

**VILLAGE OF HIGHLAND HILLS**

**AUDIT REPORT**

**FOR THE YEARS ENDING  
DECEMBER 31, 2001 AND DECEMBER 31, 2000**





STATE OF OHIO  
OFFICE OF THE AUDITOR

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Honorable Mayor, Finance Director,  
and Members of Council  
Village of Highland Hills  
3700 Northfield Road  
Highland Hills, Ohio 44122

We have reviewed the Independent Auditor's Report of the Village of Highland Hills, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2000 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Highland Hills is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

July 16, 2002

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VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
AUDIT REPORT  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000

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VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY

INDEX OF FUNDS

GOVERNMENTAL FUND TYPES:

General Fund Type:

General Fund

Special Revenue Fund Types:

Fire Levy Fund

Motor Vehicle Tax Fund

Tree Grant Fund

CDBG - Fire Station

CDBG - External Home Maintenance Fund

ADA Handicapped Grant Fund

Enterprise Park Phase II Fund

Shaker House Rehabilitation Fund

COPS Grant Fund

Enterprise Zone Report Fund

Fire Department Training - Non-EMS - Fund

Senior Bus Grant Fund

Fire Department Training EMS Fund

Fire Truck Grant

CDBG - Exterior Home Program Fund

Transition Assistance Fund

Issue 2

Lighting Assessment Fund

Litter Grant Fund

Village Transition Assistance

FIDUCIARY FUND TYPES:

Agency Fund

Building Standard Assessment Fund

Contractors' Deposit Fund

Tenants' Deposit Fund

PROPRIETARY FUND TYPES:

Enterprise Funds:

Rental Operations Fund

**JAMES G. ZUPKA, C.P.A., INC.**  
*Certified Public Accountants*  
*5240 East 98<sup>th</sup> Street*  
*Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

Honorable Mayor, Finance Director and  
Members of Council  
Village of Highland Hills, Ohio

**INDEPENDENT ACCOUNTANT'S REPORT**

We have audited the accompanying financial statements of the Village of Highland Hills, Ohio, (the Village) as of and for the years ended December 31, 2001 and December 31, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village of Highland Hills prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and reserves for encumbrances of the Village of Highland Hills, Ohio, as of December 21, 2001 and December 31, 2000 and the revenues it received and expenditures it paid for the years then ended on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated June 13, 2002 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, and regulations.

This report is intended solely for the information and use of the management, and the Council of the Village of Highland Hills, Ohio and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than those specified parties.

June 13, 2002

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James G. Zupka  
Certified Public Accountant

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF CASH, INVESTMENTS, AND  
 FUND CASH BALANCES - ALL FUND TYPES  
 AS OF DECEMBER 31, 2001

	2001
Equity in Pooled Cash and Investments	\$ 940,272 <u>=====</u>
Fund Cash Balances by Fund Types:	
Governmental Funds:	
General Fund	\$ 634,019
Special Revenue Fund	(124,006)
Total	<u>298,645</u>
Proprietary Funds:	
Enterprise Fund	36,460
Fiduciary Funds:	
Agency	<u>393,799</u>
Total Fund Cash Balances by Fund Types	\$ 940,272 <u>=====</u>

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

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF CASH, INVESTMENTS, AND  
 FUND CASH BALANCES - ALL FUND TYPES  
 AS OF DECEMBER 31, 2000

	2000
Equity in Pooled Cash and Investments	\$ 736,641
	=====
Fund Cash Balances by Fund Types:	
Governmental Funds:	
General Fund	\$ 528,922
Special Revenue Fund	(230,277)
Total	298,645
Proprietary Funds:	
Enterprise Fund	50,287
Fiduciary Funds:	
Agency	387,709
Total Fund Cash Balances by Fund Types	\$ 736,641

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

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF REVENUE, EXPENDITURES,  
 AND CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUNDS  
 FOR FISCAL YEAR ENDED DECEMBER 31, 2001

	<u>Governmental Fund Types</u>		Totals
	<u>General</u>	<u>Special Revenue</u>	(Memorandum Only)
<b><u>REVENUE</u></b>			
Taxes	\$ 2,484,583	\$ 40,036	\$ 2,524,619
Intergovernmental Revenue	147,350	743,919	891,269
Special Assessments	0	39,170	39,170
Charges for Services	0	0	0
Fines, Licenses, and Permits	110,319	0	110,319
Interest	25,217	0	25,217
Miscellaneous	27,814	0	27,814
Total Revenue	<u>2,795,283</u>	<u>823,125</u>	<u>3,618,408</u>
<b><u>EXPENDITURES</u></b>			
Security of Persons and Property	730,193	378,802	1,108,995
Community Environment	647,362	355,577	1,002,939
Basic Utility Service	164,495	0	164,495
Transportation	148,321	0	148,321
General Government	996,534	0	996,534
Debt service Interest	28,556	0	28,556
Total Expenditures	<u>2,715,461</u>	<u>734,379</u>	<u>3,449,840</u>
Total Revenue Over (Under) Expenditures	<u>79,822</u>	<u>88,746</u>	<u>168,568</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Proceeds from Sale of Notes	550,000	0	550,000
Retirement of Note	(550,000)	0	(550,000)
Transfers - In	208,628	206,428	415,056
Advances - In	0	0	0
Transfers - Out	(206,428)	(188,903)	(395,331)
Advances - Out	0	0	0
Other Sources	23,075	0	23,075
Other Uses	0	0	0
Total Other Financing Sources (Uses)	<u>25,275</u>	<u>17,525</u>	<u>42,800</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	105,097	106,271	211,368
Fund Cash Balance - January 1, 2001	528,922	(230,277)	298,645
Fund Cash Balance - December 31, 2001	<u>\$ 634,019</u>	<u>\$(124,006)</u>	<u>\$ 510,013</u>

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

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF REVENUE, EXPENDITURES,  
 AND CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUNDS  
 FOR FISCAL YEAR ENDED DECEMBER 31, 2000

	<u>Governmental Fund Types</u>		Totals
	<u>General</u>	Special <u>Revenue</u>	(Memorandum Only)
<b><u>REVENUE</u></b>			
Taxes	\$ 2,287,376	\$ 27,122	\$ 2,314,498
Intergovernmental Revenue	85,904	67,557	153,461
Special Assessments	0	34,419	34,419
Charges for Services	0	0	0
Fines, Licenses, and Permits	116,291	0	116,291
Miscellaneous	125,664	0	125,664
Total Revenue	<u>2,615,235</u>	<u>129,098</u>	<u>2,744,333</u>
<b><u>EXPENDITURES</u></b>			
Security of Persons and Property	648,227	220,531	868,758
Community Environment	580,771	25,183	605,954
Basic Utility Service	130,697	0	130,697
Transportation	113,120	0	113,120
General Government	854,793	0	854,793
Debt Service Interest	28,190	0	28,190
Total Expenditures	<u>2,355,798</u>	<u>245,714</u>	<u>2,601,512</u>
Total Revenue Over(Under) Expenditures	<u>259,437</u>	<u>(116,616)</u>	<u>142,821</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Proceeds from Sale of Notes	550,000	0	550,000
Retirement of Notes	(550,000)	0	(550,000)
Transfers - In	78,947	213,731	292,678
Advances - In	0	0	0
Transfers - Out	(213,731)	0	(213,731)
Advances - Out	0	0	0
Other Sources	0	0	0
Other Uses	(29,367)	0	(29,367)
Total Other Financing Sources (Uses)	<u>(164,151)</u>	<u>213,731</u>	<u>49,580</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	95,286	97,115	192,401
Fund Cash Balance - January 1, 2000 as Restated	433,636	(327,392)	106,244
Fund Cash Balance - December 31, 2000	<u>\$ 528,922</u>	<u>\$(230,277)</u>	<u>\$ 298,645</u>

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

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF REVENUE, EXPENSES, AND  
 CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUNDS  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Fiduciary Fund Type Agency Fund</u>
<b><u>OPERATING REVENUE</u></b>		
Charges for Services	\$ 504,801	\$ 0
Miscellaneous	0	93,937
Total Operating Revenues	<u>504,801</u>	<u>93,937</u>
<b><u>OPERATING EXPENSES</u></b>		
Personal Services	174,570	0
Contractual Services	270,322	0
Supplies & Materials	38,500	0
Capital Outlay	4,889	0
Total Operating Expenses	<u>488,281</u>	<u>0</u>
Excess of Operating Revenues Over(Under)Expenses	<u>16,520</u>	<u>93,937</u>
<b><u>NON-OPERATING REVENUE (EXPENSES)</u></b>		
Non-Operating Revenue	0	0
Non-Operating Expenses	(39,409)	(59,060)
Total Non-Operating Revenue (Expenses)	<u>(39,409)</u>	<u>(59,060)</u>
Net Excess of Operating and Non-Operating Revenues		
Over (Under) Operating and Non-Operating Expenses	(22,889)	34,877
Transfers In	9,062	0
Transfers Out	0	(28,787)
Fund Cash Balance, January 1, 2001	<u>50,287</u>	<u>387,709</u>
Fund Cash Balance, December 31, 2001	<u><u>\$ 36,460</u></u>	<u><u>\$ 393,799</u></u>

See notes to the accompanying financial statements.

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF REVENUE, EXPENSES, AND  
 CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUNDS  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Fiduciary Fund Type Agency Fund</u>
<b><u>OPERATING REVENUE</u></b>		
Charges for Services	\$ 505,239	\$ 0
Miscellaneous	16,172	77,496
Total Operating Revenues	521,411	77,496
<b><u>OPERATING EXPENSES</u></b>		
Personal Services	170,213	0
Contractual Services	236,434	0
Supplies & Materials	31,833	0
Capital Outlay	1,487	0
Total Operating Expenses	439,967	0
Excess of Operating Revenues Over(Under)Expenses	81,444	77,496
<b><u>NON-OPERATING REVENUE (EXPENSES)</u></b>		
Non-Operating Revenue	7,320	0
Non-Operating Expenses	0	(164,348)
Total Non-Operating Revenue (Expenses)	7,320	(164,348)
Net Excess of Operating and Non-Operating Revenues Over (Under) Operating and Non-Operating Expenses	88,764	(86,852)
Transfers In	6,742	0
Transfers Out	(52,680)	(33,009)
Fund Cash Balance, January 1, 2000	7,461	507,570
Fund Cash Balance, December 31, 2000	\$ 50,287	\$ 387,709

See notes to the accompanying financial statements.

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF REVENUE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2001

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Governmental			
General	\$ 2,804,924	\$3,026,986	\$ 222,062
Special Revenue	483,611	1,029,553	545,942
Proprietary			
Enterprise	534,200	513,863	(20,337)
	<hr/>	<hr/>	<hr/>
Total (Memorandum Only)	\$ 3,822,735	\$4,570,402	\$ 747,667
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF REVENUE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2000

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Governmental			
General	\$ 2,412,223	\$ 2,694,182	\$ 281,959
Special Revenue	1,277,732	342,829	(934,903)
Proprietary			
Enterprise	534,200	535,473	1,273
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total (Memorandum Only)	\$ 4,224,155	\$ 3,572,484	\$ (651,671)
	<u>=====</u>	<u>=====</u>	<u>=====</u>

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

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF EXPENDITURES AND  
 ENCUMBRANCES COMPARED WITH EXPENDITURES AUTHORITY  
 FOR THE YEAR ENDED DECEMBER 31, 2001

Fund Types/Funds	Prior Year Encumbrances	2001 Appropriations	Total	Actual 2001 Expenditures	Encumbrances	Total	Variance Favorable (Unfavorable)
Governmental							
General	\$356,432	\$ 3,272,339	\$ 3,628,771	\$ 3,471,889	\$ 556,507	\$ 4,028,396	\$ (399,625)
Special Revenue	44,152	354,760	398,912	923,282	53,270	967,552	(577,640)
Proprietary							
Enterprise	34,046	548,100	582,146	527,690	67,722	595,412	(13,266)
Total (Memorandum Only)	<u>\$434,630</u>	<u>\$ 4,175,199</u>	<u>\$ 4,609,829</u>	<u>\$ 4,922,861</u>	<u>\$ 677,499</u>	<u>\$ 5,600,360</u>	<u>\$ (990,531)</u>

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

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF EXPENDITURES AND  
 ENCUMBRANCES COMPARED WITH EXPENDITURES AUTHORITY  
 FOR THE YEAR ENDED DECEMBER 31, 2000

Fund Types/Funds	Prior Year Encumbrances	2000 Appropriations	Total	Actual 2000 Expenditures	Encumbrances	Total	Variance Favorable (Unfavorable)
Governmental							
General	\$146,694	\$ 2,942,105	\$ 3,088,799	\$ 3,148,926	\$ 356,432	\$ 3,505,358	\$ (416,559)
Special Revenue	22,218	905,460	927,678	245,714	44,152	289,866	637,812
Proprietary							
Enterprise	6,347	540,100	546,447	492,647	34,046	526,693	19,754
Total (Memorandum Only)	<u>\$175,259</u>	<u>\$ 4,387,665</u>	<u>\$ 4,562,924</u>	<u>\$ 3,887,287</u>	<u>\$ 434,630</u>	<u>\$ 4,321,917</u>	<u>\$ (241,007)</u>

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

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(As Required by Various Statutes)

A. **DESCRIPTION OF THE ENTITY**

The Village of Highland Hills is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Village operates under a council-mayor form of government and provides the following services: public safety and public services.

Management believes the financial statements included in this report represent all of the funds of the Village over which the Village officials have the ability to exercise direct operating control.

B. **BASIS OF ACCOUNTING**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. A general fixed asset group and long-term debt group of accounts are not recorded on the financial statements by the Village under the basis of accounting used. 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 prescribed or permitted by the Auditor of State.

C. **INVESTMENTS AND INACTIVE FUNDS**

Investment procedures are restricted by the provisions of the Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)  
(As Required by Various Statutes)

**D. FUND ACCOUNTING**

The Village maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**GOVERNMENTAL FUNDS**

**General Fund**

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

**Special Revenue Funds**

To account for proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

**FIDUCIARY FUND**

**Agency Funds**

To account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Village. The Village's only fiduciary funds are agency funds.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)  
(As Required by Various Statutes)

D. **FUND ACCOUNTING** (Continued)

**PROPRIETARY FUNDS**

**Enterprise Funds**

The enterprise fund is used to account for the Village's Shaker House rental operations. It is financed and operated in a manner similar to private sector business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

E. **BUDGETARY PROCESS**

1. **Budget**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

2. **Estimated Resources**

The County Budget Commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, unencumbered fund balance. However, these fund balances are available for appropriations.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)  
(As Required by Various Statutes)

E. **BUDGETARY PROCESS** (Continued)

3. **Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. **Encumbrances**

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriations balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. **PROPERTY, PLANT, AND EQUIPMENT**

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. **TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
 (CONTINUED)

NOTE 2: **PROPERTY TAX**

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last revaluation was completed in 2000.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. 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 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal years ended December 31, 2000 and 2001 was \$13.40 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$12.212 for 2001 and \$12.2067 for 2000 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$9.7298 for 2001 and \$9.5652 for 2000 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the Highland Hills Village by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal years ended December 31, 2001 and 2000 was \$13.40 per \$1,000 of assessed valuation.

	2001	2000
Real Property 2000 Valuation		
Residential/Agricultural	\$ 4,005,960	\$ 4,012,760
Commercial/Industrial	20,050,910	14,928,910
 Tangible Personal Property - 2000 Valuation		
General	205,283	201,257
Public Utilities	2,668,439	2,616,116
 Total Valuation	\$26,930,592	\$21,759,043

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
(CONTINUED)

NOTE 2: **PROPERTY TAX** (Continued)

The Cuyahoga County Treasurer collects property tax on behalf of all taxing districts within the County. The Cuyahoga County Auditor periodically remits to the taxing districts their portions of the taxes collected.

NOTE 3: **INSURANCE**

The Village maintains comprehensive insurance with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

NOTE 4: **EQUITY IN POOLED CASH AND INVESTMENTS**

The Village maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the Combined Statement of Cash, Investments, and Fund Cash Balances - All Fund Types as of December 31, 2001 and December 31, 2000, as balances by Fund Types.

**Legal Requirements**

Statutes require the classification of monies held by the Village into three categories. Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the Village. Such monies must be maintained either as cash in the Village treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Interim monies may be invested or deposited in the following securities:

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
(CONTINUED)

NOTE 4: **EQUITY IN POOLED CASH AND INVESTMENTS** (Continued)

**Legal Requirements** (Continued)

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
3. Repurchase agreements in the securities enumerated above;
4. Interim deposits in the eligible institutions applying for interim monies;
5. Bonds and other obligations of the State of Ohio; and
6. The State Treasurer's investment pool.

**Deposits**

For fiscal years ending December 31, 2000 and December 31, 2001, the carrying amount of the Village's deposits were \$736,641 and \$940,272, respectively. The bank balances were \$885,300 and \$1,043,521, respectively. Of the bank balances, \$100,000 was covered by federal depository insurance for each year. The remaining amounts of \$785,300 and \$943,521, respectively, were uninsured but collateralized by a security held by an agent of the financial institution, but not in the Village's name.

NOTE 5: **DEFINED BENEFIT PENSION PLANS**

All of the Village's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. **Public Employees Retirement System**

The Village of Highland Hills contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that includes financial statements

VILLAGE OF HIGHLAND HILLS  
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NOTES TO THE FINANCIAL STATEMENTS  
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(CONTINUED)

NOTE 5: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Public Employees Retirement System** (Continued)

and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent. The 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll, 9.25 percent to fund the pension and 4.3 percent to fund health care. The 2000 and 1999 employer contribution rates were 10.84 and 13.55 percent. The contribution requirements of plan members and the Village are established and may be amended by the Public Employees Retirement Board. The City's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$76,329, \$74,445, and \$73,660 respectively.

The PERS of Ohio provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 and 2000 was 4.3 percent of covered payroll, which amounted to \$36,784 and \$37,715, respectively,

VILLAGE OF HIGHLAND HILLS  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
(CONTINUED)

NOTE 5: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Public Employees Retirement System** (Continued)

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75 percent. An annual increase of 4.75 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75 percent base increase, were assumed to range from 0.54 percent to 5.1 percent. Health care costs were assumed to increase 4.75 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 was \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

B. **Ohio Police and Fire Pension Fund**

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing, multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

VILLAGE OF HIGHLAND HILLS  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
(CONTINUED)

NOTE 5: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. **Ohio Police and Fire Pension Fund** (Continued)

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2001, 2000, and 1999 were \$15,751, \$29,312, and \$21,839, respectively.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly 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 on a full-time or two-third basis. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2000 and 2001 covered payroll that was used to fund postemployment health care benefits was \$21,252 and \$23,619, respectively, representing 6.50 percent of covered payroll in 2000 and 7.5 percent of covered payroll in 2001. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2000, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 12,853 for police and 10,037 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2000 were \$106,160,054 which was net of member contributions of \$5,657,431.

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEARS ENDING DECEMBER 31, 2001 AND DECEMBER 31, 2000  
 (CONTINUED)

NOTE 6: **LEGAL COMPLIANCE**

Pursuant to Section 117.11(A) of the Revised Code, we performed tests of compliance with various provisions of local, state, and/or federal laws, as applicable. The auditor's report on the Village's compliance with the Ohio Revised Code and internal control structure comments are included in a separate part of this presentation.

NOTE 7: **INCOME TAX**

During 1998, the Village increased its levy on income tax from 2.0 to 2.5 percent on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village allows a 100 percent credit on the income earned outside the Village and paid to another municipality. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Central Collection Agency at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. The tax is collected by CCA and remitted to the Village monthly. Income tax revenue is credited entirely to the General Fund.

NOTE 8: **DEFICIT OF FUND**

The special revenue fund had a deficit of \$(230,277) as of December 31, 2000 and \$(124,006) as of December 31, 2001. The general fund provides operating transfers when cash is required. Such transfers to recover the deficit were not made.

NOTE 9: **NOTES PAYABLE**

The Village issued \$550,000 of various purpose general obligation bond anticipation notes during 2000 and 2001. Debt activity for the years ended December 31, 2000 and 2001 consisted of the following:

<u>Bond Anticipation Notes</u> <u>5% Various Purpose</u>	<u>Balance at</u> <u>Beginning</u> <u>of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>at End of</u> <u>of Year</u>
2000	\$ 550,000	\$ 550,000	\$ 550,000	\$ 550,000
2001	550,000	550,000	550,000	550,000

VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
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NOTE 10: **RESTATEMENT OF FUND CASH BALANCE**

Beginning fund cash balance at January 1, 2000 have been restated due to the following items.

Beginning General Fund Cash Balance, January 1, 2000	\$ 310,966
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Prior Period Adjustments:	
Error in 1999 Expenditures Reporting	122,670
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Total Prior Period Adjustments	122,670
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Beginning Fund Cash Balance - General Fund, Restated January 1, 2000	\$ 433,636
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NOTE 11: **CONTINGENT LIABILITIES**

The Village is a party to two legal proceedings. The Village has a liability of \$60,000 which is not covered by insurance. This judgement was appealed to the 8<sup>th</sup> District Court of Appeals. No decision has been rendered.

NOTE 12: **UNPAID SICK LEAVE**

Employees are entitled to cash payments for up to 90 days of unused sick leave in certain circumstances, such as upon leaving employment. Unpaid sick leave is not reflected as a liability under the cash basis of accounting used by the Village.

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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor, Finance Director and  
Members of Council  
Village of Highland Hills, Ohio

We have audited the financial statements of the Village of Highland Hills, Ohio (the Village) as of and for the years ended December 31, 2001 and December 31, 2000, and have issued our report thereon dated June 13, 2002. 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 Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described below.

1. **Revenue Derived from the General Levy for a Current Expense**

Ohio Revised Code Section 5705.10 provides that revenue derived from a source which the law prescribes shall be used for a particular purpose and is to be paid into a special fund for such purpose.

Contrary to the aforementioned authority, the Village maintained a deficit of \$124,007 as of December 31, 2001 and \$230,277 as of December 31, 2000 in the special revenue fund. The majority of the deficit balance related to the Village's portion of the fire station construction expenditures in prior years. The Village failed to transfer monies to recover the deficit at year end.

1. **Revenue Derived from the General Levy for a Current Expense** (Continued)

**Recommendation**

We recommend that the Village determine the cost and method of financing the project prior to inception of the project. Also, the Village should transfer monies from the general fund to recover the deficit at year-end, with approval of Council.

We also noted other immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated June 13, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Highland Hills, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Highland Hills, Ohio's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below.

1. **Monthly Bank Reconciliations**

The Village does not prepare monthly bank reconciliations on its cash accounts on a timely and consistent basis. Without preparing timely bank reconciliations, the Village's cash balance may be incorrect. Monthly bank reconciliations should be completed in a timely manner so the Village can be aware of any outstanding checks and other cash reconciling items.

**Recommendation**

Timely preparation of complete and accurate bank reconciliations is key to maintaining adequate control over both cash receipts and disbursements. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh. We recommend that bank reconciliations are performed monthly and that they are reviewed by someone other than the preparer.

2. **Timely Filing of Financial Statements**

Section 117.38 of the Ohio Revised Code provides that the annual financial reports shall be filed with the Auditor of State **within sixty days** after the close of the fiscal year. The section also states that at the time the report is filed with the Auditor of State, the fiscal officer must publish in the newspaper, notice of the completion of the report and the fact that the report is available at the office of the fiscal officer.

2. **Timely Filing of Financial Statements** (Continued)

These requirements were not met in December 31, 2001 or December 31, 2000.

**Recommendation**

We recommend that the Village comply with ORC Section 117.38 and file the Village's cash basis financial reports by the reporting requirement date. We also recommend that the Village formalizes year-end closing procedures and related accounting practices. A timetable and a comprehensive checklist outlining the appropriate due dates should be included. This timetable and checklist should also include month end procedures such as bank reconciliations and General Ledger account analysis.

3. **Errors in the Check Register**

During our testing, we noted large discrepancies between the amount being posted to the check register and the actual amount of the check.

**Recommendation**

We recommend that the Village investigate and improve its recording of manual checks. We also recommend that the Village reconcile the accounts for cash and disbursements on a monthly basis. The benefit of monthly reconciliations is that errors do not accumulate and can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting which we have reported to the management of the Village in a separate letter dated June 13, 2002.

This report is intended solely for the information and use of the audit committee, management, and the Council of the Village of Highland Hills, Ohio and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

June 13, 2002

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James G. Zupka  
Certified Public Accountant





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**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  
AUGUST 6, 2002**