



Dave Yost • Auditor of State

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Members of Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our adverse and qualified audit opinions.

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2015 and 2014, or changes in financial position or cash flows thereof for the years then ended.

Basis for Qualified Opinion on 2014 General Fund Miscellaneous Receipts and December 31, 2015 and 2014 Fund Cash Balances

The Village's 2014 General Fund Miscellaneous Receipts balance contained \$251,606, or 98% of the General Fund cash fund balance as of December 31, 2014, in unknown journal entries or receipts. Based on these items as well as various unresolved outstanding checks and other reconciling items, totaling \$270,399 and \$238,266 in 2015 and 2014, or 23% and 17% of the total cash fund balances as of December 31, 2015 and 2014, respectively, we cannot reasonably determine the amounts in which 2014 General Fund Miscellaneous Receipts and all fund cash balances for the years ended December 31, 2015 and 2014 are misstated.

Qualified Opinion on the Regulatory Basis of Accounting

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion on 2014 General Fund Miscellaneous Receipts and December 31, 2015 and 2014 Fund Cash Balances* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Highland Hills, Cuyahoga County, as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2017, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

February 15, 2017

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**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$84,979	\$110,174	\$0	\$0	\$195,153
Municipal Income Tax	2,983,203	0	223,625	0	3,206,828
Intergovernmental	76,717	17,548	0	1,500	95,765
Special Assessments	0	42,456	0	0	42,456
Charges for Services	0	50,558	0	0	50,558
Fines, Licenses and Permits	286,953	0	0	0	286,953
Earnings on Investments	641	0	0	0	641
Miscellaneous	50,977	0	0	0	50,977
<i>Total Cash Receipts</i>	<u>3,483,470</u>	<u>220,736</u>	<u>223,625</u>	<u>1,500</u>	<u>3,929,331</u>
Cash Disbursements					
Current:					
Security of Persons and Property	1,267,301	762,770	0	0	2,030,071
Community Environment	92,287	0	0	0	92,287
Basic Utility Services	0	54,109	0	0	54,109
Transportation	236,381	0	0	0	236,381
General Government	1,224,338	0	0	0	1,224,338
Debt Service:					
Principal Retirement	0	0	143,890	0	143,890
Interest and Fiscal Charges	0	0	79,735	0	79,735
<i>Total Cash Disbursements</i>	<u>2,820,307</u>	<u>816,879</u>	<u>223,625</u>	<u>0</u>	<u>3,860,811</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>663,163</u>	<u>(596,143)</u>	<u>0</u>	<u>1,500</u>	<u>68,520</u>
Other Financing Receipts (Disbursements)					
Sale of Capital Assets	0	5,814	0	0	5,814
Transfers In	0	607,877	0	0	607,877
Transfers Out	(607,877)	0	0	0	(607,877)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(607,877)</u>	<u>613,691</u>	<u>0</u>	<u>0</u>	<u>5,814</u>
<i>Net Change in Fund Cash Balances</i>	55,286	17,548	0	1,500	74,334
<i>Fund Cash Balances, January 1</i>	<u>257,009</u>	<u>121,440</u>	<u>0</u>	<u>8,940</u>	<u>387,389</u>
Fund Cash Balances, December 31					
Restricted	0	138,988	0	10,440	149,428
Unassigned	312,295	0	0	0	312,295
<i>Fund Cash Balances, December 31</i>	<u>\$312,295</u>	<u>\$138,988</u>	<u>\$0</u>	<u>\$10,440</u>	<u>\$461,723</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$648,493	\$52,436	\$700,929
Fines, Licenses and Permits	0	235,949	235,949
<i>Total Operating Cash Receipts</i>	<u>648,493</u>	<u>288,385</u>	<u>936,878</u>
Operating Cash Disbursements			
Personal Services	788,111	0	788,111
Contractual Services	36,145	251,969	288,114
Supplies and Materials	32,261	0	32,261
Basic Utility Services	135,913	0	135,913
<i>Total Operating Cash Disbursements</i>	<u>992,430</u>	<u>251,969</u>	<u>1,244,399</u>
<i>Net Change in Fund Cash Balances</i>	(343,937)	36,416	(307,521)
<i>Fund Cash Balances, January 1</i>	<u>443,460</u>	<u>570,458</u>	<u>1,013,918</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$99,523</u></u>	<u><u>\$606,874</u></u>	<u><u>\$706,397</u></u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$123,084	\$161,323	\$0	\$0	\$284,407
Municipal Income Tax	2,873,985	0	227,374	0	3,101,359
Intergovernmental	69,597	15,928	0	405,045	490,570
Special Assessments	0	40,362	0	0	40,362
Charges for Services	101,714	56,869	0	0	158,583
Fines, Licenses and Permits	230,595	0	0	0	230,595
Earnings on Investments	317	0	0	0	317
Miscellaneous	385,560	5,974	0	0	391,534
<i>Total Cash Receipts</i>	<u>3,784,852</u>	<u>280,456</u>	<u>227,374</u>	<u>405,045</u>	<u>4,697,727</u>
Cash Disbursements					
Current:					
Security of Persons and Property	1,145,055	597,180	0	0	1,742,235
Public Health Services	140,847	0	0	0	140,847
Basic Utility Services	0	52,998	0	0	52,998
Transportation	410,957	0	0	0	410,957
General Government	1,412,374	0	0	0	1,412,374
Capital Outlay	3,256	0	0	403,535	406,791
Debt Service:					
Principal Retirement	0	0	143,140	0	143,140
Interest and Fiscal Charges	0	0	84,234	0	84,234
<i>Total Cash Disbursements</i>	<u>3,112,489</u>	<u>650,178</u>	<u>227,374</u>	<u>403,535</u>	<u>4,393,576</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>672,363</u>	<u>(369,722)</u>	<u>0</u>	<u>1,510</u>	<u>304,151</u>
Other Financing Receipts (Disbursements)					
Transfers In	0	1,441,652	0	56,187	1,497,839
Transfers Out	(1,499,006)	0	0	0	(1,499,006)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(1,499,006)</u>	<u>1,441,652</u>	<u>0</u>	<u>56,187</u>	<u>(1,167)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(826,643)</u>	<u>1,071,930</u>	<u>0</u>	<u>57,697</u>	<u>302,984</u>
<i>Fund Cash Balances, January 1</i>	<u>1,083,652</u>	<u>(950,490)</u>	<u>0</u>	<u>(48,757)</u>	<u>84,405</u>
Fund Cash Balances, December 31					
Restricted	0	121,440	0	8,940	130,380
Unassigned (Deficit)	257,009	0	0	0	257,009
<i>Fund Cash Balances, December 31</i>	<u>\$257,009</u>	<u>\$121,440</u>	<u>\$0</u>	<u>\$8,940</u>	<u>\$387,389</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

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

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$677,818	\$343,808	\$1,021,626
Fines, Licenses and Permits	0	250,444	250,444
<i>Total Operating Cash Receipts</i>	<u>677,818</u>	<u>594,252</u>	<u>1,272,070</u>
Operating Cash Disbursements			
Personal Services	453,860	0	453,860
Contractual Services	33,653	295,282	328,935
Supplies and Materials	44,363	0	44,363
Basic Utility Services	189,507	0	189,507
<i>Total Operating Cash Disbursements</i>	<u>721,383</u>	<u>295,282</u>	<u>1,016,665</u>
<i>Operating Income (Loss)</i>	<u>(43,565)</u>	<u>298,970</u>	<u>255,405</u>
Transfers In	0	1,165	1,165
<i>Net Change in Fund Cash Balances</i>	<u>(43,565)</u>	<u>300,135</u>	<u>256,570</u>
<i>Fund Cash Balances, January 1</i>	<u>487,025</u>	<u>270,323</u>	<u>757,348</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$443,460</u></u>	<u><u>\$570,458</u></u>	<u><u>\$1,013,918</u></u>

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

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Reporting Entity

The Village of Highland Hills (the Village), Cuyahoga County, 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. A publicly-elected six-member Council directs the Village. The Council members elect a Council President. The Mayor is elected to a four year term and votes only to break a tie in Council votes. The Village provides police and fire protection services, road maintenance, general government services and a Mayor's Court.

Jointly Governed Organizations and Public Entity Risk Pools

The Village participates in a public entity risk pool and jointly governed organizations. Notes 7 and 13 to the financial statements provide additional information for these entities. 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

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds 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. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported 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.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Fund:

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

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

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project fund:

Mt. Zion Land Fund – This fund accounts for the pass-through loan for the acquisition of wetlands from the Ohio Department of Natural Resources.

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Fiduciary Funds The Village's fiduciary funds are agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency funds account for rental deposits, contractor deposits and the Village's mayor's court.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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

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

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2015 and 2014 budgetary activity appears in Note 4.

Deposits and Investments

The Village had no investments during 2015 or 2014.

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Assets

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 3 - Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in the Fire Levy, Fire Training and Equipment, Contractor's Deposits and Mayor's Court Funds by \$465,338, \$3,000, \$225,000 and \$245,804, respectively, at December 31, 2015. Also, contrary to Ohio law, at December 31, 2014, appropriations exceeded estimated resources in the Mt. Zion Land Purchase, Special Fire Grant and Mayor's Court Funds by \$403,118, \$332 and \$286,086, respectively.

Contrary to Ohio law, budgetary expenditures exceeded appropriations in the Fire Levy, Lighting Assessment and Rental Operations Funds by \$144,770, \$17,109 and \$202,430, respectively at December 31, 2015. Also contrary to Ohio law, at December 31, 2014, budgetary expenditures exceeded appropriations in the Fire Levy, Lighting Assessment and Fire Training and Equipment Funds by \$4,730, \$10,803 and \$332, respectively.

Note 4 - Budgetary Activity

Budgetary activity for the years ending December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,258,018	\$3,483,470	\$225,452
Special Revenue	232,112	834,427	602,315
Debt Service	2,237,625	223,625	(2,014,000)
Capital Projects	0	1,500	1,500
Enterprise	640,200	648,493	8,293
Fiduciary	73,000	288,385	215,385
Total	\$6,440,955	\$5,479,900	(\$961,055)

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,862,297	\$3,428,184	\$434,113
Special Revenue	655,000	816,879	(161,879)
Debt Service	223,625	223,625	0
Capital Projects	3,000	0	3,000
Enterprise	790,000	992,430	(202,430)
Fiduciary	707,804	251,969	455,835
Total	\$6,241,726	\$5,713,087	\$528,639

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 4 - Budgetary Activity (Continued)

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,828,777	\$3,784,852	(\$43,925)
Special Revenue	1,704,858	1,722,108	17,250
Debt Service	227,376	227,374	(2)
Capital Projects	713,795	461,232	(252,563)
Enterprise	667,848	677,818	9,970
Fiduciary	191,758	595,417	403,659
Total	\$7,334,412	\$7,468,801	\$134,389

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$4,912,426	\$4,611,495	\$300,931
Special Revenue	754,366	650,178	104,188
Debt Service	227,376	227,374	2
Capital Projects	410,965	403,535	7,430
Enterprise	1,154,873	721,383	433,490
Fiduciary	716,154	295,282	420,872
Total	\$8,176,160	\$6,909,247	\$1,266,913

Note 5 – Deposits and Investments

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

	2015	2014
Demand deposits	\$1,168,120	\$1,401,307

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

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 6 – Taxes

Property Taxes

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

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

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

Income Taxes

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

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

Note 7 - Risk Management

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

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

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 and 783 members as of December 31, 2015 and 2014 respectively.

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

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 7 - 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 equity at December 31, 2015 and 2014.

	2015	2014
Assets	\$14,643,667	\$14,830,185
Liabilities	(9,112,030)	(8,942,504)
Members' Equity	\$5,531,637	\$5,887,681

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

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Ohio Police and Fire Retirement System

The Village's certified Fire Fighters and full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed between 10.75% and 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. The Village has paid all contributions required through December 31, 2015.

Note 9 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 10 – Debt

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
2006 Building Improvement Bonds	\$296,025	5.5%
2012 Cuyahoga County Bonds	1,355,000	3%
Total	\$1,651,025	

In 2006, the Village issued \$430,000 in building improvement bonds. This debt was also to fund building improvements for the Village's municipal building. In 2012, Cuyahoga County issued bonds to the Village in the amount of \$1,725,000 on December 13, 2012.

Amortization of the above debt is scheduled as follows:

Year ending December 31:	2006 Building Improvement Bonds		2012 Cuyahoga County Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$20,218	\$16,007	\$125,000	\$58,650	\$145,218	\$74,657
2017	21,345	14,880	135,000	52,400	156,345	67,280
2018	22,536	13,690	140,000	45,650	162,536	59,340
2019	23,792	12,433	145,000	43,550	168,792	55,983
2020	25,119	11,107	150,000	36,300	175,119	47,407
2021-2025	148,231	32,897	660,000	75,200	808,231	108,097
2026	34,784	1,441	0	0	34,784	1,441
Total	\$296,025	\$102,455	\$1,355,000	\$311,750	\$1,651,025	\$414,205

Note 11 – Agreement with Another Village

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

Note 12 – Joint Economic Development Zone Agreement

The Village has a Joint Economic Development Zone Agreement with the City of Cleveland (the City) entered into pursuant to Ohio Revised Code Section 715.69. The City owns property currently situated in the Village and desires to develop the property to create job opportunities as well as tax and other revenue. The Village is responsible for constructing improvements and providing municipal services. The two municipalities have agreed to share in the zone agreement income tax revenues generated from this agreement. The City and the Village will each receive 50% of the income tax revenue. CCA administers this income tax. During 2015, \$1,044,408 of gross zone income tax was collected, of which \$522,204 represents the Village's portion. During 2014, \$908,750 of gross zone agreement income tax revenue was collected, of which \$454,375 represents the Village's portion.

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 13 – Jointly Governed Organizations

Chagrin Valley Dispatch Council

The Village is a member of the Chagrin Valley Dispatch Council (CVD), a regional council of governments formed under Chapter 167 of the Ohio Revised Code. It was formed to promote cooperative arrangements and coordinate action among its members in matters relating to the dispatch of public safety services and the operation of the Chagrin Valley Regional Communications Center ("RCC"). It is currently comprised of 12 communities. It is authorized to perform all functions necessary to improve, maintain and operate the RCC including entering into contractual arrangements for necessary services; to employ staff; purchase, lease or otherwise provide for supplies, materials and equipment and facilities; accept and raise public and private funding; and any and all other powers and authorities available pursuant to Chapter 167 of the Ohio Revised Code. Participating political subdivisions appoint one representative to CVD. Each member of CVD is entitled to one vote on each item under consideration by the board. During 2015 and 2014, the Village contributed \$77,313 and \$101,326, respectively, to CVD. Financial information can be obtained by contacting the City of Brecksville, 9069 Brecksville Road, Brecksville, Ohio 44141.

Northeast Ohio Public Energy Council

The Village is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 134 members in 200 communities in 13 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the nine-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The Village did not make any payments to NOPEC during 2015 or 2014. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

Suburban Water Regional Council of Governments

The Village is a member of the Suburban Water Regional Council of Governments (SWRCOG). The organization is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. SWRCOG was formed to represent municipal corporation members in communications, understandings, uniform approaches and exchange of information between the council and the City of Cleveland with respect to water service, system and local operations, rates, maintenance and capital improvements. There are no dues or fees assessed against the members of the council. SWRCOG consists of 70 communities.

SWRCOG's Board is comprised of 18 trustees elected from nine regional groups. The Board oversees and manages the operation of SWRCOG. The degree of control exercised by each community is limited to its representation in SWRCOG and on the Board. The Village did not make any payments to SWRCOG during 2015 or 2014. Financial information can be obtained by contacting the Office of the Executive Secretary of the Cuyahoga County Mayors and City Managers Association, 10107 Brecksville Road, Brecksville, Ohio 44141.

Village of Highland Hills, Ohio
Cuyahoga County
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014
(Continued)

Note 14 – Subsequent Event

On November 30, 2016, the Village issued general obligation bonds in the amount of \$575,100 for construction and improvements to the Village municipal building.



Dave Yost • Auditor of State

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

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

To the Members of Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated February 15, 2017 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We qualified our opinion on 2014 General Fund Miscellaneous Receipts and December 31, 2015 and 2014 Fund Cash Balances due to unknown journal entries, receipt transactions, outstanding checks or other reconciling items.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2015-001 through 2015-004, 2015-012 and 2015-013 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2015-004 to 2015-011.

Village's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

February 15, 2017

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014

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

FINDING NUMBER 2015-001

Bank Reconciliations – Material Weakness

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

Bank account reconciliations were not reconciled on a timely basis during 2015 and 2014. The reconciliations provided no evidence they were reviewed by a supervisor.

Furthermore, a lack of review and timely preparation of the reconciliations led to errors going undetected. The overall fund balance on the Village's financial statements did not agree to the Village's reconciled fund balance at December 31, 2015 and 2014. The following differences were not accounted for on the Village's reconciliations:

- Net uncorrected prior year discrepancies totaling \$13,756; and
- Three unknown miscellaneous receipt entries totaling \$56,963.

The resulting net unreconciled difference totaled \$43,207 at December 31, 2015 and 2014.

Reconciliations should be prepared and reviewed on a timely basis. Without accurate bank reconciliations the Village has no assurance that the cash balances recorded in the Village's records are correct. Consequently, the Village may be spending money it does not have available. Based on the lack of accuracy, we cannot determine the validity of the Village's bank reconciliations, and therefore, will qualify our opinion over cash fund balances as of December 31, 2015 and 2014.

The management of the Village is also not provided with timely and accurate financial information, which is vital to the continued operations of the Village, and could also have a negative material effect or impact on the Village's financial statements.

We recommend the Village complete its bank reconciliations in a timely manner, and have Council or another individual within management review and approve them. We also recommend the Village take into account all possible reconciling items and verify its reconciliations for accuracy, to ensure large unreconciled differences do not go unaccounted.

Official's Response: The Village provided audit staff with documentation supporting the \$13,756 adjustment. The Village pointed out to the audit staff that they were using old documents for the beginning balance. The final audit 2012-2013 could not be completed until the Village made the \$13,756 adjustment. The Village provided receipts for the \$56,963 miscellaneous receipt entries. These entries are adjustments to the final employer share entry for the months in question.

Auditor's Conclusion: We were not provided documentation by the Village to support the \$13,756 in discrepancies. The previous audit was completed without those adjustments being made. The receipt vouchers provided for \$56,963 in miscellaneous receipt entries, either did contain sufficient supporting documentation or the documentation provided was not accurate and did not agree to the receipt amount.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014

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

(Continued)

FINDING NUMBER 2015-002

Outstanding Checks – Material Weakness

Reconciling the Village's cash accounts with its ledgers, including fund balance, is a critical control procedure to ensure cash is adequately safeguarded, and to provide accurate financial information.

During a review of the Village's outstanding checks, the following deficiencies were noted:

- During 2015 and 2014, the Village eliminated \$227,192 and \$195,059, respectively, in outstanding checks, without any supporting documentation. Thus, we could not make a determination as to whether this was allowable or reasonable; and
- As of December 31, 2015, 17 payroll checks, totaling \$9,299, were outstanding for more than one year. These checks dated as far back as five years.

Without accurate balances of outstanding checks, the Village has no assurance the cash balances recorded in the Village's bank reconciliations are correct. In addition, accounting for stale dated checks can result in an inefficient and cumbersome bank reconciliation process. Due to the significant eliminations, we cannot determine the accuracy of the Village's bank reconciliations, and therefore, will qualify our opinion over cash fund balances as of December 31, 2015 and 2014.

We recommend the Village maintain a complete and accurate listing of outstanding checks on a month-to-month basis in conjunction with the completion of its bank reconciliations. If a check is issued in error or voided, it should be clearly noted in the Village's accounting records the disposition.

We also recommend the Village establish a policy which sets a reasonable amount of time for carrying outstanding checks on their reconciliations. After the established time, the check(s) should be voided and the funds (check amount) should be held in an unclaimed monies fund in accordance with Ohio Rev. Code Section 9.39 and Auditor of State Bulletin 91-11.

Official's Response: The Village provided support documentation for the outstanding checks that were written off. The Village will comply with the recommendation and establish a policy for the carrying of outstanding checks and their write off.

Auditor's Conclusion: No supporting documentation was provided for the outstanding checks, or why some were posted as receipts and others not.

FINDING NUMBER 2015-003

Financial Reporting – Material Weakness

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

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

FINDING NUMBER 2015-003

(Continued)

Financial Reporting – Material Weakness (Continued)

The following weaknesses were noted and subsequent adjustments made by the Village to their financial statements and, where applicable, accounting system for 2015:

- Income tax deductions were posted as reimbursement receipts rather than reductions of disbursements, and state municipal income tax receipts were misposted in the General Fund, resulting in overstatements of Income Tax receipts and General Government disbursements of \$56,076 and an understatement of Intergovernmental receipts of \$57;
- Income tax receipts were not posted to the Debt Service Fund, and were instead transferred from the General Fund to the Debt Service Fund. This resulted in General Fund income tax revenue and transfers out, and Debt Service Fund transfers in being overstated and Debt Service Fund income tax revenue being understated by \$223,625;
- Debt payments were misposted in the Debt Service Fund, resulting in Principal Retirement disbursements being overstated and Interest and Fiscal Charge disbursements being understated by \$79,735;
- Rental Operations Fund disbursements were misposted in the Enterprise Fund, resulting in Contractual Services disbursements being overstated by \$711,126 and Personal Services, Supplies and Materials and Basic Utility disbursements being understated by \$542,952, \$32,261 and \$135,913, respectively; and
- Mayor's court receipts were misposted in the Mayor's Court Agency Fund, resulting in Charges for Services receipts being overstated and Fines, Licenses and Permits receipts being understated by \$235,949.

The following weaknesses were noted and subsequent adjustments made by the Village to their financial statements and, where applicable, accounting system for 2014:

- Income tax deductions were posted as reimbursement rather than deductions of disbursements, and state municipal income tax receipts were misposted in the General Fund, resulting in overstatements of Income Tax receipts and General Government disbursements of \$55,505 and an understatement of Intergovernmental receipts of \$36;
- Income tax receipts were not posted to the Debt Service Fund, and were instead transferred from the General Fund to the Debt Service Fund. This resulted in General Fund income tax revenue and transfers out, and Debt Service Fund transfers in being overstated and Debt Service Fund income tax revenue being understated by \$227,374;
- Debt payments were misposted in the Debt Service Fund, resulting in Principal Retirement disbursements being overstated and Interest and Fiscal Charge disbursements being understated by \$84,234;
- Rental Operations Fund disbursements were misposted in the Enterprise Fund, resulting in Contractual Services disbursements being overstated by \$552,261 and Personal Services, Supplies and Materials and Basic Utility disbursements being understated by \$318,391, \$44,363 and \$189,507, respectively; and
- Mayor's court receipts were misposted in the Mayor's Court Agency Fund, resulting in Charges for Services receipts being overstated and Fines, Licenses and Permits receipts being understated by \$250,444.

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

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014

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

(Continued)

FINDING NUMBER 2015-003
(Continued)

Financial Reporting – Material Weakness (Continued)

Furthermore, the Village could not substantiate \$251,606 in General Fund Miscellaneous receipts in 2014, or the elimination of outstanding checks, totaling \$227,192 and \$195,059 in 2015 and 2014, respectively. The lack of controls over the reporting of Miscellaneous receipts and the Village's outstanding checks and bank reconciliations resulted in the Village receiving a qualified opinion on its 2014 Miscellaneous receipts and Fund Cash Balances at December 31, 2015 and 2014.

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

Official's Response: On December 13, 2012, the Village entered into a cooperative agreement with the Council of Cuyahoga County, which defeased the 2006 bond issuance. The new agreement no longer requires the income tax revenue to be segregated and placed directly into the debt service fund. The Village does not agree that income tax deductions should be recorded as reductions of disbursements. The Village is responsible for paying gross wages to the employees and the employees are responsible for paying their share of local taxes. The Village is the assessor and collector of the local income tax. The Village reports the income tax deductions that it receives as revenue, to accurately reflect the total municipal income tax received for the year. The Village will comply with the correct classifications within the debt service, rental operations and mayor's court agency funds.

Auditor's Conclusion: The bonds that were defeased were the 2005 Refunding Bonds. The 2006 issuance is still in effect, and thus Village Ordinance 2006-24 is still valid. The Village Fiscal Officer Handbook stipulates the posting of deduction reimbursements as reductions of disbursements. Furthermore, the Village utilizes the Central Collection Agency as a service organization for the receipt and distribution of income taxes.

FINDING NUMBER 2015-004

Required Accounting Records – Noncompliance and Material Weakness

Ohio Admin. Code §117-2-02(A) states all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Admin. Code.

Ohio Admin. Code §117-2-02(C)(1) states all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

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

FINDING NUMBER 2015-004

(Continued)

Required Accounting Records – Noncompliance and Material Weakness (Continued)

Ohio Admin. Code §117-2-02(C)(2) states purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by division (D) of section 5705.41 of the Revised Code. Purchase orders are not effective unless the fiscal officer's certificate is attached. The certificate should be attached at the time a commitment to purchase goods or services is made.

The Village switched its accounting system to Quickbooks in 2014 for all accounting functions other than payroll and purchase order generation. In doing so, the Village did not integrate budgetary accounts within its accounting system in 2015 and 2014. Furthermore, while still generating purchase orders in its old accounting system, the Village did not integrate these purchase order numbers or the associated fund and account codes for each purchase into Quickbooks.

These deficiencies in accounting resulted in material budgetary noncompliance and an inability for the Village to track encumbrances in its accounting system.

We recommend the Village use an accounting system that appropriately integrates budgetary and purchasing functions in accordance with the above requirements.

Official's Response: The Village has switched its accounting system to CenterPoint Accounting Software, which integrates budgetary and purchasing functions as required in the above Ohio Admin. Code Sections.

FINDING NUMBER 2015-005

Posting of Tax Levies to Bond Retirement – Noncompliance

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

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

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014

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

(Continued)

FINDING NUMBER 2015-005
(Continued)

Posting of Tax Levies to Bond Retirement – Noncompliance (Continued)

During 2015 and 2014, the Village did not post income tax funds directly into its Debt Service Fund. Rather, the Village posted all income tax receipts to its General Fund and later made a transfer from the General Fund to the Debt Service Fund to pay principal and interest on its debt. Failure to properly post income tax receipts resulted in a violation of the above Ohio Rev. Code Section and mispostings which required the Village to make adjustments to its financial statements.

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

Official's Response: On December 13, 2012, the Village entered into a cooperative agreement with the Council of Cuyahoga County, which defeased the 2006 bond issuance. The new agreement no longer requires the income tax revenue to be segregated and placed directly into the debt service fund.

Auditor's Conclusion: The bonds that were defeased were the 2005 Refunding Bonds. The 2006 issuance is still in effect, and thus Village Ordinance 2006-24 is still valid.

FINDING NUMBER 2015-006

Timely Deposits – Noncompliance

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

During 2015, the following receipts were either not deposited or did not contain evidence of being deposited on the following business day:

- Two of five emergency medical service receipts, or \$597 out of \$2,448;
- 44 of 44 rental receipts, or \$163,427 of \$163,427; and
- Six of seven contractor and tenant deposits, or \$31,535 out of \$34,035.

During 2014, the following receipts were either not deposited or did not contain evidence of being deposited on the following business day:

- Five of six emergency medical service receipts, or \$9,658 out of \$10,832;
- 47 of 64 rental receipts, or \$134,656 of \$219,509;
- Seven of nine contractor and tenant deposits, or \$135,430 out of \$296,278; and
- Five of five miscellaneous receipts, or \$125,046 of \$125,046.

In addition, the Village has not approved a policy allowing any personnel to hold receipts beyond the next business day. The time between receipt and deposit of these monies by the Village ranged from two to 15 days.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014

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

(Continued)

FINDING NUMBER 2015-006
(Continued)

Timely Deposits – Noncompliance (Continued)

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

We recommend the Village's employees deposit the public money collected in accordance with the above requirements. Additionally, the finance department should track when receipts are collected and mark them on each receipt voucher.

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

FINDING NUMBER 2015-007

Reporting to OPERS and OP&F – Noncompliance

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

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

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

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

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014

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

(Continued)

FINDING NUMBER 2015-007

(Continued)

Reporting to OPERS and OP&F – Noncompliance (Continued)

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

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

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

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

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

- Police and Fire Fund remittances were submitted late in three out of 12 months in 2015;
- Public Employees remittances were submitted late in four out of 12 months in 2014; and
- Police and Fire Fund remittances were submitted late in nine out of 12 months in 2014.

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

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

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

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

FINDING NUMBER 2015-008

Approval of Transfers – Noncompliance

Ohio Rev. Code §5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Rev. Code §5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. In addition to transfers from the General Fund and those permitted by Ohio Rev. Code §5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code §5705.15.

Except in the case of transfers from the General Fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the General Fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for General Fund transfers though a resolution is required).

In 2015, the Village made \$607,877 in transfers from the General Fund to the Special Revenue Fund without formal Council approval documenting the amount, source fund or debtor funds. By not clearly identifying all transfers when approving appropriation measures or including on its certificates of estimated resources the Village may make illegal or improper transfers, which could later result in deficit fund balances or improper spending.

We recommend the Village make transfers in accordance with the above Ohio Rev. Code sections. All transfers should be approved by the Village prior to being entered into the Village's accounting system.

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

FINDING NUMBER 2015-009

Annual Financial Reporting – Noncompliance

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

Although the Village filed annual financial statements for 2015 and 2014 on the HINKLE System, the filed reports contained balances and totals which did not agree to the Village's accounting system, and in many cases, were significantly misstated. In addition, the Village did not file notes to the financial statements for 2015. By not filing complete and accurate financial reports on time, the Village is not fulfilling their duties of accountability and transparency to the public.

We recommend the Village compile and present their financial statements in a complete, accurate and timely manner, in accordance with its accounting records and the above Ohio Rev. Code Section.

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

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

(Continued)

FINDING NUMBER 2015-010

Appropriations in Excess of Estimated Resources – Noncompliance

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

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

Fund	Appropriations	Estimated Resources	Variance
As of December 31, 2015:			
Fire Levy	\$618,000	\$152,682	\$465,318
Fire Training and Equipment	3,000	0	3,000
Contractor's Deposits	450,000	225,000	225,000
Mayor's Court	245,804	0	245,804
As of December 31, 2014:			
Mt. Zion Land Purchase	403,118	0	403,118
Special Fire Grant	417	85	332
Mayor's Court	286,086	0	286,086

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

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

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

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

FINDING NUMBER 2015-011

Expenditures in Excess of Appropriations – Noncompliance

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

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

Fund	Appropriations	Expenditures	Variance
As of December 31, 2015:			
Fire Levy	\$618,000	\$762,770	\$144,770
Lighting Assessment	37,000	54,109	17,109
Rental Operations	790,000	992,430	202,430
As of December 31, 2014:			
Fire Levy	592,450	597,180	4,730
Lighting Assessment	42,195	52,998	10,803
Fire Training and Equipment	85	417	332

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

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

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

FINDING NUMBER 2015-012

Service Organization Controls, Reporting and Monitoring – Material Weakness

In 2015 and 2014, the Village utilized T.G. Higgins Business Services Inc. for its Emergency Medical Services (EMS) billing. The company bills Village customers who use ambulance services. The Village is responsible for implementing effective internal control structure policies and procedures for those transactions to ensure the service organization has an adequate internal control structure. An SSAE 16 Service Organization Control Report establishes the standard and provides guidance on the audit of the service organization.

T.G. Higgins did not have an SSAE 16 Report prepared for 2015 or 2014. Furthermore, the Village performed no control procedures regarding its EMS billing for 2015 or 2014.

Failure to perform adequate control procedures resulted in the Village not timely posting receipts during 2015 and 2014, causing a loss in receipts.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014

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

(Continued)

FINDING NUMBER 2015-012
(Continued)

Service Organization Controls, Reporting and Monitoring – Material Weakness (Continued)

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

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

FINDING NUMBER 2015-013

Summary Schedule of Prior Audit Findings – Material Weakness

The Village is required to follow-up on any reportable deficiencies noted in its prior audit and report the status of these matters in a prior audit schedule of findings in the current audit. In its schedule of prior audit findings for 2015 and 2014, the Village either misrepresented the status of or did not indicate whether seven of the ten prior findings had been corrected. Failure to accurately prepare its prior audit schedule of findings may result in a lack of reliance on the District's disclosures.

We recommend the Village follow-up on all prior audit findings and accurately indicate the status of their corrective actions when preparing its prior audit schedule of findings.

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015 AND 2014**

Finding Number	Finding Summary	Status	Additional Information
2013-001	Bank Reconciliations	Not Corrected	Re-Issued as Finding 2015-001
2013-002	Financial Reporting	Not Corrected	Re-Issued as Finding 2015-003
2013-003	Timely Deposits	Not Corrected	Re-Issued as Finding 2015-006
2013-004	Reporting to OPERS, OP&F and the IRS	Partially Corrected	Re-Issued as Finding 2015-007, timely payments made to the IRS
2013-005	Appropriations in Excess of Estimated Resources	Not Corrected	Re-Issued as Finding 2015-010
2013-006	Expenditures in Excess of Appropriations	Not Corrected	Re-Issued as Finding 2015-011
2013-007	Negative Cash Fund Balances	Fully Corrected	
2013-008	Proper Certification of Funds	Finding no longer valid	No longer required by the Ohio Compliance Supplement
2013-009	Annual Financial Reporting	Not Corrected	Re-Issued as Finding 2015-009
2013-010	Service Organization Controls, Reporting and Monitoring	Not Corrected	Re-Issued as Finding 2015-012

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Dave Yost • Auditor of State

VILLAGE OF HIGHLAND HILLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 9, 2017