

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

***AUDIT REPORT***

***FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004***

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





Mary Taylor, CPA  
Auditor of State

Village Council  
Village of Highland Hills  
3700 Northfield Road  
Highland Hills, Ohio 44122

We have reviewed the *Independent Auditors' Report* of the Village of Highland Hills, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2005. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 1, 2007

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**VILLAGE OF HIGHLAND HILLS**  
**CUYAHOGA COUNTY, OHIO**  
**Audit Report**  
**For the Years Ended December 31, 2005 and 2004**

**TABLE OF CONTENTS**

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1 - 2
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types – For the Years Ending December 31, 2005 and 2004	3 – 4
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Proprietary and Fiduciary Fund Types – For the Years Ending December 31, 2005 and 2004	5 – 6
Notes to the Financial Statements	7 – 15
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16 – 17
Schedule of Findings	18 – 23
Schedule of Prior Audit Findings	24

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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the Village Council:

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, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Highland Hills, Cuyahoga County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2006, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Charles E. Harris & Associates, Inc.*  
October 24, 2006



**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, 2005**

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>RECEIPTS</b>				
Property and Income Taxes	\$ 2,769,702	\$ 39,319	-	\$ 2,809,021
Intergovernmental Revenue	132,677	91,493	-	224,170
Special Assessments	-	38,202	-	38,202
Charges for Services	205,964	-	-	205,964
Fines, Licenses and Permits	213,740	-	-	213,740
Investment Income	10,347	-	-	10,347
Miscellaneous	35,091	-	-	35,091
<b>Total Receipts</b>	<b>3,367,521</b>	<b>169,014</b>	<b>-</b>	<b>3,536,535</b>
<b>DISBURSEMENTS</b>				
Security of Persons/Property	902,204	212,160	-	1,114,364
Basic Utility Services	171,293	-	-	171,293
Transportation	167,157	-	-	167,157
Community Environment	614,265	8,326	-	622,591
General Government	1,289,221	-	-	1,289,221
Capital Outlay	-	-	\$ 77,676	77,676
Debt Service:				
Principal Retirement	585,000	-	-	585,000
Interest and Fiscal Charges	15,761	-	144,752	160,513
<b>Total Disbursements</b>	<b>3,744,901</b>	<b>220,486</b>	<b>222,428</b>	<b>4,187,815</b>
Excess of Receipts Over (Under) Disbursements	(377,380)	(51,472)	(222,428)	(651,280)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Notes	495,000	-	-	495,000
Proceeds from Sale of Bonds	217,213	-	937,787	1,155,000
Transfers-in	-	160,430	-	160,430
Transfers-out	(160,430)	-	-	(160,430)
Other Financing Sources	357,734	-	-	357,734
Discount on Sale of Bonds	-	-	(9,036)	(9,036)
<b>Total Other Financing Sources (Uses)</b>	<b>909,517</b>	<b>160,430</b>	<b>928,751</b>	<b>1,998,698</b>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	532,137	108,958	706,323	1,347,418
Fund Cash Balance, January 1, 2005	(122,769)	24,852	-	(97,917)
<b>Fund Cash Balance, December 31, 2005</b>	<b>\$ 409,368</b>	<b>\$ 133,810</b>	<b>\$ 706,323</b>	<b>\$ 1,249,501</b>
Reserves for Encumbrances, December 31, 2005	\$ 204,360	\$ 64,547	\$ -	\$ 268,907

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, 2004**

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>RECEIPTS</b>			
Property and Income Taxes	\$ 2,456,927	\$ 34,706	\$ 2,491,633
Intergovernmental Revenue	118,477	10,863	129,340
Special Assessments	-	41,753	41,753
Charges for Services	16,193	-	16,193
Fines, Licenses and Permits	187,326	-	187,326
Investment Income	3,859	-	3,859
Miscellaneous	98,673	-	98,673
<b>Total Receipts</b>	<b>2,881,455</b>	<b>87,322</b>	<b>2,968,777</b>
<b>DISBURSEMENTS</b>			
Security of Persons/Property	814,577	219,142	1,033,719
Basic Utility Services	191,991	-	191,991
Transportation	174,848	-	174,848
Community Environment	672,961	21,355	694,316
General Government	1,202,019	-	1,202,019
Debt Service:			
Principal Retirement	495,000	-	495,000
Interest and Fiscal Charges	6,072	-	6,072
<b>Total Disbursements</b>	<b>3,557,468</b>	<b>240,497</b>	<b>3,797,965</b>
Excess of Receipts Over (Under) Disbursements	(676,013)	(153,175)	(829,188)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Sale of Notes	585,000	-	585,000
Transfers-in	-	156,744	156,744
Transfers-out	(156,744)	-	(156,744)
<b>Total Other Financing Sources (Uses)</b>	<b>428,256</b>	<b>156,744</b>	<b>585,000</b>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(247,757)	3,569	(244,188)
Fund Cash Balance, January 1, 2004	124,988	21,283	146,271
Fund Cash Balance, December 31, 2004	<u>\$ (122,769)</u>	<u>\$ 24,852</u>	<u>\$ (97,917)</u>
Reserves for Encumbrances, December 31, 2004	<u>\$ 125,126</u>	<u>\$ 11,263</u>	<u>\$ 136,389</u>

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, 2005**

	<u>Proprietary Fund Type</u> Enterprise Fund	<u>Fiduciary Fund Type</u> Agency Fund
<b>OPERATING RECEIPTS</b>		
Charges for Services	\$ 471,180	-
Fines and Court Costs	-	\$ 166,479
Deposits	-	19,395
Miscellaneous	43,243	-
	<u>514,423</u>	<u>185,874</u>
<b>OPERATING DISBURSEMENTS</b>		
Personal Services	194,939	-
Contractual Services	154,656	-
Materials and Supplies	9,818	-
Distribution of Fines and Costs	-	166,479
Debt Service:		
Principal Retirement	1,219,798	-
Interest and Fiscal Charges	341,391	-
	<u>1,920,602</u>	<u>166,479</u>
Excess of Operating Receipts Over (Under) Operating Disbursements	(1,406,179)	19,395
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>		
Refund of Deposits	-	(63,680)
Sale of Bonds	1,410,000	-
Discount on Sale of Bonds	(7,342)	-
	<u>1,402,658</u>	<u>(63,680)</u>
Net Income/(Loss)	(3,521)	(44,285)
Fund Cash Balance, January 1, 2005	<u>47,658</u>	<u>273,278</u>
Fund Cash Balance, December 31, 2005	<u>\$ 44,137</u>	<u>\$ 228,993</u>
Reserves for Encumbrances, December 31, 2005	<u>\$ 25,053</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, DISBURSEMENTS AND  
 CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Fiduciary Fund Type Agency Fund</u>
<b>OPERATING RECEIPTS</b>		
Charges for Services	\$ 453,380	-
Fines and Court Costs	-	\$ 160,008
Deposits	-	44,827
Miscellaneous	20,987	200
	<u>474,367</u>	<u>205,035</u>
<b>OPERATING DISBURSEMENTS</b>		
Personal Services	196,997	-
Contractual Services	63,134	-
Materials and Supplies	9,819	-
Distribution of Fines and Costs	-	160,008
Debt Service:		
Principal Retirement	90,202	-
Interest and Fiscal Charges	98,430	-
	<u>458,582</u>	<u>160,008</u>
Excess of Operating Receipts Over (Under) Operating Disbursements	15,785	45,027
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>		
Refund of Deposits	-	<u>(209,979)</u>
Net Income/(Loss)	15,785	(164,952)
Fund Cash Balance, January 1, 2004	<u>31,873</u>	<u>438,230</u>
Fund Cash Balance, December 31, 2004	<u>\$ 47,658</u>	<u>\$ 273,278</u>
Reserves for Encumbrances, December 31, 2004	<u>\$ 9,957</u>	<u>\$ 1,000</u>

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, 2005 and 2004**

**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**

The provisions of the Ohio Revised Code restrict investment procedures. 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.

**Special Revenue Funds:** To account for the proceeds of specific revenue sources that are 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.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004

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

D. **FUND ACCOUNTING** – (continued)

**Governmental Fund Types:** (continued)

**Special Revenue Funds:** (continued)

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

**Capital Project Funds:** To account for the financial resources to be used for the acquisition or construction of major capital facilities.

*Municipal Complex Renovation Fund-* This fund will fund the renovation of the Shaker House municipal complex areas.

**Fiduciary Fund Types:**

**Agency Funds:** To account for assets held on behalf of outside parities, 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 in the 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.

*Mayor's Court Fund-* This fund is use to account for financial activity in the Mayor's Court.

**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.

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.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

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

**E. BUDGETARY PROCESS – (continued)**

**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 year without being re-appropriated. In Note 9, encumbrances are added to budgetary expenditures and compared to current year appropriations plus prior year carry-over appropriations.

A summary of 2005 and 2004 budgetary activity appears in Note 9.

**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.

**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.

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY, OHIO  
 Notes to the Financial Statements  
 For the Years Ended December 31, 2005 and 2004**

**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:

	2005	2004
Demand Deposits	\$ 69,557	\$ (4,447)
Certificates of Deposit	802,719	101,032
Money Markets	253,432	126,234
Repurchase Agreements (sweep)	396,723	-
Total Deposits and Investments	1,522,431	222,819
Plus Mayor's Court Petty Cash	200	200
Total Deposits, Investments and Cash	\$ 1,522,631	\$ 223,019

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 TAXES**

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.

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.



**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY, OHIO  
 Notes to the Financial Statements  
 For the Years Ended December 31, 2005 and 2004**

**4. NOTE DEBT**

The Village issued various purposes general obligation bond anticipation notes during 2005 and 2004. Debt activity for the years ended December 31, 2005 consisted of the following:

Bond Anticipation Notes 5% - 3.36% Various Purpose	January 1, 2004 Balance	Additions	Redemptions	December 31, 2005 Balance
Bond Anticipation Note	\$ 495,000	\$ 990,000	\$ 990,000	\$ 495,000
Bond Anticipation Note	-	90,000	90,000	-

**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 was due December 1, 2013. In 2005, the Village sold bonds to pay off the Certificate of Participation and to fund renovations of the Village's municipal office building. Payments of principal during the audit were as follows:

	1/1/04 <u>Balance</u>	Paid <u>2004</u>	Paid <u>2005</u>	12/31/05 <u>Balance</u>
Certificates of Participation	\$ 1,310,000	90,202	1,219,798	\$ -

**6. CAPITAL LEASE PURCHASES**

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

<u>Description</u>	12/31/04 <u>Balance</u>	<u>Additions</u>	<u>Paid</u>	12/31/05 <u>Balance</u>
Street Sweeper	\$ 107,944	\$ -	\$ 35,614	\$ 72,330
Four Police Cars	47,221	-	47,221	-
Police Vehicles, Copiers & Ferris Cat Diesel	68,410	-	54,040	14,370
Pierce Fire Truck, Ambulance, 1968	49,836	-	30,470	19,366
Snorkel Fire Truck	-	47,500	15,308	32,192
Passenger Bus	-	-	-	-
<b>Total</b>	<b>\$ 273,411</b>	<b>\$ 47,500</b>	<b>\$ 182,653</b>	<b>\$ 138,258</b>

The disbursements of principal and interest are reflected in the appropriate functional disbursement line item.

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY, OHIO  
 Notes to the Financial Statements  
 For the Years Ended December 31, 2005 and 2004**

**6. CAPITAL LEASE PURCHASES – (continued)**

Principal and interest requirements to pay capital leases for equipment obligations outstanding as of December 31, 2005 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 59,550	\$ 5,873	\$ 65,423
2007	33,039	3,435	36,474
2008	31,820	1,793	33,613
2009	13,849	261	14,110
<b>Total</b>	<b>\$ 138,258</b>	<b>\$ 11,362</b>	<b>\$ 149,620</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. JP Morgan maintains two reserve fund accounts. 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 payments, the balances 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.

With the sale of the bond issue the certificates of participation were paid off, but JP Morgan Institutional Trust Services, Trust Operations, handles the payment of the bonds. The old accounts were closed with their balances transferred to the Village and new accounts were opened to pay principal, interest, collect income tax and an account for capitalized interest.

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, 2005 and 2004 are as follows:

<u>Highland Hills Accounts</u>	<u>Balance 12/31/2005</u>	<u>Balance 12/31/2004</u>
Lease/Lessor Pay Account	\$ -	\$ 17,102
Debt Service Reserve Fund Account	-	190,000
Liquidity Reserve Fund Account	-	84,033
Capitalized Interest Fund	99,011	-
Tax Principal Payments	5	-
Interest Payments	18,156	-
Tax Levy Account	45	-
<b>Total</b>	<b>\$ 117,217</b>	<b>\$ 291,135</b>

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY, OHIO  
 Notes to the Financial Statements  
 For the Years Ended December 31, 2005 and 2004**

**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, 2005 and 2004 (the latest information available):

	<u>2005</u>	<u>2004</u>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</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).

**9. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2004 is as follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,938,003	\$4,437,468	\$1,499,465
Special Revenue	201,463	329,444	127,981
Capital Projects	-	937,787	937,787
Enterprise	510,000	1,924,423	1,414,423
<b>Total</b>	<b>\$3,649,466</b>	<b>\$7,629,122</b>	<b>\$3,979,656</b>

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,962,515	\$4,109,691	\$(147,176)
Special Revenue	254,147	285,033	(30,886)
Capital Projects	144,752	231,464	(86,712)
Enterprise	524,380	1,952,997	(1,428,617)
<b>Total</b>	<b>\$4,885,794</b>	<b>\$6,579,185</b>	<b>\$(1,693,391)</b>

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY, OHIO  
 Notes to the Financial Statements  
 For the Years Ended December 31, 2005 and 2004**

**9. BUDGETARY ACTIVITY – (continued)**

<u>Fund Type</u>	<u>2004 Budgeted vs. Actual Receipts</u>		<u>Variance</u>
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	
General	\$4,249,243	\$3,466,455	\$(782,788)
Special Revenue	330,084	244,066	(86,018)
Enterprise	529,000	474,367	(54,633)
<b>Total</b>	<b>\$5,108,327</b>	<b>\$4,184,888</b>	<b>\$(923,439)</b>

<u>Fund Type</u>	<u>2004 Budgeted vs. Actual Budgetary Basis Expenditures</u>		<u>Variance</u>
	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	
General	\$4,324,906	\$3,839,338	\$485,568
Special Revenue	269,729	251,760	17,969
Enterprise	522,958	468,539	54,419
<b>Total</b>	<b>\$5,117,593</b>	<b>\$4,559,637</b>	<b>\$557,956</b>

**10. 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 2005 and 2004 member contribution rates were 8.5%.

The Ohio Revised Code prescribes contribution rates. For 2005 and 2004, members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of covered payroll. The Village paid \$146,408, \$153,493, and \$164,035 in contributions for 2005, 2004, and 2003 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 Ohio Revised Code prescribes contribution rates. For 2005 and 2004, members contributed 10% of their gross salaries. The Village contributed an amount equal to 19.5% of covered police officer payroll. The Village paid \$75,585, \$67,984, and \$66,006 in contributions for 2005, 2004 and 2003 respectively, which represented 100% of required contributions.

**VILLAGE OF HIGHLAND HILLS  
 CUYAHOGA COUNTY, OHIO  
 Notes to the Financial Statements  
 For the Years Ended December 31, 2005 and 2004**

**11. CONTINGENT LIABILITIES/SUBSEQUENT EVENTS**

Management believes there are no pending claims or lawsuits.

**12. 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 income 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.

**13. BONDED DEBT**

On October 18, 2005, the Village of Highland Hills issued \$2,565,000 Building Improvement and Refunding Bonds to pay the costs of acquiring and equipping the Village municipal building, renovating and constructing and reconstructing improvements. The bonds have the interest rates of 3.250 to 4.375 percent, and mature in 2025.

The refunding portion of this bond issued was to pay off the certificate of participation which was use to purchase the Shaker House. See Note 5.

The annual maturities of the Building Improvement and Refunding Bonds as of December 31, 2005, and related interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2006	\$ -	\$ 114,761	\$ 114,761
2007	100,000	102,516	202,516
2008	110,000	99,267	209,267
2009	110,000	95,416	205,416
2010	110,000	91,566	201,566
2011-2015	630,000	390,494	1,020,494
2016-2020	765,000	255,915	1,020,915
2021-2025	740,000	86,070	826,070
<b>Total</b>	<b><u>\$ 2,565,000</u></b>	<b><u>\$ 1,236,005</u></b>	<b><u>\$ 3,801,005</u></b>

**14. 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 this report under a separate part of this presentation.

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

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**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**

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

To the Village Council:

We have audited the financial statements of the Village of Highland Hills, Cuyahoga County, (the Village) as and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated October 24, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Controls 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 opinions 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 of Highland Hills's ability to initiate, record, process, 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 2005-HHills-005 and 2005-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 the 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 of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the Village in a separate letter dated October 24, 2006.

### 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, grant agreements, and other matters 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 2005-HHills-001 through 2005-HHills-007.

We also noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated October 24, 2006.

This report is intended solely for the information and use of 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.*  
October 24, 2006

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

SCHEDULE OF FINDINGS

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

FINDING NUMBER 2005 - 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, 2004 and 2005, 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>2004</u>	<u>2005</u>
General Fund	Special Revenue Funds:
Special Revenue Funds:	CDBG – 2002 External Home Maintenance Fund
Fire Levy Fund	Agency Fund
CDBG – 2002 External Home Maintenance Fund	Tenants' Deposits
Agency Fund:	
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.

Village's Course of Action

The fiscal officers of the Village of Highland Hills, Clerk Treasurer (elected) and Director of Finance (appointed) will make all practicable efforts to comply with the aforementioned recommendation for this citation.

FINDING NUMBER 2005 - 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 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.

The financial reports for 2004 and 2005 were filed on 8/31/06 and 9/10/06, respectively. We also noted that the Village did not publish a notice in newspaper to inform the public that the report has been completed and is available for public inspection. 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. A similar comment was noted in the prior year audit.



VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

SCHEDULE OF FINDINGS – (Continued)

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

FINDING NUMBER 2005 - HHills – 002 – (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 reconciliation's and general ledger account analysis.

Village's Course of Action

The fiscal officers of the Village of Highland Hills, Clerk Treasurer (elected) and Director of Finance (appointed) will make all practicable efforts to comply with the aforementioned recommendation for this citation.

FINDING NUMBER 2005 - 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:

<u>2005</u>	
General Fund	\$ 147,176
Special Revenue Funds:	
Fire Levy Fund	1,405
Marcs Grant Fund	55,716
Capital Project Fund:	
Municipal Complex Renovation Fund	86,713
Enterprise Fund:	
Rented Operations Fund	1,428,617
<u>2004</u>	
Special Revenue Funds:	
CDBG 2002 External Home Maintenance Fund	\$ 11,875

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. A similar comment was noted in prior year's audit.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

SCHEDULE OF FINDINGS – (Continued)

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

FINDING NUMBER 2005 - HHills – 003 – (continued)

Village's Course of Action

The fiscal officers of the Village of Highland Hills, Clerk Treasurer (elected) and Director of Finance (appointed) will make all practicable efforts to comply with the aforementioned recommendation for this citation.

FINDING NUMBER 2005 - 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 2004 no amendments were passed, and in 2005 only one amendment was passed. At the end of each year there were several funds with expenditures and/or outstanding encumbrances that exceeded their appropriations.

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.

Village's Course of Action

The fiscal officers of the Village of Highland Hills, Clerk Treasurer (elected) and Director of Finance (appointed) will make all practicable efforts to comply with the aforementioned recommendation for this citation.

FINDING NUMBER 2005 - HHills - 005

*Noncompliance Citation and Material Weakness*

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, 2005 AND 2004

SCHEDULE OF FINDINGS – (Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005 - HHills – 005 – (continued)

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

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

2. Blanket Certificates - Fiscal officers may prepare “blanket” certificates for a certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of members of the legislative authority against any specific line item amount over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificates – The Village may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most profession services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During our test of expenditures and budgetary procedures, we found instances of expenditures being made without the Clerk-Treasurer’s certification: out of 60 expenditures tested, seven purchase orders (16%) were issued after the invoice date, 24 (40%) were not properly dated, and 10 (22%) were not certified by the Clerk-Treasurer. 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 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Village’s Course of Action

The fiscal officers of the Village of Highland Hills, Clerk Treasurer (elected) and Director of Finance (appointed) will make all practicable efforts to comply with the aforementioned recommendation for this citation.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

SCHEDULE OF FINDINGS – (Continued)

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

FINDING NUMBER 2005 - 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).

We noted that the only approvals of transfers between funds were the annual appropriation resolution and these amounts did not always equal the total transfers out. Council did not approve various other transfers made during both years.

It is recommended that all transfers be made by a separate resolution, passed by Council pursuant to the aforementioned code sections.

Village's Course of Action

The fiscal officers of the Village of Highland Hills, Clerk Treasurer (elected) and Director of Finance (appointed) will make all practicable efforts to comply with the aforementioned recommendation for this citation.

FINDING NUMBER 2005 - HHills - 007

*Noncompliance Citation*

Appropriations vs. Total Estimated Resources

Ohio Revised Code Section 5705.39 states that the total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The following funds had appropriations that exceeded the total estimated resources during 2005.

<u>2005</u>	<u>Amount</u>
General Fund	\$1,147,281
Special Revenue Funds:	
Lighting Assessment Fund	27,000
CDBG 2002 Home Exterior Program Fund	8,125
Capital Project Fund:	
Municipal Renovation Fund	144,752

We recommend the Village monitor appropriations versus estimated resources to avoid overspending.

Village's Course of Action

The fiscal officers of the Village of Highland Hills, Clerk Treasurer (elected) and Director of Finance (appointed) will make all practicable efforts to comply with the aforementioned recommendation for this citation.

VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

SCHEDULE OF FINDINGS – (Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005 - HHills - 008

*Material Weakness*

Monthly Bank Recommendations

The Village does not prepare monthly bank reconciliation's on its cash accounts. Without preparing timely bank reconciliation, the Village's cash balance may be incorrect. Timely preparation of complete and accurate bank reconciliation's is 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 more recent. We recommend that bank reconciliations be performed monthly and that the Finance Director review the reconciliation.

The Village currently employs a CPA firm to reconcile the books and do a proof of cash for each month. This procedure is not up-to-date, but will be in the near future. The Finance Director makes adjustments at the end of each year for all items found by the CPA firm. It is further recommended that the Finance Director post adjustments each month instead of waiting until the end of the year.

Village's Course of Action

The fiscal officers of the Village of Highland Hills, Clerk Treasurer (elected) and Director of Finance (appointed) will make all practicable efforts to comply with the aforementioned recommendation for this material weakness.

**VILLAGE OF HIGHLAND HILLS  
CUYAHOGA COUNTY, OHIO  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected; Partially Corrected; Significantly Defferent Corrective Action Taken; or finding no longer Valid; Explain:</b>
2003 - HHills - 001	Ohio Rev. Code Section 5705.10 - Deficit Fund Balances	No	Not Corrected. Reissued 2005 - HHills - 001
2003 - HHills - 002	Ohio Rev. Code Section 117.38 - Late filing of Annual Financial Report	No	Not Corrected. Reissued 2005 - HHills - 002
2003 - HHills - 003	Ohio Rev. Code Section 5704.41(B) - Expenditures and Outstanding Encumbrances Exceed Appropriations	No	Not Corrected. Reissued 2005 - HHills - 003
2003 - HHills - 004	Ohio Rev. Code Section 5705.40 - Amending Appropriations	No	Not Corrected. Reissued 2005 - HHills - 004
2003 - HHills - 005	Ohio Rev. Code Section 5705.41(D)(1) - Clerk's Certificate	No	Not Corrected. Reissued 2005 - HHills - 005
2003 - HHills - 006	Ohio Rev. Code Sections 5705.14, 5705.15, & 5705.16 - Transfers Between Funds	No	Not Corrected. Reissued 2005 - HHills - 006
2003 - HHills - 007	Material Weakness - Books Not Reconciled Monthly	No	Not Corrected. Reissued 2005 - HHills - 007
2003 - HHills - 008	Material Weakness - Posting Errors	No	Partially Corrected Moved to Management Letter



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF HIGHLAND HILLS**  
**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**MARCH 15, 2007**