2,636	(136)
Equipment Purchases	1,250	2,600	(1,350)
Vehicle Maintenance	3,750	13,897	(10,147)
Other Costs	4,375	6,095	(1,720)
Rental Operations Fund			
Operating Supplies	4,375	8,088	(3,713)
Municipal Complex Renovation Fund			
Professional Services	55,625	64,500	(8,875)
Interest Payments	0	13,293	(13,293)
Principal Payments	0	12,778	(12,778)
Materials	0	33,427	(33,427)

Village's Response: The Village is currently monitoring expenditures and appropriations to ensure that final expenditures plus encumbrances do not exceed authorized appropriations.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-013

Material Noncompliance Finding – Council Approval of Transfers

Ohio Revised Code §§ 5705.14, 5705.15, and 5705.16 set the requirements for transfers of funds. Ohio Revised Code § 5705.14 provides that before an interfund transfer can be made, a resolution of the taxing authority of the subdivision shall be passed by a majority of the governing board.

The Village approves transfers as part of their annual appropriations. However, actual transfers made exceeded those authorized by Council in the appropriations. Council adopted amended appropriations after year end; however, governing boards cannot retroactively approve transfers. Further, transfers were being posted as one sided transactions in the Village’s accounting system which contributed to the Village reporting incorrect fund balances.

The following are transfers that exceeded Council approval for the year ended December 31, 2007:

<u>Fund</u>	<u>Council Approval</u>	<u>Transfers Made</u>	<u>Amount Over Approval</u>
General Fund	\$145,000	\$384,879	(\$239,879)
MVL Tax	0	9,574	(9,574)
Tenants Deposits	5,000	6,185	(1,185)
Rental Operations	0	340,365	(340,365)

The following are transfers that exceeded Council approval for the year ended December 31, 2006:

<u>Fund</u>	<u>Council Approval</u>	<u>Transfers Made</u>	<u>Amount Over Approval</u>
General Fund	\$90,000	\$148,452	(\$58,452)
Tenants Deposits	5,000	6,981	(1,981)

Transferring amounts in excess of Council approval could cause Village monies to be used for purposes that are either unallowable or for purposes Council did not intend.

The financial statements have been adjusted to only show transfers approved by Council as part of their original appropriations. We recommend that any transfers needed in excess of the original appropriations have prior Council approval by a separate resolution before the transfer is made. We also recommend transfers be posted correctly in the Village’s accounting system as a Transfer-Out to the fund transferring the money, and a Transfer-In to the fund receiving the money.

Village’s Response: The Village is currently posting both sides of transfer transactions and these transactions are being approved by Council in advance.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC § 5705.10 – Fund Deficit Balances	No	Not Corrected – Repeated as Finding 2007-009
2005-002	ORC § 117.38 – Timely Filing of Financial Statements	No	Not Corrected – Repeated as Finding 2007-008
2005-003	ORC § 5705.41(B) – Expenditures Exceeding Appropriations	No	Not Corrected – Repeated as Finding 2007-012
2005-004	ORC § 5705.40 – Amending Appropriations	Yes	
2005-005	ORC § 5705.41(D) – Proper Encumbering of Funds	No	Not Corrected – Repeated as Finding 2007-011
2005-006	ORC § 5705.14-16 – Transfers	No	Not Corrected – Repeated as Finding 2007-013
2005-007	ORC § 5705.39 – Appropriations Exceeding Estimated Resources	No	Not Corrected – Repeated as Finding 2007-010
2005-008	Monthly Bank Reconciliations	No	Not Corrected – Repeated as Finding 2007-002

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Mary Taylor, CPA
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 25, 2011**