

VILLAGE OF HIGHLAND HILLS

AUDIT REPORT

**FOR THE YEARS ENDING
DECEMBER 31, 1998 AND DECEMBER 31, 1999**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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, 1998 through December 31, 1999. 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", written in a cursive style.

JIM PETRO
Auditor of State

October 13, 2000

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
AUDIT REPORT
FOR THE YEARS ENDING DECEMBER 31, 1998 AND DECEMBER 31, 1999

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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
Gliatech Infrastructure Fund
ADA Handicapped Grant 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

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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, 1998 and December 31, 1999, 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 generally accepted auditing standards 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 combined fund balances and reserves for encumbrances of the Village of Highland Hills, Ohio, as of December 31, 1999 and December 31, 1998, and its combined cash receipts and disbursements 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 August 16, 2000 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, contracts, and grants.

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 those specified parties.

August 16, 2000

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, 1998

	<u>1998</u>
Equity in Pooled Cash and Investments	\$ 587,468 <u>=====</u>
Fund Cash Balances by Fund Types:	
Governmental Funds:	
General Fund	\$ 613,250
Special Revenue Fund	(311,661)
Total	<u>301,589</u>
Proprietary Funds:	
Enterprise Fund	34,835
Fiduciary Funds:	
Agency	<u>251,044</u>
Total Fund Cash Balances by Fund Types	\$ 587,468 <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, 1999

	1999
Equity in Pooled Cash and Investments	\$ 498,604
	\$ 498,604
Fund Cash Balances by Fund Types:	
Governmental Funds:	
General Fund	\$ 310,966
Special Revenue Fund	(327,393)
Total	(16,427)
Proprietary Funds:	
Enterprise Fund	7,461
Fiduciary Funds:	
Agency	507,570
Total Fund Cash Balances by Fund Types	\$ 498,604

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, 1998

	<u>Governmental Fund Types</u>		Totals
	<u>General</u>	Special Revenue	(Memorandum Only)
<u>REVENUE</u>			
Taxes	\$ 1,359,782	\$ 46,140	\$ 1,405,922
Intergovernmental Revenue	77,043	230,548	307,591
Special Assessments	0	17,537	17,537
Charges for Services	0	0	0
Fines, Licenses, and Permits	91,285	0	91,285
Miscellaneous	89,566	0	89,566
Total Revenue	<u>1,617,676</u>	<u>294,225</u>	<u>1,911,901</u>
<u>EXPENDITURES</u>			
Security of Persons and Property	402,475	134,863	537,338
Community Environment	405,078	321,612	726,690
Basic Utility Service	140,443	0	140,443
Transportation	124,110	0	124,110
General Government	650,249	0	650,249
Total Expenditures	<u>1,722,355</u>	<u>456,475</u>	<u>2,178,830</u>
Total Revenue Over(Under) Expenditures	<u>(104,679)</u>	<u>(162,250)</u>	<u>(266,929)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Sale of Notes	550,000	0	550,000
Transfers - In	161,200	125,328	286,528
Advances - In	20,712	8,240	28,952
Transfers - Out	(130,026)	0	(130,026)
Advances - Out	(8,240)	(20,712)	(28,952)
Other Sources	0	0	0
Other Uses	0	(10,362)	(10,362)
Total Other Financing Sources (Uses)	<u>593,646</u>	<u>102,494</u>	<u>696,140</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	488,967	(59,756)	429,211
Fund Cash Balance - January 1, 1998	124,283	(251,905)	(127,622)
Fund Cash Balance - December 31, 1998	<u>\$ 613,250</u>	<u>\$(311,661)</u>	<u>\$ 301,589</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, 1999

	<u>Governmental Fund Types</u>		Totals
	<u>General</u>	<u>Special Revenue</u>	(Memorandum Only)
<u>REVENUE</u>			
Taxes	\$ 1,694,223	\$ 43,902	\$ 1,738,125
Intergovernmental Revenue	81,985	75,849	157,834
Special Assessments	0	3,287	3,287
Charges for Services	0	0	0
Fines, Licenses, and Permits	257,611	0	257,611
Miscellaneous	122,824	0	122,824
Total Revenue	<u>2,156,643</u>	<u>123,038</u>	<u>2,279,681</u>
<u>EXPENDITURES</u>			
Security of Persons and Property	499,510	197,390	696,900
Community Environment	606,957	155,854	762,811
Basic Utility Service	119,162	0	119,162
Transportation	103,667	0	103,667
General Government	1,036,403	0	1,036,403
Debt Service Interest	24,805	0	24,805
Total Expenditures	<u>2,390,504</u>	<u>353,244</u>	<u>2,743,748</u>
Total Revenue Over (Under) Expenditures	<u>(233,861)</u>	<u>(230,206)</u>	<u>(464,067)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Sale of Notes	550,000	0	550,000
Retirement of Note	(550,000)	0	(550,000)
Transfers - In	161,102	168,319	329,421
Advances - In	0	52,616	52,616
Transfers - Out	(168,318)	(6,461)	(174,779)
Advances - Out	(52,616)	0	(52,616)
Other Sources	0	0	0
Other Uses	(8,591)	0	(8,591)
Total Other Financing Sources (Uses)	<u>(68,423)</u>	<u>214,474</u>	<u>146,051</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>(302,284)</u>	<u>(15,732)</u>	<u>(318,016)</u>
Fund Cash Balance - January 1, 1999	613,250	(311,661)	301,589
Fund Cash Balance - December 31, 1999	<u>\$ 310,966</u>	<u>\$(327,393)</u>	<u>\$ (16,427)</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, 1998

	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Fiduciary Fund Type Agency Fund</u>
<u>OPERATING REVENUE</u>		
Charges for Services	\$ 507,821	\$ 0
Miscellaneous	17,808	76,214
Total Operating Revenues	525,629	76,214
<u>OPERATING EXPENSES</u>		
Personal Services	116,873	0
Contractual Services	240,361	43,173
Supplies & Materials	50,750	0
Capital Outlay	6,515	0
Total Operating Expenses	414,499	43,173
Excess of Operating Revenues Over(Under)Expenses	111,130	33,041
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Non-Operating Revenue	6,146	0
Non-Operating Expenses	0	0
Total Non-Operating Revenue (Expenses)	6,146	0
Net Excess of Operating and Non-Operating Revenues Over (Under) Operating and Non-Operating Expenses	117,276	33,041
Transfers In	8,304	4,698
Transfers Out	(161,200)	(8,304)
Fund Cash Balance, January 1, 1998	70,455	221,609
Fund Cash Balance, December 31, 1998	\$ 34,835	\$ 251,044

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, 1999

	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Fiduciary Fund Type Agency Fund</u>
<u>OPERATING REVENUE</u>		
Charges for Services	\$ 495,652	\$ 0
Miscellaneous	15,855	300,254
Total Operating Revenues	511,507	300,254
<u>OPERATING EXPENSES</u>		
Personal Services	137,902	0
Contractual Services	233,816	39,086
Supplies & Materials	26,291	0
Capital Outlay	0	0
Total Operating Expenses	398,009	39,086
Excess of Operating Revenues Over(Under)Expenses	113,498	261,168
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Non-Operating Revenue	9,128	0
Non-Operating Expenses	0	0
Total Non-Operating Revenue (Expenses)	9,128	0
Net Excess of Operating and Non-Operating Revenues Over (Under) Operating and Non-Operating Expenses	122,626	261,168
Transfers In	0	0
Transfers Out	(150,000)	(4,642)
Fund Cash Balance, January 1, 1999	34,835	251,044
Fund Cash Balance, December 31, 1999	\$ 7,461	\$ 507,570

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, 1998

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Governmental			
General	\$ 1,461,299	\$ 2,499,588	\$1,038,289
Special Revenue	451,850	427,793	(24,057)
Proprietary			
Enterprise	550,000	540,079	(9,921)
	<hr/>	<hr/>	<hr/>
Total (Memorandum Only)	\$ 2,463,149	\$ 3,467,460	\$1,004,311
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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, 1999

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Governmental			
General	\$ 2,184,482	\$ 2,867,745	\$ 683,263
Special Revenue	1,100,542	343,973	(756,569)
Proprietary			
Enterprise	534,200	520,635	(13,565)
Total (Memorandum Only)	<u>\$ 3,819,224</u>	<u>\$ 3,732,353</u>	<u>\$ (86,871)</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, 1998

Fund Types/Funds	Prior Year Encumbrances	1998 Appropriations	Total	Actual 1998 Expenditures	Encumbrances	Total	Variance Favorable (Unfavorable)
Governmental							
General	\$ 60,429	\$ 2,061,569	\$ 2,121,998	\$ 2,010,621	\$ 114,069	\$ 2,124,690	\$ (2,692)
Special Revenue	7,948	487,650	495,598	487,549	52,431	539,980	(44,382)
Proprietary							
Enterprise	23,227	575,699	598,926	575,699	16,447	592,146	6,780
Total (Memorandum Only)	<u>\$ 91,604</u>	<u>\$ 3,124,918</u>	<u>\$ 3,216,522</u>	<u>\$ 3,073,869</u>	<u>\$ 182,947</u>	<u>\$ 3,256,816</u>	<u>\$ (40,294)</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, 1999

Fund Types/Funds	Prior Year Encumbrances	1999 Appropriations	Total	Actual 1999 Expenditures	Encumbrances	Total	Variance Favorable (Unfavorable)
Governmental							
General	\$114,069	\$ 2,559,524	\$ 2,673,593	\$ 3,170,029	\$ 146,694	\$ 3,316,723	\$ (643,130)
Special Revenue	52,431	359,705	412,136	359,705	18,429	378,134	34,002
Proprietary							
Enterprise	16,447	548,009	564,456	548,009	6,347	554,356	10,100
Total (Memorandum Only)	<u>\$182,947</u>	<u>\$ 3,467,238</u>	<u>\$ 3,650,185</u>	<u>\$ 4,077,743</u>	<u>\$ 171,470</u>	<u>\$ 4,249,213</u>	<u>\$ (599,028)</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, 1998 AND DECEMBER 31, 1999

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**

The Village prepares its financial statements on a basis of cash receipts and disbursements, consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation 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. By virtue of Ohio law, the Village is required to maintain the encumbrance method of accounting and to make appropriations.

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, 1998 AND DECEMBER 31, 1999
(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, 1998 AND DECEMBER 31, 1999
(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, 1999 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, 1998 AND DECEMBER 31, 1999
(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, 1998 AND DECEMBER 31, 1999
 (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 1997.

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, 1998 and 1999 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 \$12.194620 for 1998 and \$12.2000530 for 1999 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$9.241360 for 1998 and \$9.403390 for 1999 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, 1998 and 1999 was \$13.40 per \$1,000 of assessed valuation.

	<u>1998</u>	<u>1999</u>
Real Property 1999 Valuation		
Residential/Agricultural	\$ 3,332,400	\$ 3,330,160
Commercial/Industrial	6,436,130	7,513,440
Tangible Personal Property - 1999 Valuation		
General	114,788	197,311
Public Utilities	2,504,820	2,564,820
Total Valuation	<u>\$12,388,138</u>	<u>\$13,605,731</u>

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND DECEMBER 31, 1999
(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, 1998 and December 31, 1999, 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, 1998 AND DECEMBER 31, 1999
(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, 1998 and December 31, 1999, the carrying amount of the Village's deposits were \$587,468 and \$498,604, respectively. The bank balances were \$643,985 and \$629,100, respectively. Of the bank balances, \$100,000 was covered by federal depository insurance for each year. The remaining amounts of \$543,985 and \$529,100, 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**

A. **Public Employees Retirement System**

The Village of Highland Hills contributes to the Public Employees Retirement System (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. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The PERS issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to PERS, 227 East Town Street, Columbus, Ohio 43215-4642.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND DECEMBER 31, 1999
(CONTINUED)

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

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

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations, while employers are required to contribute 13.55 percent. The Village of Highland Hills' contributions to PERS for the years ending December 31, 1999, 1998, and 1997 were \$73,660, \$63,165, and \$63,233, respectively, equal required contributions for each year.

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

The Village of Highland Hills contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F 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 OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24 percent, respectively, for police officers and firefighters. The Village of Highland Hills' contributions to the OP&F for the years ending December 31, 1999, 1998, and 1997 were \$21,839, \$12,217, and \$13,316, respectively, equal required contributions for each year.

NOTE 6: **POSTEMPLOYMENT BENEFITS**

A. **Public Employees Retirement System**

In addition to the pension benefits described in Note 5, Ohio law provides that the Village fund post-retirement health care benefits through employer contributions to the Public Employees Retirement System (PERS) of Ohio and the Ohio Police and Fire Pension Fund (OP&F).

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND DECEMBER 31, 1999
(CONTINUED)

NOTE 6: **POSTEMPLOYMENT BENEFITS** (Continued)

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

The Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate was 13.55 percent of covered payroll for employees not engaged in law enforcement; 4.2 percent was the portion that was used to fund health care for 1999. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio.

Other postemployment benefits are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

The portions of the 1998 and 1999 employer contribution rates (identified above) that were used to fund health care for these years was 4.2 percent of covered payroll, which amounted to \$31,211 and \$36,397, respectively.

During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,062.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to other postemployment benefits. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND DECEMBER 31, 1999
(CONTINUED)

NOTE 6: **POSTEMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who receives 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 full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll.

The Ohio Revised Code provides statutory authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 6.5 percent and 7.0 percent of covered payroll in 1998 and 1999, respectively. The allocation is 7.25 percent in 2000. 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.

The number of participants eligible to receive health care benefits as of December 31, 1998 (the latest information available) was 11,424 for police and 9,186 for firefighters. The portion of the Village's contributions that was used to pay postemployment benefits was \$7,941 and \$15,287 for 1998 and 1999, respectively. OP&F's total health care expenses for the year ended December 31, 1998 (the latest information available) were \$78,596,790, which was net of member contributions of \$5,331,515.

VILLAGE OF HIGHLAND HILLS
 CUYAHOGA COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDING DECEMBER 31, 1998 AND DECEMBER 31, 1999
 (CONTINUED)

NOTE 7: **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 8: **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 9: **DEFICIT OF FUND**

The special revenue fund had a deficit of \$(311,661) as of December 31, 1998 and \$(327,393) as of December 31, 1999. These deficits were due to the fire station construction costs which were not funded by grant receipts. The general fund provides operating transfer when cash is required. Such transfers to recover the deficit were not made.

NOTE 10: **NOTES PAYABLE**

The Village issued \$550,000 of various purpose general obligation bond anticipation notes during 1998 and 1999. Debt activity for the years ended December 31, 1998 and 1999 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>
1998	\$ 0	\$ 550,000	\$ 0	\$ 550,000
1999	550,000	550,000	550,000	550,000

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 1998 AND DECEMBER 31, 1999
(CONTINUED)

NOTE 11: **CONTINGENT LIABILITIES**

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

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, 1998 and December 31, 1999, and have issued our report thereon dated August 16, 2000. We conducted our audit in accordance with generally accepted auditing standards 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. Budget Variances

Ohio Revised Code Section 5705.39 provides that total appropriations from each fund shall not exceed the total estimated resources as certified by the County Budget Commission. Contrary to this requirement, the Village's appropriations exceeded the total estimated resources in the Bond Retirement fund, the Fire Levy fund, the Lighting Assessment Fund, the Motor Vehicle Tax fund, the CDBG-Fire Station fund, the Shaker House Rehabilitation fund, the Gliatech Infrastructure fund, and the CDBG-Exterior Home Maintenance fund by approximately \$497,744, \$149,200, \$68,355, \$17,928, \$1,212, \$290,000, \$59,534, \$19,125, and \$26,882 respectively, for the year ended December 31, 1998. For the year ended December 31, 1999, the Village's appropriations exceeded the total estimated resources in the General fund, the

1. **Budget Variances** (Continued)

Lighting Assessment fund, the Fire Levy fund, the CDBG-Fire Station fund, the CDBG Exterior Home Maintenance fund, the Rental Operations fund, and the ADA Handicapped fund by approximately \$271,806, \$30,893, \$26,901, \$141,738, \$8,571, \$11,952, and \$16,276, respectively. In some cases, the actual receipts were sufficient to obtain an amended certificate of estimated resources equal to or greater than the appropriation amount pursuant to Ohio Revised Code Section 5705.36. However, no amended certificate was obtained.

Recommendation

We recommend the Finance Director analyze the budget variances throughout the year and determine whether an amended certificate should be obtained.

2. **Expenditures vs. Appropriations**

Ohio Revised Code Section 5705.41(b) states in part that, "...no subdivision shall make any expenditure unless it has been appropriated." Contrary to the aforementioned authority, the Village's total expenditures exceeded the total appropriations in the General fund and the Shaker House Rehabilitation fund by approximately \$2,692 and \$48,924, respectively, for the year ended December 31, 1998. For the year ended December 31, 1999, the Village's total expenditures exceeded the total appropriations in the General fund, the Fire Levy fund, the CDBG-Exterior Home Maintenance fund, and the Shaker House Rehab fund by approximately \$643,130, \$1,295, \$7,642, and \$105,602, respectively.

Recommendation

We recommend the Village appropriate monies prior to incurring expenditures in accordance with the Ohio Revised Code.

3. **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 \$311,661 as of December 31, 1998 and \$327,393 as of December 31, 1999 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.

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 August 16, 2000.

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

We recommend the Village perform monthly bank reconciliations on a timely and consistent basis in order to reflect proper cash balances at each month end.

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 August 16, 2000.

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.

August 16, 2000

James G. Zupka
Certified Public Accountant



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OFFICE OF THE AUDITOR

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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
OCTOBER 24, 2000