



Dave Yost • Auditor of State

VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Walton Hills
Cuyahoga County
7595 Walton Road
Walton Hills, Ohio 44146

To the Village Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Walton Hills, Cuyahoga County, Ohio as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2016, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 16, 2016

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

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

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts					
Property and Other Local Taxes	\$9,235	\$35,305			\$44,540
Municipal Income Tax	4,318,431				4,318,431
Intergovernmental	70,252	225,426		\$2,173,286	2,468,964
Charges for Services	196,393	140			196,533
Fines, Licenses and Permits	309,862	8,010		12,192	330,064
Earnings on Investments				14,227	14,227
Contributions and Donations	12,062			15,000	27,062
Miscellaneous	6,022	6,964		1,622	14,608
<i>Total Cash Receipts</i>	<u>4,922,257</u>	<u>275,845</u>		<u>2,216,327</u>	<u>7,414,429</u>
Cash Disbursements					
Current:					
Security of Persons and Property	2,598,975	184,662			2,783,637
Public Health Services	8,942				8,942
Leisure Time Activities	206,526				206,526
Community Environment	111,485				111,485
Basic Utility Services	294,524	8,847			303,371
Transportation	224,914	704,788			929,702
General Government	939,019	2,511			941,530
Debt Service:					
Principal Retirement			\$457,534		457,534
Interest and Fiscal Charges			16,687	3,395,832	3,412,519
<i>Total Cash Disbursements</i>	<u>4,384,385</u>	<u>900,808</u>	<u>474,221</u>	<u>3,395,832</u>	<u>9,155,246</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>537,872</u>	<u>(624,963)</u>	<u>(474,221)</u>	<u>(1,179,505)</u>	<u>(1,740,817)</u>
Other Financing Receipts (Disbursements)					
Sale of Notes			375,000	900,000	1,275,000
Debt Proceeds				106,036	106,036
Sale of Capital Assets				15,902	15,902
Transfers In		749,000	100,000	250,000	1,099,000
Transfers Out	(999,000)			(100,000)	(1,099,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(999,000)</u>	<u>749,000</u>	<u>475,000</u>	<u>1,171,938</u>	<u>1,396,938</u>
<i>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</i>	<u>(461,128)</u>	<u>124,037</u>	<u>779</u>	<u>(7,567)</u>	<u>(343,879)</u>
<i>Fund Cash Balances, January 1, 2015</i>	<u>2,404,794</u>	<u>217,097</u>	<u>272</u>	<u>576,870</u>	<u>3,199,033</u>
Fund Cash Balances, December 31, 2015					
Restricted		341,134	1,051		342,185
Committed				569,303	569,303
Assigned	61,527				61,527
Unassigned	1,882,139				1,882,139
<i>Fund Cash Balances, December 31, 2015</i>	<u>\$1,943,666</u>	<u>\$341,134</u>	<u>\$1,051</u>	<u>\$569,303</u>	<u>\$2,855,154</u>

VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
AGENCY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Agency</u>
Operating Cash Receipts	
JEDD Income Tax	\$164,512
Fines, Licenses and Permits	310,047
Contributions and Donations	1,859
Miscellaneous	41,175
	<u>517,593</u>
<i>Total Operating Cash Receipts</i>	<u>517,593</u>
Operating Cash Disbursements	
Other	346,230
	<u>346,230</u>
<i>Operating Income</i>	<u>171,363</u>
<i>Fund Cash Balance, January 1, 2015</i>	<u>153,320</u>
<i>Fund Cash Balance, December 31, 2015</i>	<u><u>\$324,683</u></u>

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

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

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

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts					
Property and Other Local Taxes	\$9,924	\$33,790			\$43,714
Municipal Income Tax	4,560,441				4,560,441
Intergovernmental	84,119	210,499			294,618
Charges for Services	193,653	613		\$47,331	241,597
Fines, Licenses and Permits	273,703	7,020		11,524	292,247
Earnings on Investments				1,325	1,325
Contributions and Donations	16,133			10,000	26,133
Miscellaneous	5,375	2,271		1,444	9,090
<i>Total Cash Receipts</i>	<u>5,143,348</u>	<u>254,193</u>		<u>71,624</u>	<u>5,469,165</u>
Cash Disbursements					
Current:					
Security of Persons and Property	2,409,912	177,203			2,587,115
Public Health Services	10,419				10,419
Leisure Time Activities	206,437				206,437
Community Environment	96,651				96,651
Basic Utility Services	276,536	8,701			285,237
Transportation	233,064	698,038			931,102
General Government	849,485	3,325			852,810
Capital Outlay				822,178	822,178
Debt Service:					
Principal Retirement			\$32,222		32,222
Interest and Fiscal Charges			4,250		4,250
<i>Total Cash Disbursements</i>	<u>4,082,504</u>	<u>887,267</u>	<u>36,472</u>	<u>822,178</u>	<u>5,828,421</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,060,844</u>	<u>(633,074)</u>	<u>(36,472)</u>	<u>(750,554)</u>	<u>(359,256)</u>
Other Financing Receipts (Disbursements)					
Sale of Capital Assets		23,300		32,753	56,053
Transfers In		635,000	36,000		671,000
Transfers Out	(635,000)			(36,000)	(671,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(635,000)</u>	<u>658,300</u>	<u>36,000</u>	<u>(3,247)</u>	<u>56,053</u>
<i>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</i>	425,844	25,226	(472)	(753,801)	(303,203)
<i>Fund Cash Balances, January 1, 2014</i>	<u>1,978,950</u>	<u>191,871</u>	<u>744</u>	<u>1,330,671</u>	<u>3,502,236</u>
Fund Cash Balances, December 31, 2014					
Restricted		217,097	272		217,369
Committed				576,870	576,870
Assigned	120,142				120,142
Unassigned	2,284,652				2,284,652
Fund Cash Balances, December 31, 2014	<u>\$2,404,794</u>	<u>\$217,097</u>	<u>\$272</u>	<u>\$576,870</u>	<u>\$3,199,033</u>

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

VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
AGENCY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Agency</u>
Operating Cash Receipts	
Fines, Licenses and Permits	\$282,003
Contributions and Donations	\$1,834
Miscellaneous	32,630
	<u>316,467</u>
<i>Total Operating Cash Receipts</i>	<u>316,467</u>
Operating Cash Disbursements	
Other	<u>327,774</u>
<i>Operating Loss</i>	<u>(11,307)</u>
<i>Fund Cash Balance, January 1, 2014</i>	<u>164,627</u>
<i>Fund Cash Balance, December 31, 2014</i>	<u><u>\$153,320</u></u>

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

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Walton Hills, Cuyahoga County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides police protection, recreation and senior services, refuse collection, zoning, road maintenance, and animal control. The Village contracts with neighboring communities for fire protection and emergency medical services.

The Village participates in the Village of Walton Hills-Sagamore Township Joint Economic Development District (JEDD), a jointly governed organization. The JEDD is organized in accordance with Sections 715.71 through 715.82 of the Revised Code. The agreement was approved by Village Council and Sagamore Township Trustees in June 2015, with the first tax collection occurring in October 2015. The Village is the fiscal agent of the JEDD. Note 10 provides additional information regarding the organization

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. Deposits 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.

Star Ohio is recorded at share values the mutual fund reports.

D. Fund Accounting

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 accounts for and reports all financial resources not accounted for and reported in another fund.

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015
(continued)**

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 Funds:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Police Pension Fund – This fund is used to account for property taxes collected to pay the Village’s share of police pension benefits.

3. Debt Service Fund

This fund accounts for resources the Village accumulates to pay bond and note debt. The Village has the following significant Debt Service Fund:

Special Bond Retirement Fund – This fund is used to account for the retirement of notes and loans.

4. Capital Project Funds

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

Capital Improvement Fund – This fund is used to account for all capital projects.

5. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village’s own programs. The Village has no trust funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village’s agency funds account for activities in the Mayor’s Court, contractor’s performance bonds, miscellaneous third party deposits and the Village of Walton Hills - Sagamore Hills Township Joint Economic Development District (JEDD).

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015
(continued)**

1. Summary of Significant Accounting Policies (continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, department, personal services level and other, 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 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 carried over, and need not be reappropriated

A summary of 2015 and 2014 budgetary activity appears in Note 3.

F. Fund Balance

For December 31, 2015 and 2014, fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

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

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015
(continued)**

1. Summary of Significant Accounting Policies (continued)

F. Fund Balance (continued)

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. 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.

H. 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 WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015
(continued)**

2. Equity in Pooled Deposits and Investments

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

	2015	2014
Demand deposits	\$1,671,218	\$2,693,983
Investments:		
STAR Ohio	233,619	233,370
Municipal Notes	1,275,000	425,000
Total investments	1,508,619	658,370
Total deposits and investments	\$3,179,837	\$3,352,353

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

Investments:

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

Municipal Notes:

On December 1, 2013, the Village purchased, as an investment, its own \$425,000 note which matured on December 1, 2015, at 2.00% interest rate. On December 1, 2015, the Village purchased, as an investment, its own \$1,275,000 note due on December 1, 2016, with a 1.50% interest rate. This note is also reported as a debt obligation (Note 6).

3. Budgetary Activity

Budgetary activity for the years ended December 31, 2015 and December 31, 2014 are as follows:

	2015 Budgeted vs. Actual Receipts		
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$4,557,103	\$4,922,257	\$365,154
Special Revenue	1,009,445	1,024,845	15,400
Debt Service	475,000	475,000	
Capital Projects	3,443,109	3,488,265	45,156
Total	\$9,484,657	\$9,910,367	\$425,710

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015
(continued)**

3. Budgetary Activity (continued)

2015 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$5,516,111	\$5,444,912	\$71,199
Special Revenue	959,728	922,064	37,664
Debt Service	474,222	474,221	1
Capital Projects	4,006,792	3,995,635	11,157
Total	\$10,956,853	\$10,836,832	\$120,021

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$4,729,813	\$5,143,348	\$413,535
Special Revenue	900,628	912,493	11,865
Debt Service	36,000	36,000	0
Capital Projects	108,677	104,377	(4,300)
Total	\$5,775,118	\$6,196,218	\$421,100

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$4,876,253	\$4,837,646	\$38,607
Special Revenue	932,923	917,446	15,477
Debt Service	36,615	36,472	143
Capital Projects	1,116,936	1,085,792	31,144
Total	\$6,962,727	\$6,877,356	\$85,371

4. 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 is due December 31. The second half payment is due the following June 20.

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

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

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015
(continued)**

5. Local Income Tax

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

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

In August 2015 the Village of Walton Hills and Sagamore Hills Township agreed to a Joint Economic Development District (JEDD) which encompasses several parcels. Businesses within the JEDD are subject to an income tax rate of 2.5%. Within thirty days of the close of each calendar quarter the Village shall distribute the income tax revenues according to the agreement. The first required distribution, per the agreement, is to occur by January 31, 2016.

6. Debt

Debt outstanding at December 31, 2015 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Dunham Road Water Main Rehab	\$135,651	2.00%
OPWC Dunham Road Improvement	\$86,349	0.00%
OPWC Walton Road Improvement	47,003	0.00%
OPWC Alexander/Dunham Improvement	49,289	2.00%
OPWC Egbert Road Improvement	163,989	0.00%
OPWC Sagamore Road Improvement	106,036	0.00%
General Obligation Notes	1,275,000	1.50%
Total	<u>\$1,863,317</u>	

As of December 31, 2015, the Village has six loans outstanding with the Ohio Public Works Commission (OPWC). The Village repays the loans in semiannual installments over 20 and 30 years. The loans are collateralized by the Village's taxing authority.

In 2005, a 20 year OPWC loan for \$258,567 was awarded for the Dunham Road water main rehabilitation project. In 2008, a 20 year OPWC loans for \$143,914 and \$72,312 were awarded for the Dunham Road improvement and Walton Road improvement project, respectively. In 2009, a 20 year OPWC loan for \$66,555 was awarded for the Alexander and Dunham Road intersection improvement project. In 2013, a 30 year OPWC loan for \$175,703 was awarded for the Egbert Road rehabilitation and water main replacement project.

In December 2015, the Village issued a \$1,275,000 in general obligation note, this includes rolling over projects from previous years and new debt for the improvements of Sagamore Road. This note was purchased internally by the Village and is shown as an investment at December 31, 2015. (Note 2). Also in 2015, the Village obtained a \$106,036 OPWC loans for Sagamore Road improvements.

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015
(continued)**

6. Debt (continued)

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OPWC Loans	General Obligation Notes	Total
2016	\$40,006	\$1,294,125	\$1,334,131
2017	\$40,006		\$40,006
2018	\$40,006		\$40,006
2019	\$40,006		\$40,006
2020	\$40,006		\$40,006
2021-25	\$192,156		\$192,156
2026-30	\$88,411		\$88,411
2031-35	\$46,957		\$46,957
2036-40	\$46,957		\$46,957
2041-45	35,243		\$35,243
Total	<u>\$609,754</u>	<u>\$1,294,125</u>	<u>\$1,903,879</u>

7. Retirement Systems

The Village's full-time Police Officers belong to the 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.

From January 1, 2014 through June 30, 2014, OP&F participants contributed 10.75 percent of their wages. Beginning July 2014 the contribution rate was increased to 11.50 percent and in July 2015 the contribution rate was increased to 12.25 percent. The Village contributed to OP&F an amount equal to 19.5 percent of full-time police members' wages. For 2014 and 2015, OPERS members contributed 10 percent, of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

8. Risk Management

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

The Village also provides health insurance, dental, vision and life insurance coverage to full-time employees through a private carrier.

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2015
(continued)**

9. 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.

10. Jointly Governed Organizations

The Village participates in the Village of Walton Hills-Sagamore Township Joint Economic Development District (JEDD). The JEDD is organized in accordance with Sections 715.71 through 715.82 of the Revised Code. The agreement was approved by Village Council and Sagamore Township Trustees in June 2015, with the first tax collection occurring in October 2015. The JEDD Board of Directors consists of five members; the Mayor of the Village of Walton Hills, the Chairman of the Board of Trustees for Sagamore Hills Township, one representative of business owners in the JEDD, one representative of employees in the JEDD, and one member appointed by the preceding for members. The purpose of the JEDD is to conduct various capital improvements, including rehabilitation and paving of Sagamore Road, replacement of water lines, other infrastructure and periodic capital improvements.

The Board adopted a resolution to levy an income tax on all income as defined in the Village's income tax ordinance at a rate of two and one-half percent. As the fiscal agent, the Village accounts for the income tax collected in an agency fund and retain three percent for administrative expenses. The remaining income tax collected is split equally and disbursed amongst the Village and the Township.

11. Sagamore Road Improvements

In 2015, the Village undertook a major rehabilitation project for Sagamore Road. The project was a joint effort between the Village of Walton Hills, Sagamore Hills Township, Village of Valley View, Village of Northfield, City of Cleveland, and Cuyahoga County. The Village paid for all expenses of the project and billed each community for their portion of the project. Of the \$2,173,286 of intergovernmental revenue recorded in the Capital Projects Funds in 2015, \$1,968,286 represents receipts from the other communities involved in the project. The receipts off-set a corresponding capital outlay expense in the Capital Projects Funds.

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

Village of Walton Hills
Cuyahoga County
7595 Walton Road
Walton Hills, Ohio 44146

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Walton Hills, Cuyahoga County, Ohio, (the Village) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated September 16, 2016 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings we consider significant deficiencies. We consider findings 2015-001 and 2015-002 to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

Village's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

September 16, 2016

**VILLAGE OF WALTON HILLS
CUYAHOGA COUNTY**

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

FINDING NUMBER 2015-001

Noncompliance Finding / Significant Deficiency - Credit Card Policy and Purchasing Controls

Village of Walton Hills, Ohio, Ordinance 2007-9 (May 2007) – Purchasing Card Policy and Procedures Manual requires adequate supporting documentation to be maintained to support any credit card expenditures and specifically indicates, "a receipt must include the details of the transaction and itemized expenditures totaling the charge made to the card." The policy also indicates charges must have a purchase order, tips cannot exceed 15%, purchases must not include sales tax, card holders are required to maintain itemized receipts for all transactions, personal purchases are prohibited, and no charges by unauthorized persons are allowed.

Management is responsible for designing control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. For cash disbursements, including credit card disbursements, part of the risks associated with the cycle are to ensure transactions are properly authorized, have occurred and pertain to the entity.

Of 155 bank credit card charges tested, the following deficiencies were noted contrary to the Village's established policies and procedures, and/or were not consistent with management's responsibility to achieve an effective internal control environment:

- Ninety-two charges totaling \$20,296 did not have a purchase order prior to incurring the cost.
- Thirty-four charges totaling \$3,925 were not recorded in the UAN accounting system because management was not provided supporting documentation for the items purchased. Management maintained a spreadsheet of these outstanding items but had not actively followed up with the card holders to obtain the required supporting documentation. Subsequent review of these charges by management during the audit process identified two charges totaling \$88 related to gas stations purchases which were personal charges. The employee who incurred these costs subsequently reimbursed the Village.
- Two charges totaling \$1,272 included sales tax to local vendors.
- Twelve charges totaling \$610 which were not supported by a detailed, itemized receipt; only a summary receipt was provided.
- One charge totaling \$40 which did not have any receipt.
- Two charges totaling \$327 to a men's clothing store for uniform items where the charge slip indicated the purchase was made by the employee's spouse.
- Four charges totaling \$193 to restaurants which had tips exceeding 15% of the bill.

Failure to follow established policies and procedures for disbursement transactions, including credit card charges, substantially increases risk of financial statement errors, improper or abusive purchases, and loss of public funds.

FINDING NUMBER 2015-001 (Continued)

The Village should ensure employees are aware of the required credit card policy and management should implement procedures to ensure the credit card purchasing requirements are followed. Additionally, management should evaluate necessity of the number of employees with access to credit cards and should amend its policy to specifically indicate when credit cards purchases are permitted.

A similar comment was included in the Village's prior financial statement audit's management letter.

Officials' Response:

Charges that did not have a purchase order prior to purchase were issues a 'then and now' purchase order. We have taken steps to improve this process and are trying to have a purchase order ahead of time. There were charges that had not been recorded because they had not hit our credit card bill. There were purchase orders issued for all transactions, which we thought was adequate, but we now know that we will enter in each transaction, even if the credit card period has not ended. Itemized receipts were not obtained for twelve transactions; some of those transactions are at restaurants that do not serve alcohol, so there was no concern of improper usage. The one transaction missing a receipt was for a business lunch, this establishment was uncooperative to reprint a receipt and stated that they destroyed information after 30-60 days. Tips in excess of 15% were certainly accidental. We would like to review this policy, as 20% seems to be the standard amount.

Despite this finding the Village works diligently to ensure credit card charges are legitimate. An employee did use the work card for a personal purchase. This was caught in the finance department during a review because the gas station used in the purchase is not a common vendor for our employees. Upon questioning the employee it was determined to be an accidental use and the employee reimbursed the Village.

At the request of the State we will take their comments into consideration while reviewing the credit card policy.

FINDING NUMBER 2015-002

Significant Deficiency - Cash Reconciliation

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's cash balance. Bank reconciliation means accounting for the differences between the bank statement's balances and the cash and investment book balances according to the entity's records at a specific point in time.

The following deficiencies were noted with respect to the Village's general and mayor's court bank reconciliations:

- The December 31, 2015 and 2014, general bank reconciliation shows bank over book variances of \$764 and \$763, respectively. Management indicated these variances may relate to prior unrecorded activities. However, the specific transactions comprising these variances have yet to be identified and adjusted to the accounting records.
- The December 31, 2015, general bank reconciliation shows an \$8,648 reconciling item related to certain credit card payments which had not yet been recorded in the UAN accounting system. Management indicated they did not record these transactions in UAN because supporting documentation for certain purchases had yet to be provided by the card holders. Some of these unsupported items were for items purchased up to six months prior.

FINDING NUMBER 2015-002 (Continued)

- The April through December 31, 2014, and February through December 2015 mayor's court account bank reconciliations showed unreconciled variances ranging from (\$5) to \$1,300, bank over book. Management indicated these variances may relate to unrecorded court bond activity. However, the specific transactions comprising these variances have yet to be identified and adjusted to the accounting records.

Failure to reconcile all Village bank accounts and record all disbursements in the accounting system timely increases risk of financial statement errors and loss or theft of public funds.

The Village should ensure bank to book reconciliations are performed monthly for all accounts, including mayor's court. Any noted discrepancies should be promptly investigated and corrected. Additionally, all disbursements should be recorded in the accounting system when incurred and management should implement procedures to ensure documentation for all disbursements is promptly provided and retained.

Officials' Response:

The \$763.20 has been on the reconciliation for a few years. The amount is attributed to municipal court funds and will now be recorded as such.

The \$8,648 as a reconciling item did not consist of all transactions that were missing documentation. That amount also includes transactions that had been posted in UAN, but not hit the bank. Our credit card cycle ends on the 20th each month and the full payment is auto drafted from our bank account in full. In order to accurately reflect transactions that occurred in 2015, transactions were entered into the system before the payment was taken out of our bank account (which occurred in 2016). The amount does include several credit card transactions that were still missing back up documentation, but did have purchase orders assigned. All missing transactions have now been recorded.

The Mayor's court has had a discrepancy that is attributed to bond activity. The Clerk of Court is working with the software company and our Finance department to determine the glitch.

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Dave Yost • Auditor of State

VILLAGE OF WALTON 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 11, 2016