



Dave Yost • Auditor of State

VILLAGE OF HIGGINSPO
BROWN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Unclassified Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2011	5
Combined Statement of Cash Receipts, Unclassified Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2011	6
Combined Statement of Cash Receipts, Unclassified Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2010	7
Combined Statement of Cash Receipts, Unclassified Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2010	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings	25

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Dave Yost • Auditor of State

Village of Higginsport
Brown County
204 Jackson Street
PO Box 121
Higginsport, Ohio 45131

To the Village Council:

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 16, 2013

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Higginsport
Brown County
204 Jackson Street
PO Box 121
Higginsport, Ohio 45131

To the Village Council:

We have audited the accompanying financial statements of the Village of Higginsport, Brown County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010. 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.

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

The accompanying financial statements present partially classified receipts and unclassified expenditures. Ohio Administrative Code 117-2-02(A) requires governments to classify receipt and disbursement transactions.

The Village did not provide sufficient evidence supporting traffic citations issued by the Village police for the Mayor's Court during 2011 and 2010, which are recorded as Nonoperating Receipts in the Agency Fund and as Fines, Licenses, and Permits in the General Fund. Without a full accountability over the citations issued, we could not assure ourselves regarding the completeness of the receipts through other auditing procedures. Mayor's Court receipts represent 100% of the Nonoperating Receipts in the Agency Fund Type, and accounted for 10% and 25%, respectively, of total Cash Receipts collected by the Village's General Fund during 2011 and 2010.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 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, 2011 and 2010, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, because of the effects of the matter referred to in paragraphs three through four, the financial statements referred to above do not present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 of the Village of Higginsport, Brown County, Ohio, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 the Village of Higginsport adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

January 16, 2013

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, UNCLASSIFIED DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$9,117	\$20,084	\$29,201
Intergovernmental	6,857	30,186	37,043
Fines, Licenses and Permits	2,332	30,000	32,332
Earnings on Investments	61		61
Miscellaneous	4,368	375	4,743
<i>Total Cash Receipts</i>	<u>22,735</u>	<u>80,645</u>	<u>103,380</u>
Cash Disbursements			
Unclassified Disbursements	<u>20,103</u>	<u>72,921</u>	<u>93,024</u>
<i>Total Cash Disbursements</i>	<u>20,103</u>	<u>72,921</u>	<u>93,024</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>2,632</u>	<u>7,724</u>	<u>10,356</u>
<i>Net Change in Fund Cash Balances</i>	2,632	7,724	10,356
<i>Fund Cash Balances, January 1</i>	<u>2,607</u>	<u>21,384</u>	<u>23,991</u>
Fund Cash Balances, December 31			
Restricted	0	29,108	29,108
Unassigned (Deficit)	<u>5,239</u>		<u>5,239</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$5,239</u></u>	<u><u>\$29,108</u></u>	<u><u>\$34,347</u></u>

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

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, UNCLASSIFIED DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Types	Fiduciary Fund Typ	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$65,670		\$65,670
Fines, Licenses and Permits		\$1,221	1,221
<i>Total Operating Cash Receipts</i>	<u>65,670</u>	<u>1,221</u>	<u>66,891</u>
Operating Cash Disbursements			
Unclassified Disbursements	71,182	2,336	73,518
<i>Total Operating Cash Disbursements</i>	<u>71,182</u>	<u>2,336</u>	<u>73,518</u>
<i>Operating Income (Loss)</i>	<u>(5,512)</u>	<u>(1,115)</u>	<u>(6,627)</u>
Non-Operating Receipts (Disbursements)			
Property and Other Local Taxes	10,282		10,282
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>10,282</u>	<u>0</u>	<u>10,282</u>
<i>Net Change in Fund Cash Balances</i>	4,770	(1,115)	3,655
<i>Fund Cash Balances, January 1</i>	<u>15,857</u>	<u>1,115</u>	<u>16,972</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$20,627</u></u>	<u><u>\$0</u></u>	<u><u>\$20,627</u></u>

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

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH UNCLASSIFIED DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$9,315	\$21,457	\$30,772
Intergovernmental	7,232	29,029	36,261
Charges for Services		33,882	33,882
Fines, Licenses and Permits	6,448		6,448
Earnings on Investments	48		48
Miscellaneous	3,309	1,500	4,809
	<u>26,352</u>	<u>85,868</u>	<u>112,220</u>
Cash Disbursements:			
Current:			
Unclassified Disbursements	<u>26,385</u>	<u>80,327</u>	<u>106,712</u>
	<u>26,385</u>	<u>80,327</u>	<u>106,712</u>
Total Receipts Over/(Under) Disbursements	<u>(33)</u>	<u>5,541</u>	<u>5,508</u>
Fund Cash Balances, January 1, restated	<u>2,640</u>	<u>15,843</u>	<u>18,483</u>
Fund Cash Balances, December 31	<u><u>\$2,607</u></u>	<u><u>\$21,384</u></u>	<u><u>\$23,991</u></u>

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

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, UNCLASSIFIED CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$66,553	\$0	\$66,553
Fines, Licenses and Permits		\$6,927	6,927
Total Operating Cash Receipts	<u>66,553</u>	<u>6,927</u>	<u>73,480</u>
Operating Cash Disbursements:			
Unclassified Disbursements	<u>105,381</u>	<u>8,211</u>	<u>113,592</u>
Total Operating Cash Disbursements	<u>105,381</u>	<u>8,211</u>	<u>113,592</u>
Operating Income/(Loss)	<u>(38,828)</u>	<u>(1,284)</u>	<u>(40,112)</u>
	F		
Non-Operating Cash Receipts:			
Property and Other Local Taxes	3,730		3,730
Other Debt Proceeds	<u>11,499</u>		<u>11,499</u>
Total Non-Operating Cash Receipts	<u>15,229</u>	<u>0</u>	<u>15,229</u>
	F		
Net Receipts Over/(Under) Disbursements	(23,599)	(1,284)	(24,883)
Fund Cash Balances, January 1, restated	<u>39,456</u>	<u>2,399</u>	<u>41,855</u>
Fund Cash Balances, December 31	<u>\$15,857</u>	<u>\$1,115</u>	<u>\$16,972</u>

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

**VILLAGE OF HIGGINSPORT
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Higginsport, Brown County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides police and fire protection, and sewer service. The Village contracts with the Brown County Sheriff's department to provide police protection. The Village contracts with Brown County Rural Water to provide water for residents.

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

B. Accounting Basis

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

The Village did not classify its disbursements in the accompanying financial statements. This is a material departure from the requirements of the Ohio Administrative Code Section 117-2-02(A). The Ohio Administrative Code requires classifying receipts and disbursements.

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

C. Deposits and Investments

The Village's accounting basis includes cash as assets.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

Fire Levy Fund - This fund receives local taxes and contract for service monies used to pay for the costs associated with providing and maintaining fire apparatus, appliances, buildings or sites, and fire and emergency services to the Village residents.

3. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Sewer Project Fund - This fund receives loan proceeds and intergovernmental grants to finance a sewer project plant.

4. Fiduciary Funds

Fiduciary funds include private agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the Mayor's Court Fund, which receives fines and costs from the Mayor's Court and distributes these funds to the appropriate entity, including payments to the Village General Fund, State of Ohio, and Computer Fund..

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

VILLAGE OF HIGGINSPO
BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

1. Summary of Significant Accounting Policies (Continued)

3. Encumbrances

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

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

During 2011, the Village adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. For December 31, 2011, Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

G. Property, Plant, and Equipment

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

2. Equity in Pooled Deposits and Investments

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

	2011	2010
Demand deposits	\$54,974	40,963

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$22,888	\$22,735	(\$153)
Special Revenue	82,300	80,645	(1,655)
Enterprise	75,786	75,952	166
Total	\$180,974	\$179,332	(\$1,642)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$25,585	\$20,103	\$5,482
Special Revenue	93,727	72,921	20,806
Enterprise	86,541	71,182	15,359
Total	\$205,853	\$164,206	\$41,647

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

3. Budgetary Activity (Continued)

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$20,000	\$26,352	\$6,352
Special Revenue	60,200	85,662	25,462
Enterprise	58,512	81,782	23,270
Total	\$138,712	\$193,796	\$55,084

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$6,000	\$26,385	(\$20,385)
Special Revenue	19,915	80,121	(60,206)
Enterprise	41,384	105,381	(63,997)
Total	\$67,299	\$211,887	(\$144,588)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$20,385, the Fire Fund by \$51,795, Street Fund by \$6,096, the Sewer Project Fund by \$10,566, and the Sewer Fund by \$54,125 for the year ended December 31, 2010.

4. Property Tax

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

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

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

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

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

5. Debt

Debt outstanding at December 31, 2011, was as follows:

	Principal	Interest Rate
OPWC Loan - Wastewater Planning	\$424,737	0%
OWDA Loan - Treatment Plant & Collection S	\$188,792	1.5%
Total	\$613,529	

The Ohio Public Works Commission (OPWC) loan is for the new wastewater collection system. The OPWC approved up to \$463,349 in loans to the Village. The Village has drawn down the full amount of the loan. The Village will repay the loan in semiannual installments of \$7,722 over 30 years. The interest rate on this loan is 0%. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Ohio Water Development Authority (OWDA) loan relates to a new wastewater collection system. The OWDA approved up to \$200,000 in loans to the Village for this project, plus capitalized interest. As of December 31, 2011, the Village has drawn down \$199,090 of the principal, and \$3,389 has been added to the principal balance for capitalized interest making the total amount financed \$202,479. The Village will repay the loans in semiannual installments of \$4,222, including interest, over 30 years. The interest rate on this loan is 1.5%. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. As of December 31, 2011, this loan has not been finalized and an amortization schedule is not available. For this reason, the OWDA Loan has not been included in the schedule below.

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

Year ending December 31:	OPWC Loan
2012	\$15,445
2013	15,445
2014	15,445
2015	15,445
2016	15,445
2017-2021	77,225
2022-2026	77,225
2027-2031	77,225
2032-2036	77,225
2037-2039	38,612
Total	\$424,737

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

5. Debt (Continued)

The Village entered into a Commercial Insurance Loan Agreement with NCMIC Finance Corporation during the audit period. This Corporation paid the Village's Insurance Premium of \$4,735.50 and \$5,981.25 during 2011 and 2010, respectively, for the insurance coverage 11/15/10 through 11/14/11 and 11/15/09 through 11/14/10. The Village then made nine monthly installment payments of \$556.77 to NCMIC Finance Corporations for a total amount paid to the Corporation of \$5,010.93 for 2011, and nine monthly installment payments of \$695.84 for a total amount paid to the Corporation of \$6,262.56 for 2010. At December 31, 2011, The Village has seven monthly installment payments of \$558.36 totaling \$3,908.52 owed to NCMIC Finance Corporation with the final payment due on August 15, 2012.

6. Retirement Systems

The Village's officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

7. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

8. Subsequent Events

The Village placed a 3 mill operating levy on the November 6, 2012 ballot. This levy failed to be passed by voters.

9. Restatement of Fund Balances

The Fund Balance at December 31, 2009 has been restated to correct errors related to fund balances. These restatements resulted in changes to balances reported at January 1, 2010, as follows:

	General Fund	Special Revenue	Enterprise
Fund Balances			
December 31, 2009	\$ 5,778	\$12,509	\$39,545
Correction	<u>(3,247)</u>	<u>3,334</u>	<u>89</u>
Restated Fund Balances	\$ 2,640	\$15,843	\$39,456
January 1, 2010			

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Dave Yost • Auditor of State

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

Village of Higginsport
Brown County
204 Jackson Street
PO Box 121
Higginsport, Ohio 45131

To the Village Council:

We have audited the financial statements of the Village of Higginsport, Brown County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated January 16, 2013, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We qualified our opinion on the financial statements due to the omission of disbursement classifications required by Ohio Administrative Code Section 117-2-02(A), and the lack of evidential matter supporting traffic citations of the Agency Fund Type. We also noted the Village adopted Governmental Accounting Standards Board Statement No. 54. 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*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-001 and 2011-005 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-001 through 2011-004.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated January 16, 2013.

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

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

Dave Yost
Auditor of State

January 16, 2013

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

<i>Finding Number</i>	2011-001
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Rev. Code, Section 733.28, requires the Village Fiscal Officer to maintain the books of the Village and exhibit accurate statements of all monies received and expended.

The Village’s Fiscal Officer did not maintain a receipt ledger or an appropriation ledger. The Village did not properly classify disbursement transactions. The Village was therefore unable to monitor compliance with its appropriation resolution. The Village was also unable to classify disbursements by purpose in its annual report, contrary to Ohio Rev. Code Section 117.38.

Ohio Admin. Code, Section 117-2-02(A) requires governments to maintain an accounting system and records sufficient to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance related legal and contractual requirements and prepare financial statements.

Ohio Admin. Code 117-2-02(C)(1) states in part: all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted appropriation balances. This also means that accounting system should report appropriations, encumbrances, unencumbered cash balances, and estimated receipts, and should compare budgetary data to actual results.

Ohio Admin. Code, Section 117-2-02(D) provides that accounting records that can help achieve these objectives include:

1. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payer, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
2. Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.

The Village did not maintain a receipt or appropriation ledger during the audit period and prepared its annual report with unclassified disbursements. The Village’s accounting system did not integrate the budgetary accounts at the legal level of control. The Village officer’s Handbook provides suggested account classifications. These accounts classify receipts by source (taxes or charges for services, for example) and classify disbursements by program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

**FINIDING NUMBER 2011-001
 (Continued)**

The Village did not post the following transactions to the proper fund type or account codes, and therefore, they were reported in an incorrect fund type or account classification, by material amounts, on the financial statements presented for audit:

Year	Amount	Proper Classification	Reported Classification	Description
2011	\$10,750	Intergovernmental Fire Fund	Miscellaneous – Fire Fund	<i>State Fire Marshal Grant</i>
2010	\$10,346	Intergovernmental Fire Fund	Miscellaneous – Fire Fund	<i>State Fire Marshal Grant</i>
2011	\$2,185	Intergovernmental FEMA Fund	Miscellaneous – FEMA Fund	<i>FEMA Grant</i>
2010	\$11,499	Loan Proceeds – Sewer Project Fund	Miscellaneous – Sewer Project Fund	<i>OWDA Loan Proceeds</i>
2010	\$3,803	Intergovernmental General Fund	Property and Other Local Taxes – General Fund	<i>Local Government Funds received from County Auditor</i>
2011	\$3,684	Intergovernmental General Fund	Property and Other Local Taxes – General Fund	<i>Local Government Funds received from County Auditor</i>
2011	\$447	Intergovernmental Street Maintenance Fund	Property and Other Local Taxes – Street Maintenance Fund	<i>Local Government Funds received from County Auditor</i>
2011	\$135	Intergovernmental General Fund	Property and Other Local Taxes – General Fund	<i>Tangible Personal Property Tax Reimbursement</i>
2010	\$300	Intergovernmental Street Maintenance Fund	Intergovernmental – State Highway Fund	<i>MVL Receipt</i>
2010	\$1,792	Intergovernmental General Fund	Property and Other Local Taxes – General Fund	<i>Homestead and Rollback Receipts</i>
2010	\$1,792	Intergovernmental Fire Fund	Property and Other Local Taxes – Fire Fund	<i>Homestead and Rollback Receipts</i>
2010	\$1,792	Intergovernmental Police Fund	Property and Other Local Taxes – Police Fund	<i>Homestead and Rollback Receipts</i>
2011	\$1,626	Intergovernmental General Fund	Property and Other Local Taxes – General Fund	<i>Homestead and Rollback Receipts</i>
2011	\$2,211	Intergovernmental Fire Fund	Property and Other Local Taxes – Fire Fund	<i>Homestead and Rollback Receipts</i>
2011	\$1,534	Intergovernmental Police Fund	Property and Other Local Taxes – Police Fund	<i>Homestead and Rollback Receipts</i>

Failure to properly recognize all financial activities may result in misleading financial statements. Additionally, by recording tax revenue at the net amount, receipts and expenses are understated.

Due care and proper posting can help demonstrate legal compliance, financial accountability, and to provide management with information for decision making. There should also be separate entries in the cash book for each source of revenue with each payee, account number and amount listed. The Village Officials agreed to reclassifications and adjustments to correctly report the above items, and the corrections were posted to the accompanying financial statements and, where applicable, to the Village's accounting records.

**FINIDING NUMBER 2011-001
 (Continued)**

Officials' Response:

We did not receive a response from officials to the finding above.

<i>Finding Number</i>	2011-002
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NONCOMPLIANCE

Ohio Rev. Code, Section 5705.41 (D)(1), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.
2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not properly certify the availability of funds for purchase commitments for one hundred percent of expenditures tested for 2011 and 2010 and none of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINIDING NUMBER 2011-002
 (Continued)**

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but also 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 Fiscal Officer certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be use.

We recommend the Village officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. 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 orders to the proper appropriation code to reduce the available appropriation.

Officials' Response:

We did not receive a response from officials to the finding above.

<i>Finding Number</i>	2011-003
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NONCOMPLIANCE

Ohio Rev. Code, Section 5705.39, requires that the total appropriation from each fund should not exceed the total estimated revenue. Appropriations exceeded the total estimated revenue in the following funds during 2010:

Fund	Appropriations	Estimated Resources	Variance
Sewer Project (2010)	\$10,000	\$ 0	(\$10,000)

Since the appropriations exceed the total estimated resources for these funds, expenditures could be made where funds are not available.

Officials' Response:

We did not receive a response from officials to the finding above.

<i>Finding Number</i>	2011-004
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NONCOMPLIANCE

Ohio Rev. Code, Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations as follows:

Year	Fund	Expenditures	Appropriations	Variance
2010	General	\$26,385	\$ 6,000	(\$20,385)
2010	Fire	56,795	5,000	(51,795)
2010	Street	10,596	4,500	(6,096)
2010	Sewer Project	20,566	10,000	(10,566)
2010	Sewer	84,125	30,000	(54,125)

Failure to limit expenditures to appropriations may result in overspending and negative fund balances.

Officials' Response:

We did not receive a response from officials to the finding above.

<i>Finding Number</i>	2011-005
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MATERIAL WEAKNESS

Good internal control procedures enable the Village to maintain accountability for assets. Control should be maintained of issued and unissued tickets by the Police Chief. Unissued ticket books should be stored in a secure location and a citation log should be maintained of ticket books issued to patrolmen indicating the ticket sequence of the book and the patrolman's name. All tickets that have been issued should be accounted for before the next book is issued.

The Police Department should also account for every ticket by keeping Part 4 (the back copy) of the traffic citations in a ticket file in numeric ticket order. Voided tickets should be maintained in this file with all four copies of the ticket attached. A ticket register should be maintained in ticketed number order indicating the defendant's name and cross-referencing the ticket to the case number or transfer to another court. Maintaining numerical control of tickets will provide assurance that all cases in which a ticket is issued were processed correctly.

The Police Chief failed to maintain a citation log and there was not a ticket file maintained with copies of all the tickets in numeric order. A review of the tickets in the case jackets revealed a lack of accountability over all the traffic citations indicated by gaps in the sequence of numbers of tickets found in the case jackets. A lack of accountability increases the risk that errors, theft or fraud could occur and not be detected in a timely manner.

**FINIDING NUMBER 2011-005
(Continued)**

The purpose of a citation log is to maintain an independent record of all citations issued. Not maintaining an accurate log of tickets issued or a copy of the issued citations in numerical order reduces the assurance that all citations or cases and their related fines court costs have been properly accounted for. Without this evidential matter, we were unable to obtain sufficient information regarding the disposition of numerous court cases in which citations were issued during the audit period. We could not assure ourselves regarding the completeness of the Mayor's Court receipts and the Village's General Fund Fines. To help prevent recording errors and add assurance that all court cases have been documented, we recommend the Police Chief account for every citation issued by the police department on a citation log and maintain a copy of all citations issued and/or voided in a separate file in numerical order.

To help prevent recording errors and add assurance that all court cases have been documented, we recommend the Police Chief account for every citation issued by the police department on a citation log and maintain a copy of all citations issued and/or voided in a separate file in numerical order.

Officials' Response:

We did not receive a response from officials to the finding above.

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-01	ORC 5705.09(F), failure to recognize all debt related financial activities	Yes	
2009-02	Failure by Police Chief to maintain a citation log and copies of all tickets issued	No	Not Corrected; Reissued as Finding 2011-005
2009-03	ORC 733.28 and OAC 117-2-02(A) , failure to maintain a receipt and appropriation ledger, classify receipt and disbursement transactions, and posting errors	No	Not Corrected; Reissued as Finding 2011-001
2009-04	ORC 5705.41(D), failure to use the encumbrance method of accounting	No	Not Corrected; Reissued as Finding 2011-002
2009-05	ORC 5705.41(B), Expenditures exceeded appropriations	No	Not Corrected; Reissued as Finding 2011-004
2009-06	OAC 117-2-02(A), failure to have adequate controls over Mayor's Court, lack of properly maintained Mayor's Court cashbook	No	Finding no longer valid.
2009-07	ORC 5705.39, appropriations exceeded total estimated revenue	No	Not Corrected; Reissued as Finding 2011-003
2009-08	ORC 5705.36(A)(4), appropriations exceeded available resources	Yes	

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Dave Yost • Auditor of State

VILLAGE OF HIGGINSPOUR

BROWN 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
FEBRUARY 7, 2013