

***VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO***

***AUDIT REPORT***

***FOR THE YEARS ENDED DECEMBER 31, 2003 & 2002***

***Charles E. Harris and Associates, Inc.***  
Certified Public Accountants and Government Consultants





**Auditor of State  
Betty Montgomery**

Mayor and Members of Council  
Village of Highland Hills  
3700 Northfield Rd.  
Highland Hills, Ohio 44122

We have reviewed the Independent Auditor's Report of the Village of Highland Hills, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2002 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

August 24, 2005

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**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY, OHIO  
 Audit Report  
 For the Years Ended December 31, 2003 & 2002**

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**Charles E. Harris & Associates**  
*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Village of Highland Hills, Cuyahoga County, Ohio (the Village) as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. The financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion these financial statements based on our work.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audit obtain reasonable assurances about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village prepares its financial statements on a basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principals.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Highland Hills, Cuyahoga County, Ohio, as of December 31, 2003 and 2002 and its combined cash receipts and disbursements for the year ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2005, 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 testing of internal control over financial reporting or on compliance. 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.

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

*Charles E. Harris & Associates, Inc.*  
Certified Public Accountants  
May 27, 2005

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF CASH, INVESTMENTS AND  
 FUND CASH BALANCES - ALL FUND TYPES  
 AS OF DECEMBER 31, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
<b>Equity in Pooled Cash and Investments</b>	<b>\$ <u>616,374</u></b>	<b>\$ <u>742,174</u></b>
 <b><u>Fund Cash Balances by Fund Type:</u></b>		
<b><u>Governmental Funds:</u></b>		
General Fund	\$ 124,988	\$ 265,882
Special Revenue Funds	<u>21,283</u>	<u>24,879</u>
<b>Total Governmental Funds</b>	<b>146,271</b>	<b>290,761</b>
 <b><u>Proprietary Fund:</u></b>		
Enterprise Fund	31,873	43,311
 <b><u>Fiduciary Funds:</u></b>		
Agency Funds	<u>438,230</u>	<u>408,102</u>
 <b>Total Fund Cash Balances by Fund Type</b>	 <b>\$ <u><u>616,374</u></u></b>	 <b>\$ <u><u>742,174</u></u></b>

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



**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>RECEIPTS</b>			
Taxes	\$ 2,980,543	\$ 42,775	\$ 3,023,318
Intergovernmental Revenue	102,628	80,028	182,656
Special Assessments	-	42,514	42,514
Fines, Licenses and Permits	260,762	-	260,762
Investment Income	6,716	-	6,716
Miscellaneous	500,361	-	500,361
	<hr/>	<hr/>	<hr/>
<b>Total Receipts</b>	<b>3,851,010</b>	<b>165,317</b>	<b>4,016,327</b>
<b>DISBURSEMENTS</b>			
Security of Persons/Property	899,893	259,890	1,159,783
Basic Utility Service	205,549	-	205,549
Transportation	186,936	-	186,936
Community Environment	834,094	17,782	851,876
General Government	1,684,439	-	1,684,439
Debt Service:			
Principal Retirement	550,000	-	550,000
Interest and Fiscal Charges	12,234	-	12,234
	<hr/>	<hr/>	<hr/>
<b>Total Disbursements</b>	<b>4,373,145</b>	<b>277,672</b>	<b>4,650,817</b>
<b>Excess of Receipts Over/(Under) Disbursements</b>	<b>(522,135)</b>	<b>(112,355)</b>	<b>(634,490)</b>
<b>OTHER FINANCING SOURCES/(USES):</b>			
Proceeds from Sale of Notes	495,000	-	495,000
Operating Transfers-in	121,800	390,385	512,185
Operating Transfers-out	(220,559)	(281,626)	(502,185)
Other Financing Uses	(15,000)	-	(15,000)
	<hr/>	<hr/>	<hr/>
<b>Total Other Financing Sources/(Uses)</b>	<b>381,241</b>	<b>108,759</b>	<b>490,000</b>
<b>Excess of Receipts, Other Financing Sources Over/ (Under) Disbursements and Other Financing Uses</b>	<b>(140,894)</b>	<b>(3,596)</b>	<b>(144,490)</b>
<b>Fund Cash Balance, January 1, 2003</b>	<b>265,882</b>	<b>24,879</b>	<b>290,761</b>
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balance, December 31, 2003</b>	<b>\$ 124,988</b>	<b>\$ 21,283</b>	<b>\$ 146,271</b>

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

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>RECEIPTS</b>			
Taxes	\$ 2,715,287	\$ 40,480	\$ 2,755,767
Intergovernmental Revenue	107,880	59,975	167,855
Special Assessments	-	42,138	42,138
Fines, Licenses and Permits	248,196	-	248,196
Investment Income	102	-	102
Miscellaneous	49,986	-	49,986
	<hr/>	<hr/>	<hr/>
<b>Total Receipts</b>	<b>3,121,451</b>	<b>142,593</b>	<b>3,264,044</b>
<b>DISBURSEMENTS</b>			
Security of Persons/Property	844,175	251,632	1,095,807
Basic Utility Service	212,006	-	212,006
Transportation	194,983	-	194,983
Community Environment	636,385	41,596	677,981
General Government	1,268,133	-	1,268,133
Debt Service:			
Principal Retirement	550,000	-	550,000
Interest and Fiscal Charges	18,429	-	18,429
	<hr/>	<hr/>	<hr/>
<b>Total Disbursements</b>	<b>3,724,111</b>	<b>293,228</b>	<b>4,017,339</b>
<b>Excess of Receipts Over/(Under) Disbursements</b>	<b>(602,660)</b>	<b>(150,635)</b>	<b>(753,295)</b>
<b>OTHER FINANCING SOURCES/(USES):</b>			
Proceeds from Sale of Fixed Assets	11,262	-	11,262
Proceeds from Sale of Notes	550,000	-	550,000
Operating Transfers-in	36,287	440,430	476,717
Operating Transfers-out	(363,026)	(140,910)	(503,936)
	<hr/>	<hr/>	<hr/>
<b>Total Other Financing Sources/(Uses)</b>	<b>234,523</b>	<b>299,520</b>	<b>534,043</b>
<b>Excess of Receipts, Other Financing Sources Over/ (Under) Disbursements and Other Financing Uses</b>	<b>(368,137)</b>	<b>148,885</b>	<b>(219,252)</b>
<b>Fund Cash Balance, January 1, 2002</b>	<b>634,019</b>	<b>(124,006)</b>	<b>510,013</b>
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balance, December 31, 2002</b>	<b>\$ 265,882</b>	<b>\$ 24,879</b>	<b>\$ 290,761</b>

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

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 2003**

	<b>Proprietary Fund Type Enterprise Fund</b>	<b>Fiduciary Fund Type Agency Fund</b>
	<u>                    </u>	<u>                    </u>
<b>OPERATING RECEIPTS</b>		
Charges for Services	\$ 492,129	\$ -
Deposits	<u>-</u>	<u>141,434</u>
<b>Total Operating Receipts</b>	<b>492,129</b>	<b>141,434</b>
<b>OPERATING DISBURSEMENTS</b>		
Personal Services	184,182	-
Contractual Services	286,716	-
Materials and Supplies	21,889	-
Capital Outlay	<u>780</u>	<u>-</u>
<b>Total Operating Disbursements</b>	<b><u>493,567</u></b>	<b><u>-</u></b>
<b>Excess of Operating Receipts Over/(Under) Operating Disbursements</b>	<b>(1,438)</b>	<b>141,434</b>
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>		
Non-Operating Disbursements	<u>-</u>	<u>(111,306)</u>
<b>Net Excess of Operating and Non-Operating Receipts Over/ (Under) Operating and Non-Operating Disbursements</b>	<b>(1,438)</b>	<b>30,128</b>
Transfer-Out	(10,000)	-
<b>Fund Cash Balance, January 1, 2003</b>	<b><u>43,311</u></b>	<b><u>408,102</u></b>
<b>Fund Cash Balance, December 31, 2003</b>	<b>\$ <u>31,873</u></b>	<b>\$ <u>438,230</u></b>

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

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 2002**

	<b>Proprietary Fund Type Enterprise Fund</b>	<b>Fiduciary Fund Type Agency Fund</b>
	<u>                    </u>	<u>                    </u>
<b>OPERATING RECEIPTS</b>		
Charges for Services	\$ 466,230	\$ -
Deposits	-	52,370
	<u>                    </u>	<u>                    </u>
<b>Total Operating Receipts</b>	<b>466,230</b>	<b>52,370</b>
<b>OPERATING DISBURSEMENTS</b>		
Personal Services	165,231	-
Contractual Services	264,048	-
Materials and Supplies	56,115	-
Capital Outlay	1,204	-
	<u>                    </u>	<u>                    </u>
<b>Total Operating Disbursements</b>	<b>486,598</b>	<b>-</b>
<b>Excess of Operating Receipts Over/(Under) Operating Disbursements</b>	<b>(20,368)</b>	<b>52,370</b>
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>		
Non-Operating Disbursements	-	(38,067)
	<u>                    </u>	<u>                    </u>
<b>Net Excess of Operating and Non-Operating Receipts Over/ (Under) Operating and Non-Operating Disbursements</b>	<b>(20,368)</b>	<b>14,303</b>
Transfer-In	27,219	-
<b>Fund Cash Balance, January 1, 2002</b>	<b>36,460</b>	<b>393,799</b>
	<u>                    </u>	<u>                    </u>
<b>Fund Cash Balance, December 31, 2002</b>	<b>\$ 43,311</b>	<b>\$ 408,102</b>
	<u>                    </u>	<u>                    </u>

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

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2003**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
<b>General Fund</b>	\$ 3,636,962	\$ 4,467,810	\$ 830,848
<b>Special Revenue Funds</b>	479,181	555,702	76,521
<b>Proprietary</b>			
<b>Enterprise Fund</b>	590,000	492,129	(97,871)
<b>Total (Memorandum Only)</b>	\$ <u>4,706,143</u>	\$ <u>5,515,641</u>	\$ <u>809,498</u>

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

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2002**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
General Fund	\$ 3,033,612	\$ 3,719,000	\$ 685,388
Special Revenue Funds	430,745	583,023	152,278
<b>Proprietary</b>			
Enterprise Fund	534,200	493,449	(40,751)
<b>Total (Memorandum Only)</b>	<u>\$ 3,998,557</u>	<u>\$ 4,795,472</u>	<u>\$ 796,915</u>

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

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF DISBURSEMENTS AND  
 ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
 FOR THE YEAR ENDED DECEMBER 31, 2003**

<u>Fund Types/Funds</u>	<u>Prior Year Encumbrances</u>	<u>2003 Appropriations</u>	<u>Total</u>	<u>2003 Actual Disbursements</u>	<u>Encumbrances</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>							
General Fund	\$ 138,075	\$ 3,613,164	\$ 3,751,239	\$ 4,608,704	\$ 215,676	\$ 4,824,380	\$ (1,073,141)
Special Revenue Funds	10,708	394,954	405,662	559,298	12,364	571,662	(166,000)
<b>Proprietary</b>							
Enterprise Fund	30,970	590,000	620,970	503,567	35,508	539,075	81,895
<b>Total (Memorandum Only)</b>	<u>\$ 179,753</u>	<u>\$ 4,598,118</u>	<u>\$ 4,777,871</u>	<u>\$ 5,671,569</u>	<u>\$ 263,548</u>	<u>\$ 5,935,117</u>	<u>\$ (1,157,246)</u>

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

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY  
 COMBINED STATEMENT OF DISBURSEMENTS AND  
 ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
 FOR THE YEAR ENDED DECEMBER 31, 2002**

<u>Fund Types/Funds</u>	<u>Prior Year Encumbrances</u>	<u>2002 Appropriations</u>	<u>Total</u>	<u>2002 Actual Disbursements</u>	<u>Encumbrances</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>							
General Fund	\$ 556,470	\$ 3,205,479	\$ 3,761,949	\$ 4,087,137	\$ 138,075	\$ 4,225,212	\$ (463,263)
Special Revenue Funds	53,267	387,450	440,717	434,138	10,708	444,846	(4,129)
<b>Proprietary</b>							
Enterprise Fund	67,722	590,000	657,722	486,598	30,970	517,568	140,154
<b>Total (Memorandum Only)</b>	<b>\$ <u>677,459</u></b>	<b>\$ <u>4,182,929</u></b>	<b>\$ <u>4,860,388</u></b>	<b>\$ <u>5,007,873</u></b>	<b>\$ <u>179,753</u></b>	<b>\$ <u>5,187,626</u></b>	<b>\$ <u>(327,238)</u></b>

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



**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. DESCRIPTION OF THE ENTITY**

The Village of Highland Hills (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council-mayor form of government and provides the following services: Public safety and public service.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

**B. BASIS OF ACCOUNTING**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursement basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. INVESTMENTS AND INACTIVE FUNDS**

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments are valued at purchase cost. Interest earned is recognized and recorded when received. See Note 2 for further description.

**D. FUND ACCOUNTING**

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

**Governmental Fund Types:**

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

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – (continued)

D. **FUND ACCOUNTING** – (continued)

**Governmental Fund Types:** (continued)

**Special Revenue Funds:** To account for the proceeds of specific revenue sources that is legally restricted to disbursements for specified purposes. The Village had the following Special Revenue Funds:

*Fire Levy Fund-* This fund receives tax monies assessed and levied on general assessed valuation of real and personal property taxes for the operation of the volunteer fire department.

*Lighting Assessment Fund-* This fund receives special assessments for street lighting.

*Other Special Revenue Funds-* Various funds funded by the State and Federal Governments for a specific purpose.

**Fiduciary Fund Types:**

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

*Contractors' Deposits Fund-* This fund receives deposits from contractors doing business within the Village. When the work is completed an inspection fee is charged and if work is satisfactory the balance, if any, is returned to the contractor.

*Tenants' Deposits-* This fund receives deposits from tenants renting space the in Shaker House Building operation from the Village's Rental Operations Fund.

*Building Standards Assessment Fund-* This fund receives state surcharge fees which are paid to the State of Ohio.

**Proprietary Fund Type:**

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

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

E. **BUDGETARY PROCESS**

1. **Budget**

A budget of estimated cash receipts and disbursements is prepared by the Clerk/Treasurer, approved by Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 15 of each year, for the period January 1 to December 31 of the following year.

2. **Estimated Resources**

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

3. **Appropriations**

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

The legal level of budgetary control is at the fund level in all funds. Any budgetary modifications at this level may only be made by ordinance of the Village Council.

4. **Encumbrances**

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated. In the budgetary financial statements, encumbrances are added to budgetary expenditures and compared to current year appropriations plus prior year carry-over appropriations.

F. **PROPERTY, PLANT AND EQUIPMENT**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. **UNPAID VACATION AND SICK LEAVE**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave are not reflected as liabilities on the accompanying financial statements.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

H. TOTAL COLUMNS ON FINANCIAL STATEMENTS

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

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The Village maintains an investment sweep account with most cash invested when not needed to meet expenditures. They also maintain various other accounts and investment accounts. The Ohio Revised Code prescribes allowable deposits and investments.

The carrying amount of the Village's cash and investments at December 31 was as follows:

	<u>2003</u>	<u>2002</u>
Demand Deposits	\$ 56,538	\$ 52,342
Certificates of Deposit	100,904	-
Money Markets	199,500	-
Repurchase Agreements (sweep)	<u>259,232</u>	<u>689,632</u>
Total Deposits and Investments	616,174	741,974
Plus Mayor's Court Petty Cash	<u>200</u>	<u>200</u>
Total Deposits, Investments and Cash	<u>\$ 616,374</u>	<u>\$ 742,174</u>

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Clerk/Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

3. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35 percent of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2003.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amounts of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio and are reflected in the accompanying financial statements as Intergovernmental Receipts.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

3. **PROPERTY TAX** – (continued)

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

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

4. **NOTE DEBT**

The Village issued various purposes general obligation bond anticipation notes during 2002 and 2003. Debt activity for the years ended December 31, 2002 and 2003 consisted of the following:

Bond Anticipation Notes 3.36% -1.21% Various Purpose	January 1 Balance	Additions	Redemptions	December 31 Balance
2002	\$ 550,000	\$ 550,000	\$ 550,000	\$ 550,000
2003	550,000	495,000	550,000	495,000

5. **CERTIFICATES OF PARTICIPATION**

The Village of Highland Hills entered into certificates of participation in 1992 to be used to finance the acquisition of the Shaker House and its rehabilitation to be used as the Village municipal office building and a minimum security detention center, establish a debt service reserve fund (see Note 7), and pay costs incurred in connection with the execution and delivery of the certificates. The agreement was dated December 1, 1992 and is due December 1, 2013. Payments of principal during the audit were as follows:

	1/1/01 <u>Balance</u>	Paid <u>2002</u>	Paid <u>2003</u>	12/31/03 <u>Balance</u>
Certificates of Participation	\$ 1,475,000	80,000	85,000	\$ 1,310,000

Principal and interest requirements to retire long-term obligations outstanding as of December 31, 2003 are as follows:

Year	Principal	Interest	Total
2004	\$ 90,000	\$ 99,782	\$ 189,782
2005	100,000	92,613	192,613
2006	110,000	84,669	194,669
2007	115,000	76,144	191,144
2008	120,000	67,037	187,037
Subsequent	775,000	175,927	950,927
Total	<u>\$ 1,310,000</u>	<u>\$ 596,172</u>	<u>\$ 1,906,172</u>

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

**6. CAPITAL LEASE PURCHASES**

The Village entered into the following capital leases for equipment during the audit. The principal payments were as follows:

Description	12/31/01		Paid	12/31/03
	Balance	Additions	2002/2003	Balance
Street Sweeper	-	\$ 132,250	\$ 24,306	\$ 107,944
Four Police Cars	-	90,756	43,535	47,221
Police Vehicles, Copiers & a Ferris Cat Diesel	-	81,102	12,692	68,410
Pierce Fire Truck, Ambulance, 1968 Snorkel Fire Truck	-	75,000	25,164	49,836
<b>Total</b>	<b>-</b>	<b>\$ 379,108</b>	<b>\$ 105,697</b>	<b>\$ 273,411</b>

Principal and interest requirements to pay capital leases for equipment obligations outstanding as of December 31, 2003 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 89,597	\$ 10,163	\$ 99,760
2005	77,748	6,422	84,170
2006	50,189	3,799	53,988
2007	23,205	2,463	25,668
2008	21,487	1,338	22,825
2009	11,185	227	11,412
<b>Total</b>	<b>\$273,411</b>	<b>\$ 24,412</b>	<b>\$ 297,823</b>

**7. RESERVES, LEASE/LESSOR AND TAX LEVY ACCOUNTS AT JP MORGAN**

In accordance with the provisions of the certificates of participation for the purchase of the Shaker House, the Village is required to establish a debt service reserve fund. JP Morgan Institutional Trust Services, Trust Operations acts as agent for this fund plus they are the paying agent for the principal and interest payments. Two reserve fund accounts are maintained by JP Morgan. They are the Highland Hills – Debt Service Reserve Fund account and the Highland Hills – Liquidity Reserve Fund.

All income tax revenues collected for the Village are directly deposited into a Highland Hills – Tax Levy Account at JP Morgan. JP Morgan then transfers sufficient money monthly to the Highland Hills – Lease/Lessor Pay account to pay principal and interest on the leases. After the transfers for debt payment, the balance of the income tax monies are wire transferred to the Village’s bank account. Since debt payments are made twice a year, JP Morgan invests the money in the Highland Hills – Lease/Lessor Pay account until payment is due.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

7. **RESERVES, LEASE/LESSOR AND TAX LEVY ACCOUNTS AT JP MORGAN** – (continued)

The balances of the four accounts at JP Morgan are not included on the Village's financial statements. The balances of these accounts as of December 31, 2002 and 2003 are as follows:

<u>Highland Hills Accounts</u>	<u>Balance 12/31/2002</u>	<u>Balance 12/31/2003</u>
Tax Levy Account	\$ 225,823	\$ 74
Lease/Lessor Pay Account	132	17,184
Debt Service Reserve Fund Account	191,262	190,000
Liquidity Reserve Fund Account	<u>83,589</u>	<u>83,671</u>
 Total	 <u>\$ 500,806</u>	 <u>\$ 290,929</u>

8. **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 500 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 5% portion retained by the Plan. With policies effective September 1, 2003 and after, the Plan pays 5% of the casualty losses up to \$25,000 and 5% of the property losses up to \$50,000. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002 (the latest information available):

	<u>2003</u>	<u>2002</u>
Assets	\$5,402,167	\$5,584,592
Liabilities	<u>(1,871,123)</u>	<u>(2,441,793)</u>
Members' Equity	<u>\$3,531,044</u>	<u>\$3,142,799</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

9. **RETIREMENT SYSTEMS**

*Ohio Public Employees Retirement System (OPERS):*

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS), a state operated, cost sharing, multiple employer public employee retirement system. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. The 2003 and 2002 member contribution rates were 8.5%.

Contribution rates are prescribed by the Ohio Revised Code. For 2003 and 2002 members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of covered payroll. The Village paid \$164,035 and \$147,347 in contributions for 2003 and 2002, respectively, which represented 100% of required contributions.

*Ohio Police & Fire Pension Fund (OP&F):*

The Village contributes to the Ohio Police and Fire Pension (OP&F), a cost-sharing multiple-employer defined benefit plan. The plan provides retirement and disability benefits, including postretirement healthcare, survivor benefits to participants as prescribed by the Ohio Revised Code. The police officer 2003 and 2002 member contribution rates were 10%.

Contribution rates are prescribed by the Ohio Revised Code. For 2003 and 2002 members contributed 10% of their gross salaries. The Village contributed an amount equal to 19.5% of covered police officer payroll. The Village paid \$66,006 and \$68,282 in contributions for 2003 and 2002, respectively, which represented 100% of required contributions.

10. **CONTINGENT LIABILITIES**

The Village may be a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Legal Counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Village.

11. **INCOME TAX**

During 1998, the Village increased its levy on income tax from 2.0 to 2.5 percent on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village allows a 100 percent credit on the income earned outside the Village and paid to another municipality. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Central Collection Agency (CCA) at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. The tax is collected by CCA and remitted by direct deposits into the Highland Hills Tax Levy Account at JP Morgan (see Note 7) monthly. Income tax revenue is credited entirely to the General Fund.



**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2003 and 2002**

**12. LEGAL COMPLIANCE**

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

**Charles E. Harris & Associates, Inc.**  
*Certified Public Accountants*

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Village of Highland Hills, Cuyahoga County, Ohio (the Village) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated May 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003 - HHills - 007 and 2003 - HHills - 008.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all reportable conditions described to be material weaknesses.

We also noted certain additional internal control matters that we reported to management of the Village in a separate letter dated May 27, 2005.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003 - HHills – 001 through 2003 – Hhills – 006.

We also noted certain additional matters that we reported to management of the Village in a separate letter dated May 27, 2005.

This report is intended solely for the information and used of the finance committee, management, and Village Council and is not intended to be and should not be used by anyone other than these specified parties.

*Charles E. Harris & Associates, Inc.*  
Certified Public Accountants  
May 27, 2005

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003 - HHills - 001**

*Noncompliance Citation*

**Fund Deficit Balances**

Section 5705.10 of the Revised Code provides that money paid into any fund shall be used only for the purposes for which the fund was established. As of December 31, 2002 and 2003, the following funds had deficit cash balances. These deficit balances indicated that money from other funds have been used to pay the obligations of these funds. The Village failed to transfer monies to cover the deficits.

The following funds had deficit cash balances and/or deficit unencumbered balances:

<u>2002</u>	<u>2003</u>
Special Revenue Funds:	Special Revenue Funds:
Fire Levy Fund	Fire Levy Fund
Motor Vehicle Tax Fund	Motor Vehicle Tax Fund
All CDBG Funds	
Enterprise Zone Report Fund	
Agency Funds:	
Building Standards Assessment Fund	

**Recommendation**

We recommend that the Village determine the cost and method of financing any program prior to inception of the program. The Village should transfer or advance monies from the General Fund to the other funds to cover the deficits with the approval of Council.

**FINDING NUMBER 2003 - HHills - 002**

*Noncompliance Citation*

**Timely Filing of Financial Statements**

Section 117.38 of the Ohio Revised Code provides that an annual financial report shall be filed with the Auditor of State within sixty days after the close of the fiscal year. The section also states that at the time the report is filed with the Auditor of State, the fiscal officer must publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such paper, then in a newspaper of general circulation in the political subdivision or taxing district, that the report has been completed and is available for public inspection at the office of the fiscal officer.

These requirements were not met for 2003. The report was dated July 31, 2004. Pursuant to Ohio Revised Code Section 117.38, the Village may be fined and subject to various other administrative remedies for its failure to file the required financial report.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF FINDINGS – (Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003 - HHills – 002 – (continued)**

*Noncompliance Citation – (continued)*

**Recommendation**

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

**FINDING NUMBER 2003 - HHills - 003**

*Noncompliance Citation*

**Expenditures, Outstanding Encumbrances and Appropriations**

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making any expenditure of money unless it has been lawfully and properly appropriated.

The following funds had expenditures or expenditures and outstanding encumbrances that exceeded appropriations:

**2002**

General Fund

Special Revenue Funds:

Motor Vehicle Tax Fund

Tree Grant Fund

ADA Handicapped Fund

Enterprise Zone Fund

Enterprise Park Fund

CDBG – 2002 External Home Maintenance Fund

**2003**

General Fund

Special Revenue Funds:

Fire Levy Fund

Motor Vehicle Tax Fund

Transition Assessment Fund

COPS Grant Fund

Enterprise Zone Fund

Enterprise Park Fund

CDBG Home Maintenance Fund

CDBG Home Program Fund

CDBG – 2002 External Home Maintenance Fund

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF FINDINGS – (Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003 - HHills – 003 – (continued)**

*Noncompliance Citation – (continued)*

**Recommendations**

It is recommended that the Village review appropriations and expenditures each month to determine if appropriations need to be increased. Then, if additional revenues have been received, the Village should file for an amended certificate of estimated resources with the county and pass an ordinance to increase appropriations. At that point, the fiscal officer can issue purchase orders with their certificate and make expenditures with the increased revenue.

**FINDING NUMBER 2003 - HHills - 004**

*Noncompliance Citation*

**Appropriation Amendments**

Ohio Revised Code Section 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations. Transfers may be made by resolution or ordinance from one appropriation item to another.

During 2002 no amendments were made, though the Village passed an amendment in May of 2003 to amend 2002's appropriations. No amendments were made for the year ending 2003.

**Recommendation**

It is recommended that the Village amend their appropriation in a timely manner. Appropriations must be amended prior to the certification of the fiscal officer and the encumbering and expenditure of the Village funds.

**FINDING NUMBER 2003 - HHills - 005**

*Noncompliance Citation*

**Clerk's Certificate and Expenditures**

Ohio Revised Code Section 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached. The fiscal officer must certify that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to the basic requirement stated above, one of which is provided for in section 5705.41(D)(1) of the Revised Code.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF FINDINGS – (Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003 - HHills – 005 – (continued)**

*Noncompliance Citation – (continued)*

**“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 she is completing her 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 such certificate to approve payment by resolution or ordinance. If approval is not made within thirty days, there is no legal liability on the part of the Village.

Amounts less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

During our test of expenditures and budgetary procedures we found instances of expenditures being made without the fiscal officer’s certificate, 8% of items tested had expenditure and encumbrances made without appropriation, and there was no evidence that Village Council approved payments of bills each month. There was also no evidence that Village Council received monthly financial reports. 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 that the Clerk-Treasurer certify that the 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.

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 5704.41(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.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF FINDINGS – (Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003 - HHills - 006**

*Noncompliance Citation*

**Transfers**

Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16 set out the requirements for transfer of funds. Ohio Revised Code Section 5705.14 indicates that before an interfund transfer can be made from the General Fund, a resolution of the taxing authority of the subdivision shall be passed by a majority of the governing board. *See also* 1989 Op. Atty. Gen. No. 89-075 (Ohio Revised Code Section 5705.14(E) had been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds).

Additionally, an enterprise fund is financed and operated in a manner similar to private sector business enterprises where the intent is that the costs of providing goods and services to the general public on a continuing basis is financed or recovered primarily through user charges.

We noted the following issues with transfers:

1. The only approvals of transfers between funds were the annual appropriation resolution and these amounts did not always equal the total transfers out. Various other transfers made during both years were not approved by Council.
2. A transfer was made during 2003 from the Rental Operations Fund (enterprise fund) to the General Fund for expenditures paid from the General Fund. By expending costs from the General Fund and transferring revenue from the Rental Operations Fund to cover those costs, the Village is not presenting true cost of operations in the enterprise fund.
3. The practice of expending money in the general fund for costs of other funds has been a continuing practice. Transfers were made from COPS Grant Fund, Motor Vehicle Tax Fund, Lighting Assessment Fund to the General Fund for cost expenses in the General Fund.

The following procedures should be followed procedures should be followed:

- It is recommended that all transfers be made by a separate resolution, passed by Council pursuant to the aforementioned code sections.
- Rental Operations Fund (Shaker House) expenditures should be disbursed out of the Enterprise Fund and related revenues should be recorded in this fund. Also, utility costs should be proportionately allocated with respect to amount of space and usage relative to its proper fund.
- Expenditures for all Special Revenue Funds should be made from the Special Revenue Funds. If this is a problem at the time of expenditure, instead of transferring the money, the Village should break out the costs attributed to the Special Revenue Funds at a later date and move the expenditures to the correct funds.



**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF FINDINGS** – (Continued)

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003 - HHills - 007**

*Material Weakness/Internal Control*

**Monthly Bank Recommendations**

The Village does not prepare monthly bank reconciliations on its cash accounts. Without preparing timely bank reconciliations, the Village's cash balance may be incorrect.

**Recommendation**

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

**FINDING NUMBER 2003 - HHills - 008**

*Material Weakness/Internal Control*

**Posting**

We noted in our testing and review of the ledgers that some cash receipts, disbursements and payroll items were not posted correctly into the accounting system. It was specifically noted that while tax settlements were posted at gross amounts, the deductions were not posted until the end of the year and not all of the deductions were posted. This practice causes the records to be out of balance and shows that the Village is not reconciling its records in a timely manner.

**Recommendation**

In order to make the financial information and reports generated by the accounting system as meaningful as possible, the Village should reconcile the accounts for cash receipts, disbursements, and payroll to their corresponding supporting documentation on a monthly basis. The benefit of monthly reconciliations is that posting errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY, OHIO  
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2001/2000-1	Ohio Rev. Code Section 5705.10 – Revenue derived from the general levy for a current expense	No	Not Corrected. Reissued as 2003 – HHills - 001
2001/2000-1	Material Weakness – Bank reconciliations were not performed during the audit period	No	Not Corrected. Reissued as 2003 – HHills - 007
2001/2000-2	Ohio Rev. Code Section 117.38 – Timely filing of financial statements	No	Not corrected. Reissued as 2003 – Hhills - 002.
2001/2000-3	Material Weakness – Errors in check register	Yes	Finding No Longer Valid.



**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**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  
SEPTEMBER 6, 2005**