



Dave Yost • Auditor of State

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

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

To the Members of Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Dave Yost
Auditor of State

November 8, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Village Council:

We have audited the accompanying financial statements of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2009 and 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Government's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2009 and 2008, or its changes in financial position for the years then ended.

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Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Highland Hills, Cuyahoga County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

During 2008, the Village changed its financial statement presentation from another comprehensive accounting basis to a basis prescribed or permitted by the Auditor of State.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

November 8, 2012

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$158,959	\$203,971	\$0	\$362,930
Municipal Income Tax	3,115,201	0	0	3,115,201
Intergovernmental	162,817	13,070	614,428	790,315
Special Assessments	0	46,621	0	46,621
Charges for Services	254,705	15,794	0	270,499
Fines, Licenses and Permits	248,842	0	0	248,842
Earnings on Investments	2,003	0	0	2,003
Miscellaneous	16,924	0	0	16,924
	<u>3,959,451</u>	<u>279,456</u>	<u>614,428</u>	<u>4,853,335</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	1,098,410	286,133	35,369	1,419,912
Community Environment	474,284	0	0	474,284
Basic Utility Service	0	28,696	0	28,696
Transportation	399,347	143	0	399,490
General Government	1,918,813	0	0	1,918,813
Debt Service:				
Redemption of Principal	192,829	0	0	192,829
Interest and Fiscal Charges	121,363	0	0	121,363
Capital Outlay	0	0	612,059	612,059
	<u>4,205,046</u>	<u>314,972</u>	<u>647,428</u>	<u>5,167,446</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(245,595)</u>	<u>(35,516)</u>	<u>(33,000)</u>	<u>(314,111)</u>
Fund Cash Balances, January 1	<u>380,333</u>	<u>23,567</u>	<u>3,542</u>	<u>407,442</u>
Fund Cash Balances, December 31	<u>\$134,738</u>	<u>(\$11,949)</u>	<u>(\$29,458)</u>	<u>\$93,331</u>
Reserve for Encumbrances, December 31	<u>\$269,922</u>	<u>\$13,045</u>	<u>\$1,221</u>	<u>\$284,188</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$378,664	\$9,225	\$387,889
Fines, Licenses and Permits	0	1,333,134	1,333,134
Total Operating Cash Receipts	<u>378,664</u>	<u>1,342,359</u>	<u>1,721,023</u>
Operating Cash Disbursements:			
Personal Services	166,481	0	166,481
Contractual Services	231,519	1,235,588	1,467,107
Supplies and Materials	404	0	404
Total Operating Cash Disbursements	<u>398,404</u>	<u>1,235,588</u>	<u>1,633,992</u>
Operating Income/(Loss)	<u>(19,740)</u>	<u>106,771</u>	<u>87,031</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(19,740)	106,771	87,031
Fund Cash Balances, January 1,	<u>37,474</u>	<u>315,473</u>	<u>352,947</u>
Fund Cash Balances, December 31	<u>\$17,734</u>	<u>\$422,244</u>	<u>\$439,978</u>
Reserve for Encumbrances, December 31	<u>\$1,085</u>	<u>\$0</u>	<u>\$1,085</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$142,550	\$205,435	\$0	\$347,985
Municipal Income Tax	3,282,546	0	0	3,282,546
Intergovernmental	165,870	15,281	0	181,151
Special Assessments	0	35,632	0	35,632
Charges for Services	37,100	21,513	0	58,613
Fines, Licenses and Permits	184,051	0	0	184,051
Earnings on Investments	14,886	0	0	14,886
Miscellaneous	129,307	0	0	129,307
	<u>3,956,310</u>	<u>277,861</u>	<u>0</u>	<u>4,234,171</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	1,067,302	346,917	0	1,414,219
Community Environment	626,878	0	0	626,878
Basic Utility Service	0	27,657	0	27,657
Transportation	450,525	0	0	450,525
General Government	1,519,131	0	0	1,519,131
Debt Service:				
Redemption of Principal	178,099	0	0	178,099
Interest and Fiscal Charges	127,901	0	0	127,901
Capital Outlay	0	0	167,323	167,323
	<u>3,969,836</u>	<u>374,574</u>	<u>167,323</u>	<u>4,511,733</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(13,526)</u>	<u>(96,713)</u>	<u>(167,323)</u>	<u>(277,562)</u>
Fund Cash Balances, January 1 , Restated	<u>393,859</u>	<u>120,280</u>	<u>170,865</u>	<u>685,004</u>
Fund Cash Balances, December 31	<u>\$380,333</u>	<u>\$23,567</u>	<u>\$3,542</u>	<u>\$407,442</u>
Reserve for Encumbrances, December 31	<u>\$71,733</u>	<u>\$1,316</u>	<u>\$1,641</u>	<u>\$74,690</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$431,094	\$44,587	\$475,681
Fines, Licenses and Permits	0	222,235	222,235
	<u>431,094</u>	<u>266,822</u>	<u>697,916</u>
Operating Cash Disbursements:			
Personal Services	203,891	0	203,891
Contractual Services	275,082	201,813	476,895
Supplies and Materials	39,677	0	39,677
	<u>518,650</u>	<u>201,813</u>	<u>720,463</u>
Operating Income/(Loss)	<u>(87,556)</u>	<u>65,009</u>	<u>(22,547)</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(87,556)	65,009	(22,547)
Fund Cash Balances, January 1, Restated	<u>125,030</u>	<u>250,464</u>	<u>375,494</u>
Fund Cash Balances, December 31	<u>\$37,474</u>	<u>\$315,473</u>	<u>\$352,947</u>
Reserve for Encumbrances, December 31	<u>\$60,261</u>	<u>\$0</u>	<u>\$60,261</u>

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Village of Highland Hills, Cuyahoga County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly elected six-member Council who serve four year terms. The Council members elect a Council President. The Mayor is elected to a four year term and votes only to break a tie in Council votes. The Village provides police and fire protection services, road maintenance, general governmental services and a Mayor's Court.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village invested in money market mutual funds which are recorded at share values the mutual fund reports.

D. Fund Accounting

During 2008, the Village changed its financial statement presentation from another comprehensive accounting basis to a basis prescribed or permitted by the Auditor of State.

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

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

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through trust funds). The Village had the following significant capital project fund:

Harvard Road Improvements Fund – This fund accounts for construction costs associated with the Harvard Road surface improvements.

4. Proprietary Fund

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

Enterprise Fund – This fund accounts for the operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following major enterprise fund at December 31, 2009 and 2008:

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

5. Fiduciary Funds (Agency Funds)

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other governments. The Village's agency funds account for the activities of the Village Mayor's Court.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object group (salaries and other) level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2009 and 2008 budgetary activity appears in Note 4.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

2. Restatement of Fund Equity

During 2007 and 2006, the Village reported expenditures related to the rental operations account within the general fund. The prior year ending fund balances were adjusted as presented.

	<u>General</u>
Fund Balance December 31, 2007	\$ 58,739
Interfund Receivables (Payables)	<u>335,120</u>
Adjusted Fund Balance December 31, 2007	<u>\$393,859</u>

The restatement of the business-type activities is as follows:

	<u>Rental Operations</u>
Fund Equity December 31, 2007	\$460,150
Interfund Receivables (Payables)	<u>(335,120)</u>
Adjusted Fund Equity December 31, 2007	<u>\$125,030</u>

3. Equity in Pooled Cash and Investments

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

	<u>2009</u>	<u>2008</u>
Demand deposits	\$52,354	\$0
Money Market Mutual Fund	<u>480,955</u>	<u>760,389</u>
Total deposits and investments	<u>\$533,309</u>	<u>\$760,389</u>

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

4. Budgetary Activity

Budgetary activity for the years ending December 31, 2009 and December 31, 2008 follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$550,935	\$3,959,451	\$3,408,516
Special Revenue	398,958	279,456	(119,502)
Capital Projects	201,950	614,428	412,478
Enterprise	770,000	378,664	(391,336)
Agency	280,400	1,342,359	1,061,959
Total	\$2,202,243	\$6,574,358	\$4,372,115

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,926,323	\$4,474,968	(\$548,645)
Special Revenue	365,000	328,017	36,983
Capital Projects	192,389	648,649	(456,260)
Enterprise	132,100	399,489	(267,389)
Agency	61,870	1,235,588	(1,173,718)
Total	\$4,677,682	\$7,086,711	(\$2,409,029)

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,905,225	\$3,956,310	\$51,085
Special Revenue	474,453	277,861	(196,592)
Capital Projects	377,238	0	(377,238)
Enterprise	594,722	431,094	(163,628)
Agency	347,074	266,822	(80,252)
Total	\$5,698,712	\$4,932,087	(\$766,625)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,882,940	\$4,041,569	(\$158,629)
Special Revenue	393,887	375,890	17,997
Capital Projects	362,245	168,964	193,281
Enterprise	172,363	578,911	(406,548)
Agency	61,870	201,813	(139,943)
Total	\$4,873,305	\$5,367,147	(\$493,842)

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

4. Budgetary Activity (Continued)

Contrary to Ohio Rev. Code Section 5705.10(H), the Village had negative fund balances in the General Obligation Note, Fire Levy, CDBG – 2002 Exterior, Fire Training and Equipment and Special Fire Grant Fund at December 31, 2009, and in the General Obligation Note, Fire Levy and CDBG – 2002 Exterior Funds at December 31, 2008, respectively.

Contrary to Ohio Rev. Code Section 5705.36(A)(4), appropriations exceeded actual resources plus encumbrances in General Obligation Notes, Fire Levy, Fire Training and Equipment and Building Standards Assessment Funds at December 31, 2009, and the General Obligation Notes, Fire Levy, CDBG – 2002 Exterior, Municipal Complex Renovation and Building Standards Assessment Funds at December 31, 2008.

Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources in the General, General Obligation Notes, Fire Levy, and Fire Training and Equipment Funds at December 31, 2009, and the CDBG – 2002 Exterior and Municipal Complex Renovation Funds at December 31, 2008.

Contrary to Ohio Rev. Code Section 5705.41(B), the Village had expenditures plus encumbrances that exceeded appropriations as of December 31, 2009 in the General Fund, General Obligation Notes, Motor Vehicle Tax, Lighting Assessment, Fire Training and Equipment, Special Fire Grant, Rental Operations, Contractor's Deposits and Mayor's Court funds. In addition, the Village had expenditures plus encumbrances that exceeded appropriations as of December 31, 2008 in the General Obligation Notes, Fire Levy, Rental Operations, Contractor's Deposits and Mayor's Court funds.

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not properly encumber numerous purchases during 2009 and 2008.

5. Property Tax

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

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

6. Local Income Tax

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

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

7. Debt

In 2005, the Village issued \$2,565,000 in debt to fund the renovation of the existing municipal building. In 2006, the Village issued \$430,000 in building improvement bonds. This debt was also to fund building improvements for the Village's municipal building.

The Village's long-term debt activity for the year ended December 31, 2008, was as follows:

	Interest Rate	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008
Governmental Activities					
Various Purpose Refunding Bonds					
2005 Issue (Original Amount \$2,565,000)	3.25 - 4.375%	\$2,465,000		(\$110,000)	\$2,355,000
Building Improvement Bonds					
2006 Issue (Original Amount \$430,000)	5.5%	<u>423,713</u>		<u>(13,099)</u>	<u>410,614</u>
Total Governmental Activities		<u>\$2,888,713</u>		<u>(\$123,099)</u>	<u>\$2,765,614</u>

The Village's long-term debt activity for the year ended December 31, 2009, was as follows:

	Interest Rate	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009
Governmental Activities					
Various Purpose Refunding Bonds					
2005 Issue (Original Amount \$2,565,000)	3.25 - 4.375%	\$2,355,000		(\$110,000)	\$2,245,000
Building Improvement Bonds					
2006 Issue (Original Amount \$430,000)	5.5%	<u>410,614</u>		<u>(13,829)</u>	<u>396,785</u>
Total Governmental Activities		<u>\$2,765,614</u>		<u>(\$123,829)</u>	<u>\$2,641,785</u>

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

7. Debt (Continued)

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

Year	2005 Refunding Bonds		2006 Building Improvement Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$110,000	\$91,566	\$14,600	\$21,625	\$124,600	\$113,191
2011	115,000	87,441	15,415	20,811	130,415	108,252
2012	120,000	83,129	16,274	19,952	136,274	103,081
2013	125,000	76,000	17,181	19,044	142,181	95,044
2014	135,000	66,563	18,140	18,086	153,140	84,649
2015-2020	735,000	197,831	132,160	85,191	867,160	283,022
2021-2026	905,000	221,515	183,015	34,338	1,088,015	255,853
Totals	<u>\$2,245,000</u>	<u>\$824,045</u>	<u>\$396,785</u>	<u>\$219,047</u>	<u>\$2,641,785</u>	<u>\$1,043,092</u>

A summary of the note transactions for the year ended December 31, 2008, follows:

	Interest Rate	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008
<u>Governmental Activities</u>					
<u>Bond Anticipation Note</u>					
2007 Issue	4.25%	\$124,000	\$ 0	(\$55,000)	\$69,000

A summary of the note transactions for the year ended December 31, 2009, follows:

	Interest Rate	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009
<u>Governmental Activities</u>					
<u>Bond Anticipation Note</u>					
2007 Issue	4.25%	\$69,000	\$ 0	(\$69,000)	\$0

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

All note proceeds had been spent at December 31, 2008. The bond anticipation note is backed by the full faith and credit of the Village and matures within one year.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

8. Retirement Systems

The Village's full-time Police Officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008, OP&F participants contributed 10% of their wages. For 2009 and 2008, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2009 and 2008, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14.00%. The Village has paid all contributions required through December 31, 2009.

Effective August 3, 1992, any new part-time Village fire fighters are no longer covered by Ohio Public Employees Retirement System and must contribute to social security. The Village's liability is 6.2 percent of wages paid.

9. Risk Management

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 600 Ohio governments ("Members").

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

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$250,000 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

9. Risk Management (Continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2009, and December 31, 2008:

	<u>2009</u>	<u>2008</u>
Assets	\$11,176,186	\$10,471,114
Liabilities	<u>(4,852,485)</u>	<u>(5,286,781)</u>
Member's Equity	<u>\$6,323,701</u>	<u>\$5,184,333</u>

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

10. Contingent Liabilities

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

11. Agreement with Another Village

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



Dave Yost • Auditor of State

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

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

To the Members of Village Council:

We have audited the financial statements of the Village of Highland Hills, Cuyahoga County, (the Village) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated November 8, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

During 2008, the Village changed its financial statement presentation from another comprehensive accounting basis to a basis prescribed or permitted by the Auditor of State.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 and 2009-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-003 through 2009-011.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated November 8, 2012.

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

We intend this report solely for the information and use of management, the Village Council and others within the Village. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

November 8, 2012

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2009-001

Financial Reporting – Material Weakness

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

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, the Village's accounting system for 2009:

- The Village misposted property tax receipts resulting in property tax revenue understatements of \$61,564 and \$41,218 in the Fire Levy and Special Assessment Lighting Funds, respectively;
- The Village misposted income tax receipts resulting in General Fund income tax revenue being understated by \$17,116;
- The Village did not post gas tax receipts, resulting in intergovernmental revenue in the Motor Vehicle License Tax Fund being understated by \$13,295;
- The Village did not post Ohio Public Works Commission receipts and corresponding expenditures, resulting in Capital Projects Fund intergovernmental receipts and capital outlay expenditures being understated by \$445,325;
- The Village misposted contractor deposits revenue resulting in Fines, Licenses and Permits revenue being overstated in the General Fund and understated in the Fiduciary Fund by \$199,429. In addition, the Village did not post \$231,988 in contractor deposits revenue to the Fiduciary Fund;
- The Village did not post \$69,600 in Mayor's Court receipts to the General Fund. In addition, the Village did not post any Mayor's Court receipts to the Agency Fund, resulting in Fines, Licenses and Permits receipts being understated by \$97,557;
- The Village misposted rental deposits in the amount of \$9,032 into the Rental Operations Fund rather than the Tenant Deposits' Fund;
- The Village misposted \$35,369 in Fire Training and Equipment Fund expenditures to the Issue II Fund and additionally misposted these as Agency Fund expenditures; and
- The Village had unrecorded and misposted debt activity in the General Fund which resulted in an understatement of sale of notes in the amount of \$69,000, an understatement of principal payments of \$91,934, and an understatement of interest payments of \$32,901.

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, the Village's accounting system for 2008:

- The Village misposted property tax receipts resulting in property tax revenue being overstated in the General Fund by \$81,102, and understated in the Fire Levy and Special Assessment Lighting Funds by \$42,943 and \$24,750, respectively;
- The Village did not post gas tax receipts, resulting in intergovernmental revenue in the Motor Vehicle License Tax Fund being understated by \$14,147;
- The Village misposted contractor deposits revenue resulting in Fines, Licenses and Permits revenue being overstated in the General Fund and understated in the Fiduciary Fund by \$110,314;
- The Village did not post \$27,408 in Mayor's Court receipts to the General Fund. In addition, the Village did not post any Mayor's Court receipts to the Agency Fund, resulting in Fines, Licenses and Permits receipts being understated by \$97,317;

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

(Continued)

FINDING NUMBER 2009-001

(Continued)

Financial Reporting – Material Weakness (Continued)

- The Village misposted rental deposits in the amount of \$32,037 into the Rental Operations Fund rather than the Tenant Deposits' Fund;
- The Village had unrecorded and misposted debt activity in the General Fund which resulted in an understatement of principal payments of \$60,545, and an understatement of interest payments of \$5,899; and
- The Village did not post encumbrances to the Rental Operations Fund which resulted in an understatement of encumbrances of \$58,630 in its Enterprise Fund.

Furthermore, the Village routinely did not update its accounting system to support various transactions, nor did it make updates to system reports for budgetary amendments. As a result of this and the items presented above, numerous significant modifications were required to be made to the Village's financial statements, leading to several different versions. This also caused the Village to have to change its financial statements from OCBOA to regulatory cash basis, as it was unable to accurately produce financial statements in GAAP format.

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

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

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

FINDING NUMBER 2009-002

Bank Reconciliations – Material Weakness

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

Cash and investment bank accounts were not reconciled on a timely basis during 2009 and 2008. In May 2012, the Village hired an outside consultant to assist the Village with reconciling their accounting ledgers to bank balances for each year. The year-end reconciliations were not finalized until September 2012. There were many reconciling items for each year and many were several months old. The reconciliations provided no evidence that they were reviewed by a supervisor.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

(Continued)

FINDING NUMBER 2009-002
(Continued)

Bank Reconciliations – Material Weakness (Continued)

As a result of not maintaining an accurate listing of outstanding checks at each year-end, the Village overstated outstanding checks as of December 31, 2009 and 2008 by \$286,917 and \$286,387, respectively. Many of the overstated items were indicated as outstanding checks by the Village. However, these items were wire transfers to the Internal Revenue Service (IRS), Ohio Police and Fire (OP&F), and Ohio Public Employees Retirement System (OPERS).

Reconciliations should be prepared and reviewed on a timely basis. Without accurate bank reconciliations the Village has no assurance that the cash balances recorded in the Village's records are correct. Consequently, the Village may be spending money that it does not have available. Failure to perform monthly bank reconciliations in a timely manner can make it more difficult to identify reconciling items and compromises the controls designed to aid in the detection of errors and/or irregularities which could lead to a loss/theft of Village assets. In addition, the management of the Village is not provided with timely and accurate financial information that is vital to the continued operations of the Village, which could also have a negative material effect or impact on the Village's financial statements.

We recommend that timely reconciliations be prepared and reviewed/approved. All reconciling items should be resolved on a timely basis and adequate documentation be maintained to support them.

Official's Response: The Village has taken action to improve the reconciling process.

FINDING NUMBER 2009-003

Timely Deposits – Material Noncompliance

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

During 2009 and 2008, we noted 38 of the 40 rental receipts tested, or \$14,795 out of \$15,650, were not deposited on the following business day and the Village has not approved a policy allowing any personnel to hold receipts beyond the next business day. The time between receipt and deposit of these monies by the Village ranged from three to 28 days.

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

We recommend the Village's employees deposit the public money collected in accordance with the above requirements.

Official's Response: The Village will review Ohio Rev. Code Section 9.38 to determine if the Village can develop a policy or legislation to accommodate the extensive rental receipts that are collected generally in one day for which it takes additional time to reconcile and deposit.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

(Continued)

FINDING NUMBER 2009-004

Reporting to OPERS and OP&F – Material Noncompliance

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

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

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

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

During our testing of payroll disbursements, we noted four payments made to OP&F on February 28, 2008, totaling \$27,724, with no purpose of payment indicated.

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

Based on confirmations received from OP&F, the Village did not file the required reports or remit the monies from January 2008 through May 2010 as required by this Section. Furthermore, the Village was not responsive to numerous requests from OPERS and OP&F regarding remittance issues. This weakness may result in penalties and interest being assessed against the Village.

We recommend the Village report and remit the monies to OP&F as required by the above Rev. Code Sections. We also recommend the Village respond in a timely manner to making payments to and following up on requests from OPERS and OP&F. Finally, we recommend the Village maintain supporting documentation for all payments to OPERS or OP&F.

This matter has been referred to the Ohio Public Employees Retirement System and Ohio Police and Fire Fund.

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008**

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

(Continued)

Reporting to OPERS and OP&F – Material Noncompliance

Official's Response: The Village has made adjustments to its cash-flow requirements in order to timely remit and report pension payments.

FINDING NUMBER 2009-005

Certification of Available Resources – Material Noncompliance

Ohio Rev. Code Section 5705.36(A)(4) requires the fiscal officer to file a reduced amended certificate if the revenue to be collected by the subdivision will be less than the amount included in an official certificate and the amount of the deficiency will reduce available resources below the current level of appropriation. The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

The Village did not obtain reduced amended certificates of estimated resources for the following variances which would have reduced the available resources below the current level for the following amounts:

Fund	Appropriations	Actual Receipts including Unencumbered Balance	Variance
As of December 31, 2009:			
General Obligation Notes	\$65,000	\$0	\$65,000
Fire Levy	330,000	312,758	17,242
Fire Training and Equipment	689	0	689
Building Standards Assessment	170	30	140
As of December 31, 2008:			
General Obligation Notes	65,000	0	65,000
Fire Levy	341,887	226,948	114,939
CDBG 2002 Exterior	0	(1,259)	1,259
Municipal Complex Renovation	356,745	356,744	1
Building Standards Assessment	170	2	168

Appropriating more money than received led to negative fund balances. It also could lead to commitments being made without appropriate funds to cover the expenses.

We recommend the Village compare actual receipts to appropriations on a monthly basis and obtain an amended certificate of estimated resources as needed.

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

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

(Continued)

FINDING NUMBER 2009-006

Appropriations in Excess of Estimated Resources – Material Noncompliance

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

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

Fund	Appropriations	Estimated Resources	Variance
As of December 31, 2009:			
General Fund	\$3,861,323	\$550,935	\$3,310,388
General Obligation Notes	65,000	0	65,000
Fire Levy	330,000	312,758	17,242
Fire Training and Equipment	689	0	689
As of December 31, 2008:			
CDBG 2002 Home Ext.	0	(1,259)	1,259
Municipal Complex Renovation	356,745	356,744	1

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

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

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

**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008**

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

FINDING NUMBER 2009-007

Expenditures Plus Encumbrances in Excess of Appropriations – Material Noncompliance

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

During our testing, we noted the following funds had expenditures plus encumbrances exceeding appropriations for the following amounts:

Fund	Appropriations	Expenditures Plus Encumbrances	Variance
As of December 31, 2009:			
General Fund	\$3,861,323	\$4,160,776	\$299,453
General Obligation Notes	65,000	314,192	249,192
Motor Vehicle Tax	0	143	143
Lighting Assessment	35,000	36,202	1,202
Fire Training and Equipment	0	35,369	35,369
Special Fire Grant	0	163,527	163,527
Rental Operations	132,100	399,489	267,389
Contractor's Deposits	41,700	1,131,719	1,090,019
Mayor's Court	0	97,517	97,517
As of December 31, 2008:			
General Obligation Notes	65,000	306,000	241,000
Fire Levy	341,887	348,233	6,346
Rental Operations	172,363	578,912	406,549
Contractor's Deposits	41,700	96,571	54,871
Mayor's Court	0	97,317	97,317

In addition, although the Village budgeted at the legal level of control, due to numerous adjustments to its accounting system, we were unable to determine the accurate expenditure amounts at this level.

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

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

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

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

(Continued)

FINDING NUMBER 2009-008

Negative Cash Fund Balances – Material Noncompliance

Ohio Rev. Code Section 5705.10(H) states money that is paid into a fund must be used only for the purposes for which such fund has been established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance.

The following funds had deficit cash balances as of December 31, 2009:

<u>Fund</u>	<u>Amount</u>
General Obligation Note	\$375,312
Fire Levy	137,431
CDBG - 2002 Exterior	1,259
Fire Training and Equipment	34,680
Special Fire Grant	867

The following funds had deficit cash balances as of December 31, 2008:

<u>Fund</u>	<u>Amount</u>
General Obligation Note	\$306,000
Fire Levy	71,063
CDBG - 2002 Exterior	1,258

This could result in deficit spending by the Village or other funds paying for expenditures on their behalf.

We recommend the cash balances be monitored on a regular basis and transfers or advances should be made from the General Fund in order to avoid deficit balances.

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

FINDING NUMBER 2009-009

Proper Certification of Funds – Material Noncompliance

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
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(Continued)

FINDING NUMBER 2009-009

(Continued)

Proper Certification of Funds – Material Noncompliance (Continued)

1. “Then and Now” certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During our non-payroll testing, we noted 41 out of 60 expenditures tested, or \$109,009 out of \$147,150, in 2009 and 39 out of 60 expenditures tested, or \$78,002 out of \$130,687, in 2008, respectively, which were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions for these transactions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

During our encumbrance testing, we noted six out of 17 encumbrances tested, or \$4,537 out of \$77,797, in 2009, and 10 out of 15, or \$56,026 out of \$77,443, in 2008, respectively which were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions for these transactions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend the Village certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

(Continued)

FINDING NUMBER 2009-009
(Continued)

Proper Certification of Funds – Material Noncompliance (Continued)

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

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

FINDING NUMBER 2009-010

Annual Financial Reporting – Material Noncompliance

Ohio Rev. Code Section 117.38 states that an entity must file a complete and accurate financial report on an annual basis. This section also provides, in part, that "at the time the annual financial report is filed with the auditor of state, the chief fiscal officer, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer."

The Village did not file their annual financial reports for 2009 and 2008. In addition, no evidence was provided by the Village that a public notice was published.

By not filing financial reports and an annual notice, the Village is not fulfilling their duties of accountability and transparency to the public.

We recommend the Village compile and present their financial statements in a complete and accurate manner in accordance with its accounting records and the above Ohio Rev. Code Section. We also recommend at the time the report is filed with the auditor of state, the Village, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the Village Hall.

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

VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

(Continued)

FINDING NUMBER 2009-011

Unlawful Interest in a Public Contract – Material Noncompliance

Ohio Rev. Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of the public official's office to secure a public contract in which the public official, a member of the public official's family, or any of the public official's business associates have an interest.

Ohio Rev. Code Section 102.03(D) prohibits a public official from authorizing or using the authority or influence of office or employment, to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official with respect to that person's duties.

Ohio Rev. Code Section 2921.42(A)(4) states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

Village Ordinance 1990-11, which established the duties of the Fire Chief, states "The Fire Chief shall have the duty to maintain all equipment and apparatus in good repair, or shall cause the same to be kept in good repair."

During a review of the expenditure report for 2008, our testing showed that the Fire Chief, in addition to his official duties, was also employed by the Village as an independent contractor to maintain and repair Fire Department vehicles. In 2008, the Fire Chief was paid \$4,427 for his services as an independent contractor.

As stated above, a public official is prohibited from having an interest in a public contract. In the current instance, the Fire Chief had separate employment with the Village as an independent contractor.

This matter will be forwarded to the Ohio Ethics Commission for their review.

Official's Response: It was not the intent of the Village to put the Fire Chief in a situation where there would be an unlawful interest in a public contract. The Village recognizes that his salary should have been adjusted for his additional duties or overtime should have been paid. The additional amounts, which were paid to the Fire Chief, included repairs to equipment in addition to Fire Department vehicles. The Fire Chief's hourly rate was far below the going rate for similar type work on heavy duty specialized vehicles. The Village checked the open market and the Village would not have been able to obtain such services at that rate in the open market.

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**VILLAGE OF HIGHLAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Financial Reporting	No	Re-Issued as Finding 2009-001
2007-002	Bank Reconciliations	No	Re-Issued as Finding 2009-002
2007-003	Finding for Recovery Repaid under Audit	Yes	Finding No Longer Valid
2007-004	Finding for Recovery Repaid under Audit	Yes	Finding No Longer Valid
2007-005	Finding for Recovery Repaid under Audit	Yes	Finding No Longer Valid
2007-006	Finding for Recovery Repaid under Audit	Yes	Finding No Longer Valid
2007-007	Village Employees not contributing to OPERS	No	Partially Corrected; Re-Issued as Finding 2009-004
2007-008	Filing Annual Financial Reports	No	Re-Issued as Finding 2009-010
2007-009	Negative Cash Fund Balances	No	Re-Issued as Finding 2009-008
2007-010	Appropriations Exceeding Estimated Resources	No	Re-Issued as Finding 2009-006
2007-011	Proper Encumbering	No	Re-Issued as Finding 2009-009
2007-012	Expenditures Plus Encumbrances in Excess of Appropriations	No	Re-Issued as Finding 2009-007
2007-013	Council Approval of Transfers	Yes	Finding No Longer Valid

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Dave Yost • Auditor of State

VILLAGE OF HIGHLAND HILLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 4, 2012