



Mary Taylor, CPA
Auditor of State

VILLAGE OF HIGHLAND
HIGHLAND COUNTY

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Mary Taylor, CPA

Auditor of State

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

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.

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Mary Taylor, CPA
Auditor of State

December 28, 2009

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Highland, Highland County, Ohio (the Village), as of and for the years ended December 31, 2008 and 2007. 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 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.

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 Villages 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, 2008 and 2007 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, 2008 and 2007, or its changes in financial position 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 of the Village of Highland, Highland County, as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 December 28, 2009, 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.

We conducted our audit to opine on the financial statements that collectively comprise the Village's financial statements. The federal awards expenditure schedule for December 31, 2007 is required by U.S. Office of management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. We subjected the federal awards expenditure schedule for December 31, 2007 to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 28, 2009

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$7,557	\$179	\$7,736
Intergovernmental	26,023	12,988	39,011
Earnings on Investments	282	180	462
Miscellaneous	3,474	2,671	6,145
 Total Cash Receipts	 37,336	 16,018	 53,354
Cash Disbursements:			
Current:			
Security of Persons and Property	3,513		3,513
Public Health Services	360		360
Leisure Time Activities	4,109		4,109
Basic Utility Service	3,786		3,786
Transportation		28,478	28,478
General Government	22,604		22,604
Debt Service:			
Redemption of Principal	1,950		1,950
 Total Cash Disbursements	 36,322	 28,478	 64,800
 Total Receipts Over/(Under) Disbursements	 1,014	 (12,460)	 (11,446)
Other Financing Receipts:			
Other Financing Sources	93		93
 Total Other Financing Receipts	 93	 0	 93
 Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	 1,107	 (12,460)	 (11,353)
 Fund Cash Balances, January 1	 14,956	 60,465	 75,421
 Fund Cash Balances, December 31	 \$16,063	 \$48,005	 \$64,068

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

VILLAGE OF HIGHLAND
HIGHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Operating Cash Receipts:	
Charges for Services	\$13,155
Fines, Licenses and Permits	7,070
Miscellaneous	69,100
	<hr/>
Total Operating Cash Receipts	89,325
Operating Cash Disbursements:	
Personal Services	739
Contractual Services	419,708
Supplies and Materials	436
	<hr/>
Total Operating Cash Disbursements	420,883
Operating Income	<hr/>
	(331,558)
Non-Operating Cash Receipts:	
Intergovernmental	471,214
	<hr/>
Total Non-Operating Cash Receipts	471,214
Non-Operating Cash Disbursements:	
Capital Outlay	55,363
	<hr/>
Total Non-Operating Cash Disbursements	55,363
Net Receipts Over Disbursements	84,293
Fund Cash Balances, January 1	<hr/>
	31,173
Fund Cash Balances, December 31	<hr/> <hr/>
	\$115,466

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

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$7,927	\$0	\$7,927
Intergovernmental	25,870	13,791	39,661
Earnings on Investments	205	506	711
Miscellaneous	565		565
	<u>34,567</u>	<u>14,297</u>	<u>48,864</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	3,533		3,533
Public Health Services	383		383
Leisure Time Activities	2,058		2,058
Basic Utility Service	3,513		3,513
Transportation		4,543	4,543
General Government	25,597		25,597
Debt Service:			
Redemption of Principal	1,950		1,950
Interest and Fiscal Charges	8		8
	<u>37,042</u>	<u>4,543</u>	<u>41,585</u>
Total Receipts Over/(Under) Disbursements	<u>(2,475)</u>	<u>9,754</u>	<u>7,279</u>
Other Financing Receipts :			
Other Financing Sources	708		708
	<u>708</u>	<u>0</u>	<u>708</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements			
	(1,767)	9,754	7,987
Fund Cash Balances, January 1	16,723	50,711	67,434
Fund Cash Balances, December 31	<u>\$14,956</u>	<u>\$60,465</u>	<u>\$75,421</u>

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

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Operating Cash Receipts:	
Charges for Services	\$12,685
Miscellaneous	4,576
	<hr/>
Total Operating Cash Receipts	17,261
	<hr/>
Operating Cash Disbursements:	
Contractual Services	262
	<hr/>
Total Operating Cash Disbursements	262
	<hr/>
Operating Income	16,999
	<hr/>
Non-Operating Cash Receipts:	
Intergovernmental	482,837
Earnings on Investments	285
Debt Proceeds	376,645
	<hr/>
Total Non-Operating Cash Receipts	859,767
	<hr/>
Non-Operating Cash Disbursements:	
Capital Outlay	728,522
Redemption of Principal	130,918
	<hr/>
Total Non-Operating Cash Disbursements	859,440
	<hr/>
Net Receipts Over Disbursements	17,326
	<hr/>
Fund Cash Balances, January 1 as Restated	13,847
	<hr/>
Fund Cash Balances, December 31	<u><u>\$31,173</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, 2008 AND 2007**

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 services, 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).

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

C. Cash and Deposits

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 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 Fund:

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, 2008 AND 2007
(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:

USDA/RD/OWDA Fund - This fund receives loan proceeds and grant proceeds to finance construction of a sewer plant.

ODOD Fund - This fund receives grant proceeds to finance construction of a sewer plant.

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. Appropriations lapse at year end.

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 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 2008 and 2007 budgetary activity appears in Note 3.

F. 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.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

2. Equity in Pooled Cash and Deposits

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

	2008	2007
Total deposits	\$179,534	\$106,594

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$37,910	\$37,429	(\$481)
Special Revenue	14,250	16,018	1,768
Enterprise	572,636	560,534	(12,102)
Total	\$624,796	\$613,981	(\$10,815)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$52,590	\$36,322	\$16,268
Special Revenue	68,800	28,478	40,322
Enterprise	65,394	476,246	(410,852)
Total	\$186,784	\$541,046	(\$354,262)

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,820	\$35,275	\$2,455
Special Revenue	64,236	14,297	(49,939)
Debt Service	229,257	0	(229,257)
Enterprise	457,130	877,029	419,899
Total	\$783,443	\$926,601	\$143,158

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

3. Budgetary Activity (Continued)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$48,615	\$37,042	\$11,573
Special Revenue	37,200	4,543	32,657
Enterprise	17,500	859,440	(841,940)
Total	\$103,315	\$901,025	(\$797,710)

Contrary to Ohio law, budgetary expenditures exceeded appropriations in the Sewer Construction fund by \$54,111; in OWDA/RD/USDA fund by \$319,515; in the ODOD fund by \$15,200, and in the ARC fund by \$34,000 in 2008. During 2007, expenditures exceeded appropriations in the Sewer Construction fund by \$69,958; in the OWDA/RD/USDA fund by \$381,232; in the ODOD fund by \$305,050; and in the ARC fund by \$100,000.

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.

5. Debt

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Storm Sewer Replacement Loan	\$23,400	0%
Ohio Water Development Authority Sewer Collection System	355,081	4.4%
Total	\$378,481	

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.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

5. Debt (Continued)

In 2007 the Ohio Water Development Authority (OWDA) approved up to \$532,000 in loan total to finance the construction of a gravity sewer collection system, force main and pump station, with wastewater treatment provided by the Village of Leesburg. As of December 31, 2008 \$355,081 had been drawn down on this loan. This loan is to be repaid with revenues from the utility when it becomes operational. As of December 31, 2008 the loan has not been amortized, therefore, the future funding requirements for the retirement of this loan has not been included in the amortization schedule below.

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

Year ending December 31:	<u>OPWC Loan</u>
2009	\$1,950
2010	1,950
2011	1,950
2012	1,950
2013	1,950
20012-2020	<u>13,650</u>
Total	<u><u>\$23,400</u></u>

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OPERS members contributed 9.5 and 10%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

7. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

VILLAGE OF HIGHLAND
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)

8. Restatement

The Sewer Construction Fund was reclassified from a Capital Projects fund type to an Enterprise Fund type. An adjustment was made to the January 1, 2007 fund balance to include this account as follows:

	<u>Capital Project Fund Type</u>	<u>Enterprise Fund Type</u>
Fund Balance December 31, 2006	\$ 1,249	\$ 12,958
Sewer Construction Fund Balance	(1,249)	1,249
Fund Balance January 1, 2007	<u>\$ 0</u>	<u>\$ 13,847</u>

9. Compliance

Contrary to ORC 5705.09(F), the Village did not establish a fund to account for Issue II and OWDA payments to contractors.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT <i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant Program	C-W-06-214-1	14.228	\$305,050
Appalachian Regional Commission Program	C-P-06-214-1	14.228	100,000
Total U.S. Department of Housing & Urban Development			<u>405,050</u>
U.S. DEPARTMENT OF AGRICULTURE			
Water and Waste Disposal Systems for Rural Communities		10.760	<u>366,708</u>
Total U.S. Department of Agriculture			<u>366,708</u>
Total			<u><u>\$771,758</u></u>

The accompanying notes are an integral part of this schedule.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Village's federal award programs. The schedule has been prepared on the cash basis of accounting.



Mary Taylor, CPA

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 Highland
Highland County
12131 New Lexington Avenue
Highland, Ohio 45132

To the Village Council:

We have audited the financial statements of the Village of Highland, Highland County, Ohio (the Village) as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated December 28, 2009, 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 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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe finding number 2008-001 is also a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated December 28, 2009.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-002 through 2008-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated December 28, 2009.

We intend this report solely for the information and use of the Village Council, management, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 28, 2009



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Village Council:

Compliance

We have audited the compliance of Village of Highland, Highland County, Ohio (the Village), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the Village's major federal programs. The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village of Highland complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are described in the accompanying schedule of findings as items 2008-005 and 2008-006.

Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Village's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to administer a federal program such that there is more than a remote likelihood that the Village's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as findings 2008-005 and 2008-006 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Village's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider findings 2008-005 and 2008-006 described in the accompanying schedule of findings to be material weaknesses.

We intend this report solely for the information and use management, Village Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 28, 2009

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133
DECEMBER 31, 2008 and 2007**

SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Dual Opinion: Adverse/Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	14.228 Community Development Block Grant 10.760 Water and Waste Disposal Systems for Rural Communities Grant
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2008-001

Material Weakness

All public officials 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 (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements and prepare financial statements required by Ohio Administrative Code rule 117-2-03. In addition, management of each local public office is responsible for the assertions underlying the information in the public office's financial statements.

The Village lacked management oversight in the proper reporting of tax, intergovernmental receipts, proceeds of loans, capital outlay, and debt retirement on the financial statements. This lack of oversight resulted in the following misstatements in the Village annual financial report:

- Sales tax receipts were reported as taxes instead of intergovernmental receipts resulting in reclassifications of \$24,235 in the General fund in 2008 and \$24,623 in 2007.
- Homestead and rollback receipts were reported as taxes instead of intergovernmental receipts resulting in reclassifications of \$1,443 in the General fund in 2008.
- Gasoline taxes were reported as taxes instead of intergovernmental receipts resulting in reclassification of \$771 in the Special Revenue funds in 2008.
- Federal intergovernmental receipts were posted as Miscellaneous receipts resulting in reclassifications of \$372,247 in the Enterprise funds in 2008 and \$406,000 in 2007.
- Proceeds of debt were reported as taxes resulting in reclassifications of \$222,307 in the Enterprise funds in 2007.
- Intergovernmental receipts were reported as taxes resulting in a reclassification of \$6,350 in the Enterprise funds in 2007
- Tax receipts were reported as intergovernmental receipts resulting in a reclassification of \$3,968 in the General fund in 2007.
- Proceeds of debt were reported as miscellaneous receipts resulting in a reclassification of \$1,564 in the Enterprise funds in 2007.
- Principal retirement was reported as capital outlay resulting in reclassifications of \$1,950 in the General fund and \$130,918 in the Enterprise funds.
- Federal grants were reported as receipts in incorrect funds resulting in an adjustment in the amount of \$47,250 in the Enterprise funds in 2007.
- Debt proceeds posted to incorrect fund resulting in an adjustment in the amount of \$19,600 in the Enterprise Debt Service Fund and Enterprise USDA fund.
- Issue II monies in the amount of \$51,717 in 2008 and \$70,487 in 2007 were not posted.
- OWDA monies in the amount of \$133,144 in 2007 were not posted.

Audit adjustments were made to the Village's financial statements and accounting records to properly account for the above errors.

**FINDING NUMBER 2008-001
(Continued)**

We also noted the following items in the annual financial reports:

- Annual financial reports were not properly completed and some columns did not foot.
- The general fund receipts and disbursements reported for 2007, and receipts only for 2008, did not agree with the cash journal totals.
- The Sewer Construction fund and Federal grant sewer funds were reported as governmental capital projects funds, instead of enterprise capital projects funds.
- The annual report for 2008 showed State Highway receipts as Street Construction receipts.
- The annual report for 2008 shows the ending balance of the sewer construction fund as charges for services. Also, this fund is shown as an internal service fund.
- Cashbook did not always foot.
- Receipt and appropriation ledgers did not tie back to the cashbook in all line items.

The annual financial report is an integral part of the Village's financial decision making and planning. Therefore, it is imperative that the reports accurately present the Village's financial activity.

Failure to properly post and report transactions could result in material errors in the Village's financial statements and reduces the Village's ability and the ability of individual departments within the Village to monitor financial activity and to make sound decisions which effect the overall available cash position of the Village. Without proper reporting of the Village's financial position, the Council may overspend or improperly budget the Village's funds. Additionally, other users of the financial statements do not have an accurate representation of the financial position of the Village.

The Clerk/Treasurer should:

- Carefully review the instructions and headings on the report to assure information is properly reported;
- Review the Village chart of accounts to assure that items are being posted to the proper funds and account codes;
- Assure that all columns of the annual financial report foot and that total receipts and disbursement from each fund agree with the cash journal year to date totals.

We recommend that a member of the finance committee or Village Council review the reports for completeness and accuracy before the reports are filed.

We recommend the Village implement additional procedures over the completeness and accuracy of financial information recorded in the accounting records and reported within the annual financial report. Such procedures may 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 to this finding.

FINDING NUMBER 2008-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.09(F), requires the Village to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure, and anticipated expenditures should be included in the Village appropriations.

As further discussed in the Auditor of State Bulletin 2000-008, the Village shall record the appropriations in accordance with the terms and conditions of the on-behalf grant or project agreement. In addition, prior to the Village recording the appropriations, Ohio Revised Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure.

The state made payments of Issue II monies and Ohio Water Development Authority monies to contractors on behalf of the Village. The Village did not establish a fund to account for these transactions; nor did the Village post this activity to its accounting records. The financial statements have been adjusted to reflect the Issue II and Ohio Water Development Authority activity. See Finding 2008-001.

Failure to properly account for these on behalf of transactions could result in under reported receipts and disbursements and inaccurate financial reporting. We recommend that the Village post all transactions to the accounting records.

Officials' Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2008-003

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), states that no subdivision shall make any expenditure of money unless it has been appropriated as provided in such chapter.

2008:

Fund	Appropriations	Expenditures	Variance
Construction Fund	\$ 1,253	\$ 55,364	(\$ 54,111)
OWDA/RD/USDA Fund	4,482	323,997	(319,515)
ODOD Fund	0	15,200	(15,200)
ARC Fund	0	34,000	(34,000)

2007:

Fund	Appropriations	Expenditures	Variance
Construction Fund	\$ 3,200	\$ 73,158	(\$ 69,958)
OWDA/RD/USDA Fund	0	381,232	(383,232)
ODOD Fund	0	305,050	(305,050)
ARC Fund	0	100,000	(100,000)

The Clerk/Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk/Treasurer may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**FINDING NUMBER 2008-003
(Continued)**

Officials' Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2008-004

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(D)(1), prohibits a subdivision or taxing unit from making any contract or giving 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 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.

Contrary to the above requirement, the availability of funds was not certified for 17% of transactions tested for 2007 and 13% of transactions tested for 2008. Failure to certify the availability of funds and encumber appropriations could result in overspending funds and negative cash balances.

**FINDING NUMBER 2008-004
 (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 received prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend 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 used, however, "then and now" certifications should only be used in limited circumstances when prior certification is not possible, and should not be used to avoid prior certification.

We recommend the Village personnel obtain the Fiscal Officer's certification of the availability of funds prior to incurring the commitment. 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. We also recommend that at least two Council Members sign the purchase order as approving the purchase.

Officials' Response:

We did not receive a response from Officials to this finding.

FINDINGS FOR FEDERAL AWARDS

Finding Number	2008-005
CFDA Title and Number	14.228 Community Development Block Grant Program 10.760 Water and Waste Disposal Systems for Rural Communities
Federal Award Number / Year	C-W-06-214-1 2007
Federal Agency	14.228 - Community Planning and Development, US Department of Housing and Urban Development 10.760 - Rural Utilities Service, US Department of Agriculture
Pass-Through Agency	14.228 - Ohio Department of Development 10.760 - N/A

Noncompliance Citation/Material Weakness

OMB Circular A-133 Subpart C §_.300 requires, in part, auditees to:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §_.310.

OMB Circular A-133 Subpart C §.310(b) states, in pertinent part, that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other indentifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should indentify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the total amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

The Village did not identify federal funds or prepare a federal schedule. The Village does not have a system in place to identify and monitor the federal award expenditures. The Village could not locate all grant related documents and records and did not maintain all documents related to the grant project. Specifically, the Village did not retain records and supporting documentation from the United State Department of Agriculture, Rural Development (USDA/RD), the Ohio Valley Regional Development Commission (OVRDC), and the project engineers. An incomplete and inaccurate schedule could result in the loss of federal funds or jeopardize future federal funding. We recommend that the Village develop a system to identify federal award expenditures and monitor its agreements for federal programs periodically during the year to ensure that all federal funds are being properly reported on the schedule.

Officials' Response:

We did not receive a response from Officials to this finding.

Finding Number	2008-006
CFDA Title and Number	14.228 Community Development Block Grant Program 10.760 Water and Waste Disposal Systems for Rural Communities
Federal Award Number / Year	C-W-06-214-1 2007
Federal Agency	14.228 - Community Planning and Development, US Department of Housing and Urban Development 10.760 - Rural Utilities Service, US Department of Agriculture
Pass-Through Agency	14.228 - Ohio Department of Development 10.760 – N/A

Noncompliance Citation/Material Weakness

OMB Circular A-133 § .300 states that an auditee shall:

- (b) maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs;
- (c) comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

The Village received funding through the United States Department of Agriculture, Rural Development (USDA/RD) for Village of Highland Sewer project. Section 3 (N) of the United States Department of Agriculture Rural Utilities Service Water Waste System Grant Agreement requires the Village to retain documents “which are pertinent to the specific grant program for the purpose of making audits, examinations, excerpts and transcripts.” They are also required to maintain accounting records that are supported by source documentation. The Village did not maintain accounting records to support these grant and loan transactions. We were able to obtain complete copies of loan and grant transactions from the USDA/RD representative. The grant and loan agreements also contain provisions that the Village must have “effective control over and accountability for all funds, property and other assets.” No evidence was found to determine that the Village of Highland Sewer project accounts were being reconciled and properly monitored by management at the Village level. All reviews and monitoring of the project were performed by personnel from the USDA/RD office.

The Village did not maintain complete records for the Village of Highland Sewer project and did not properly document any monitoring activities completed at the Village level for the federal funds expended. The Village relied on representatives from the USDA/RD to maintain supporting documentation for the project and to review and monitor all federal funds expended. The Village could not locate all grant related documents and records related to the grant and project. As a result, the Village did not identify federal funds or prepare a federal schedule, as noted in Finding 2008-005 above. We were able to obtain records and supporting documentation from the United States Department of Agriculture, Rural Development (USDA/RD), the Ohio Valley Regional Development Commission (OVRDC) and the project engineers. The Village also contracted with the OVRDC to administer the Community Development Block Grant Water and Sanitary Sewer Program. The Village’s involvement in the compliance of the loan and grant requirements is key to ensure grant compliance; without their involvement, the Village could be in noncompliance with the terms of the loan or grant agreements or specific auditee responsibilities outlined above. Noncompliance with the terms of the agreements or auditee responsibilities could result in termination of federal funding for the sewer project.

We recommend that the Village establish and maintain their own internal control procedures over compliance to specific loan and grant requirements. To help ensure proper monitoring of all aspects of the sewer project, we recommend that the Village assign a project manager to oversee the project as a whole. The project manager would also be responsible for maintaining appropriate supporting documentation for the Village of Highland Sewer Project which would allow the Village to be in compliance with all the terms of the grant or loan agreements and federally mandated auditee responsibilities.

Officials’ Response:

We did not receive a response from Officials to this finding.

**VILLAGE OF HIGHLAND
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	ORC Section 5705.41(D) Prior certification not obtained for all expenditures.	No	Repeated as 2008-004
2006-002	Annual financial reports not accurately prepared.	No	Repeated as part of 2008-001
2006-003	Sewer account internal controls.	No	Reported in management letter



Mary Taylor, CPA
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
JANUARY 12, 2010**