



Dave Yost • Auditor of State



VILLAGE OF HIGHLAND  
HIGHLAND COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of Highland  
Highland County  
12131 New Lexington Ave  
Highland, Ohio 45132

To the Village Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of the Village of Highland, Highland County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

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

The accompanying financial statements present unclassified receipts and disbursements for the year ended December 31, 2011. Ohio Administrative Code, Section 117-2-02(A), requires governments to classify receipt and disbursement transactions.

As described in Note 1 of the financial statements, the Village prepared financial statements for the year ended December 31, 2012, using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position or cash flows thereof for the years then ended.

***Basis for Qualified Opinion***

The accompanying financial statements present unclassified receipts and disbursements for 2011. Ohio Administrative Code 117-2-02(A) requires Villages to classify receipt and disbursement transactions.

***Qualified Opinion on Regulatory Basis of Accounting***

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Highland, Highland County as of December 31, 2011, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Highland, Highland County as of December 31, 2012, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, during 2011 the Village of Highland adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

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

Columbus, Ohio

January 30, 2014

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**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$5,502	\$0	\$5,502
Intergovernmental	16,632	12,301	28,933
Charges for Services	1,181	160	1,341
Fines, Licenses and Permits	163	0	163
Earnings on Investments	36	0	36
Miscellaneous	609	0	609
<i>Total Cash Receipts</i>	24,123	12,461	36,584
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	3,278	3,669	6,947
Leisure Time Activities	4,534	0	4,534
Basic Utility Services	1,716	0	1,716
General Government	16,945	19,648	36,593
Debt Service:			
Principal Retirement	1,950	0	1,950
<i>Total Cash Disbursements</i>	28,423	23,317	51,740
<i>Excess of Receipts Over (Under) Disbursements</i>	(4,300)	(10,856)	(15,156)
<b>Other Financing Receipts (Disbursements)</b>			
Other Financing Sources	11,958	12,400	24,358
Other Financing Uses	(7,397)	(11,958)	(19,355)
<i>Total Other Financing Receipts (Disbursements)</i>	4,561	442	5,003
<i>Net Change in Fund Cash Balances</i>	261	(10,414)	(10,153)
<i>Fund Cash Balances, January 1</i>	6,903	45,517	52,420
<b>Fund Cash Balances, December 31</b>			
Restricted	0	35,103	35,103
Unassigned (Deficit)	7,164	0	7,164
<i>Fund Cash Balances, December 31</i>	\$7,164	\$35,103	\$42,267

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

**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
<b>Operating Cash Receipts</b>	
Charges for Services	\$68,188
<i>Total Operating Cash Receipts</i>	68,188
<b>Operating Cash Disbursements</b>	
Personal Services	42,024
<i>Total Operating Cash Disbursements</i>	42,024
<i>Operating Income (Loss)</i>	26,164
<b>Non-Operating Receipts (Disbursements)</b>	
Special Assessments	34,081
Principal Retirement	(23,072)
Interest and Other Fiscal Charges	(7,859)
Other Financing Sources	7,397
<i>Total Non-Operating Receipts (Disbursements)</i>	10,547
<i>Net Change in Fund Cash Balances</i>	36,711
<i>Fund Cash Balances, January 1</i>	42,053
<i>Fund Cash Balances, December 31</i>	\$78,764

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

**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**COMBINED STATEMENT OF UNCLASSIFIED 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)
<b>Cash Receipts</b>			
Unclassified Receipts	31,703	27,163	58,866
<i>Total Cash Receipts</i>	<u>31,703</u>	<u>27,163</u>	<u>58,866</u>
<b>Cash Disbursements</b>			
Unclassified Disbursements	32,119	16,794	48,913
<i>Total Cash Disbursements</i>	<u>32,119</u>	<u>16,794</u>	<u>48,913</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(416)</u>	<u>10,369</u>	<u>9,953</u>
<i>Fund Cash Balances, January 1</i>	<u>7,319</u>	<u>35,148</u>	<u>42,467</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	0	45,517	45,517
Unassigned (Deficit)	6,903	0	6,903
<i>Fund Cash Balances, December 31</i>	<u><u>\$6,903</u></u>	<u><u>\$45,517</u></u>	<u><u>\$52,420</u></u>

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

VILLAGE OF HIGHLAND  
HIGHLAND COUNTY

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

	<u>Proprietary Fund Types</u>
	<u>Enterprise</u>
<b>Operating Cash Receipts</b>	
Unclassified Receipts	<u>73,046</u>
<i>Total Operating Cash Receipts</i>	<u>73,046</u>
<b>Operating Cash Disbursements</b>	
Unclassified Disbursements	<u>203,892</u>
<i>Total Operating Cash Disbursements</i>	<u>203,892</u>
<i>Net Change in Fund Cash Balances</i>	(130,846)
<i>Fund Cash Balances, January 1</i>	<u>172,899</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$42,053</u></u>

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

**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**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 Highland, Highland County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental activities, sewer utilities, and park operations. The Highland County Sheriff's Department provides security of persons and property.

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).

For 2011, the Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of the Ohio Administrative Code Section 117-2-02(A)

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. The Village deposits all available funds in a "Plus Checking" account at a local commercial bank.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**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.

**E. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2012 and 2011 budgetary activity appears in Note 4.

**F. Fund Balance**

During 2011, the Village adopted Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. 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.

VILLAGE OF HIGHLAND  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

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

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

	2012	2011
Demand deposits	\$121,031	\$94,473

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

**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$46,271	\$36,081	(\$10,190)
Special Revenue	15,760	24,861	9,101
Enterprise	78,825	109,666	30,841
Total	\$140,856	\$170,608	\$29,752

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$34,635	\$35,819	(\$1,184)
Special Revenue	42,000	35,275	6,725
Enterprise	113,765	72,955	40,810
Total	\$190,400	\$144,049	\$46,351

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$30,655	\$31,703	\$1,048
Special Revenue	10,842	27,163	16,321
Enterprise	62,500	73,046	10,546
Total	\$103,997	\$131,912	\$27,915

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$36,010	\$32,120	\$3,890
Special Revenue	39,000	16,794	22,206
Enterprise	225,806	203,891	21,915
Total	\$300,816	\$252,805	\$48,011

**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.



**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**4. Property Tax (Continued)**

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.

**5. Debt**

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Storm Sewer Replacement	\$16,575	0.000%
OWDA New Wastewater Collection System	\$387,429	1.000%
Wastewater Collection System Special Assessment Bonds	74,650	4.375%
Total	<u>\$478,654</u>	

The Ohio Public Works Commission (OPWC) loan relates to a storm sewer replacement project. The OPWC loan was originally obtained in 2001 for \$39,000 to be repaid, interest free, over a 20 year period in the amount of \$1,950 per year.

In 2009, the Village obtained the OWDA New Wastewater Collection system loan to partially pay off the OWDA Sewer Collection System loan. The loan was originally obtained for \$424,384. The interest rate for the loan is 1%, over a 30 year period.

Also during 2009, the Village obtained Special Assessment bonds to help pay for the storm sewer replacement project. The terms of the bond are 4.375% payable semi-annually on first day of each June and December commencing December 1, 2009 through June 1 2019.

The Village's taxing authority collateralized the bonds.

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

**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**5. Debt (Continued)**

Year ending December 31:	Bonds	OWDA Loan	OPWC
2013	\$11,200	\$16,409	\$1,950
2014	11,600	16,409	1,950
2015	12,100	16,409	1,950
2016	12,600	16,409	1,950
2017	13,300	16,409	1,950
2018-2021	20,900	82,046	7,800
2022-2026	0	82,046	0
2027-2031	0	82,046	0
2032-2036	0	82,046	0
2037-2039	0	32,818	0
Total	\$81,700	\$443,047	\$17,550

**6. Retirement Systems**

The Village did not withhold nor pay Social Security and Medicare for Council Members during the audit period.

During 2011, The Village withheld and paid into the Social Security and Medicare System for the Village's employee and Fiscal Officer. The federal government prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Federal Government also prescribes contribution rates. For 2010 and 2009, Social Security and Medicare members contributed 6.2 and 1.45%, respectively, of their gross salaries and the Village contributed an amount equaling 6.2 and 1.45%, respectively, of participants' gross salaries. The Village has not paid all contributions required through December 31, 2010.

During 2012, the Village withheld and paid Ohio Public Employees Retirement System (OPERS) for the Village's employee and Fiscal Officer. 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 2012, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village needs to contact OPERS to ensure that all contributions required through December 31, 2012 are paid.

**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.

VILLAGE OF HIGHLAND  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

**8. Compliance**

Budgetary expenditures exceeded appropriation authority in the General Fund by \$1,184 during 2012.

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# Dave Yost • Auditor of State

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

Village of Highland  
Highland County  
12131 New Lexington Ave  
Highland, Ohio 45132

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States *Government Auditing Standards*, the financial statements of the Village of Highland, Highland County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2014, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit. We modified our opinion on the 2011 financial statements due to the omission of receipt and disbursement classifications required by Ohio Administrative Code Section 117-2-02(A). We also noted the Village adopted Governmental Accounting Standards Board Statement No 54. .

### ***Internal Control Over Financial Reporting***

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

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

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

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 30, 2014

**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

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

**FINDING NUMBER 2012-001**

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.

**Ohio Admin. Code Section 117-2-02(A)** provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record, and report its transactions, maintain accountability for 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 the accounting system should report appropriations, encumbrances, unencumbered cash balances and estimated receipts and should compare budgetary data to actual results.

The Village did not post the following transactions to the correct fund types or account classifications which resulted in material errors in the financial statements:

Year	Item	Amount	Correct Fund/ Classification	Fund/ Classification Reported
2012	Sales Tax	15,116	General Fund/ Intergovernmental	General Fund/Taxes
2012	Manufactured Home Homestead and Rollbacks	33	General Fund/ Intergovernmental	General Fund/Taxes
2012	Homestead and Rollbacks	1,483	General Fund/ Intergovernmental	General Fund/Taxes
2011	Special Assessments	19,683	Sewer Fund/Special Assessments	General Fund/Taxes
2012	Special Assessments	34,081	Sewer Fund/Special Assessments	Sewer Fund/Miscellaneous
2011	Auto Registration	91	SCMR/ Intergovernmental	General Fund/ Intergovernmental
2011	Auto Registration	7	State Highway/ Intergovernmental	General Fund/ Intergovernmental
2011	Motor Vehicle and Gas Tax	268	SCMR/ Intergovernmental	Not Posted to Receipt Journal
2011	Motor Vehicle and Gas Tax	59	SCMR/ Intergovernmental	St Highway/ Intergovernmental
2012	Motor Vehicle and Gas Tax	120	State Highway/ Intergovernmental	SCMR /Intergovernmental
2011	Motor Vehicle and Gas Tax	22	State Highway /Intergovernmental	Not Posted to Receipt Journal
2011	Permissive	614	No Receipt during 2011 for this amount	PMVL Intergovernmental

**FINDING NUMBER 2012-001  
 (Continued)**

2012	Insurance Proceeds	10,900	State Highway /Intergovernmental	State Highway/Miscellaneous
2012	Sale of Traffic Controller	1,500	State Highway/Intergovernmental	State Highway/Miscellaneous
2011	Principal Payments	11,344	Enterprise/Principal	Not Posted to Appropriation Ledger
2011	Interest Payments	4,080	Enterprise/Interest	Not Posted to Appropriation Ledger
2011	Interest Payment	19,374	Construction/Interest	Sewer/Other Disbursements

The Village recorded audit adjustments in the Village's financial statements and accounting records.

We also noted the following conditions relating to the annual financial reports and accounting records:

- The Village did not classify 2011 receipts by source and disbursements by function (governmental funds) or object (enterprise funds).
- Annual Financial Reports completed by the village were not accurate.
- Certain receipt and disbursement categories reported in the 2012 and 2011 Annual Financial Reports did not agree with the Village receipt ledgers and/or cash journals.
- The cash journal did not foot.
- The receipt and appropriation ledgers did not tie to the cash Journals for certain line items.
- Village's accounting system did not integrate appropriations and estimated receipts at the legal level of control.
- The Village did not maintain a payroll ledger for 2012

Failure to accurately post and report transactions could result in material errors to the Village's financial statements and reduces Village management's ability to monitor financial activity and to make sound decisions. Inaccurate accounting and financial reporting increases the risk that Council may overspend or improperly budget the Village's funds. Additionally, other users of the financial statements do not have accurate representation of the financial activity and position of the Village.

To improve the accuracy of accounting and financial reporting, we recommend that the Village:

- Carefully review the instructions and headings on the report to ensure information is accurately classified;
- Review the Village chart of accounts defined in the Village Officers' Handbook to ensure that items are being posted to the correct funds and account codes;



**FINDING NUMBER 2012-001  
(Continued)**

- Ensure that all columns of the Annual Financial Report foot and that total receipts and disbursements from each fund agree with the cash journal year end totals.
- Maintain a Payroll Register detailing gross payroll, deductions, and the net amount of each pay.

We recommend the Village implement additional review procedures to ensure the completeness and accuracy of financial information recorded in the accounting records and reported with the Annual Financial Report. Such procedures could include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions. We also recommend that a member of the finance committee or Village Council review the reports for completeness and accuracy before the reports are filed.

**Officials' Response:**

We did not receive a response from officials.

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**VILLAGE OF HIGHLAND  
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-001	OAC 117-2-02(A) - Accounting System and Accounting Records	No	Reissued as Finding 2012-001
2010-002	ORC 149.351 – Destruction of Records	Yes	
2010-003	ORC 5705.36 – Appropriations exceeded Actual Resources	Yes	
2010-004	ORC 5705.39 – Appropriations exceeded Estimated Resources	Yes	
2010-005	ORC 5705-41(B) – Expenditures Exceeded Appropriations	No	Partially corrected. Addressed in 2012-2011 management letter.

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# Dave Yost • Auditor of State

**VILLAGE OF HIGHLAND**

**HIGHLAND 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 18, 2014**