



Mary Taylor, CPA
Auditor of State

VILLAGE OF HIGGINSPO
BROWN COUNTY

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Mary Taylor, CPA

Auditor of State

Village of Higginsport
Brown County
204 Jackson Street
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 a February 2, 2005 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 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

February 2, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Higginsport
Brown County
204 Jackson Street
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, 2004 and 2003. 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.

The Village did not provide sufficient evidence supporting traffic citations issued by the Village police for Mayor's Court during 2004 and 2003, which are recorded as other non-operating 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 validity of the Mayor's Court receipts or satisfy ourselves regarding the validity of the receipts through other auditing procedures. Mayor's Court receipts represent 100% of the receipts recorded in the Agency Fund Type and accounted for 58% and 53% of total receipts collected by the Village's General Fund during 2004 and 2003, respectively.

The accompanying financial statements present disbursements by fund type totals only. Ohio Administrative Code, Section 117-2-02(A), requires governments to classify disbursement transactions.

The Auditor of State had billed the Village for audit services provided for calendar years 2001 and 2002. As of the date of this report, the Village has been billed a total of \$12,650, of which it has paid \$10,626. The Village has established a payment plan with the Auditor of State for the remaining amount of \$2,024.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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

Also, in our opinion, except for adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amount recorded as other non-operating receipts in the Agency Fund and as fines, licenses, and permits in the General Fund, and except for the omission of disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2004 and 2003, and its combined cash receipts and unclassified disbursements for the years then ended on the basis of accounting described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2007, 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.



Mary Taylor, CPA
Auditor of State

February 2, 2007

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property Tax and Other Local Taxes	\$7,913	\$18,765	\$26,678
Intergovernmental Receipts	7,700	17,525	25,225
Charges for Services		27,213	27,213
Fines, Licenses, and Permits	24,167		24,167
Earnings on Investments	569	113	682
Miscellaneous	1,780	2,683	4,463
Total Cash Receipts	42,129	66,299	108,428
Cash Disbursements:			
Current:			
General Government	525	530	1,055
Debt Service:			
Principal Payments		29,036	29,036
Interest Payments		1,600	1,600
Capital Outlay		54,312	54,312
Unclassified	44,240	36,438	80,678
Total Cash Disbursements	44,765	121,916	166,681
Total Receipts (Under) Disbursements	(2,636)	(55,617)	(58,253)
Other Financing Receipts:			
Proceeds of Loan		54,312	54,312
Total Other Financing Receipts	0	54,312	54,312
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements			
	(2,636)	(1,305)	(3,941)
Fund Cash Balances, January 1	11,803	26,463	38,266
Fund Cash Balances, December 31	\$9,167	\$25,158	\$34,325

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

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$11,056	\$0	\$11,056
Miscellaneous	141		141
Total Operating Cash Receipts	<u>11,197</u>	<u>0</u>	<u>11,197</u>
Operating Cash Disbursements:			
Capital Outlay	9,404		9,404
Unclassified	11,568		11,568
Total Operating Cash Disbursements	<u>20,972</u>	<u>0</u>	<u>20,972</u>
Operating Income/(Loss)	<u>(9,775)</u>	<u>0</u>	<u>(9,775)</u>
Non-Operating Cash Receipts:			
Proceeds from Loans	8,555		8,555
Other Non-Operating Receipts		26,717	26,717
Total Non-Operating Cash Receipts	<u>8,555</u>	<u>26,717</u>	<u>35,272</u>
Non-Operating Cash Disbursements:			
Debt Service	2,500		2,500
Other Non-Operating Cash Disbursements		28,523	28,523
Total Non-Operating Cash Disbursements	<u>2,500</u>	<u>28,523</u>	<u>31,023</u>
Net Receipts (Under) Disbursements	(3,720)	(1,806)	(5,526)
Fund Cash Balances, January 1	<u>16,760</u>	<u>2,713</u>	<u>19,473</u>
Fund Cash Balances, December 31	<u>\$13,040</u>	<u>\$907</u>	<u>\$13,947</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 DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$8,389	\$19,901	\$28,290
Intergovernmental Receipts	7,391	17,299	24,690
Charges for Services		25,018	25,018
Fines, Licenses, and Permits	14,804		14,804
Earnings on Investments	665	128	793
Miscellaneous	3,392	34	3,426
	<u>34,641</u>	<u>62,380</u>	<u>97,021</u>
Cash Disbursements:			
General Government	304	596	900
Debt Service:			
Principal Payments		17,795	17,795
Interest Payments		2,567	2,567
Unclassified	41,851	39,513	81,364
	<u>42,155</u>	<u>60,471</u>	<u>102,626</u>
Total Receipts Over/(Under) Disbursements	<u>(7,514)</u>	<u>1,909</u>	<u>(5,605)</u>
Fund Cash Balances, January 1	<u>19,317</u>	<u>24,554</u>	<u>43,871</u>
Fund Cash Balances, December 31	<u>\$11,803</u>	<u>\$26,463</u>	<u>\$38,266</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 DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$11,901		\$11,901
Miscellaneous	215		215
Total Operating Cash Receipts	<u>12,116</u>	<u>0</u>	<u>12,116</u>
Operating Cash Disbursements:			
Capital Outlay	110,841		110,841
Unclassified	16,052		16,052
Total Operating Cash Disbursements	<u>126,893</u>	<u>0</u>	<u>126,893</u>
Operating Income/(Loss)	<u>(114,777)</u>	<u>0</u>	<u>(114,777)</u>
Non-Operating Cash Receipts:			
Proceeds from Loans	124,539		124,539
Other Non-Operating Receipts		16,486	16,486
Total Non-Operating Cash Receipts	<u>124,539</u>	<u>16,486</u>	<u>141,025</u>
Non-Operating Cash Disbursements:			
Debt Service	2,500		2,500
Other Non-Operating Cash Disbursements		17,413	17,413
Total Non-Operating Cash Disbursements	<u>2,500</u>	<u>17,413</u>	<u>19,913</u>
Net Receipts Over/(Under) Disbursements	7,262	(927)	6,335
Fund Cash Balances, January 1	<u>9,498</u>	<u>3,640</u>	<u>13,138</u>
Fund Cash Balances, December 31	<u>\$16,760</u>	<u>\$2,713</u>	<u>\$19,473</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, 2004 AND 2003**

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 governs the Village. The Village provides police and fire protection, life squad services, limited sewer and garbage utilities. The Village contracts with Brown County Rural Water to provide water.

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

B. Basis of Accounting

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. This basis 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 certain disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A). This Ohio Administrative Code Section requires classifying receipts and disbursements.

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash Deposits

The Village values certificates of deposit at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 trusts or for capital projects) that are restricted to expenditure for specific purposes. 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 HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fire Levy Fund -This fund receives local taxes and contract for services 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.

Garbage Fund - This fund receives charges for services from residents to cover garbage service costs

Sewer Project Fund - This fund receives intergovernmental grants and loans proceeds to finance a wastewater treatment plant project.

4. Fiduciary Fund (Agency Fund)

Agency funds are used to account for resources held by the Village as an agent for other governmental units. The Village has only one agency fund, 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.

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. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure.

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.

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not use the encumbrance method of accounting. There were no material encumbrances at year end.

A summary of 2004 and 2003 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.

2. EQUITY IN POOLED CASH DEPOSITS

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

	2004	2003
Demand deposits	\$48,272	\$47,361
Certificates of deposit		10,378
Total deposits	48,272	57,739

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$50,000	\$42,129	(\$7,871)
Special Revenue	50,900	120,611	69,711
Enterprise	348,300	19,752	(328,548)
Total	\$449,200	\$182,492	(\$266,708)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$52,525	\$44,765	\$7,760
Special Revenue	75,100	121,916	(46,816)
Enterprise	614,300	23,472	590,828
Total	\$741,925	\$190,153	\$551,772

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$65,000	\$34,641	(\$30,359)
Special Revenue	52,490	62,380	9,890
Enterprise	139,000	136,655	(2,345)
Total	\$256,490	\$233,676	(\$22,814)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$70,025	\$42,155	\$27,870
Special Revenue	56,400	60,471	(4,071)
Enterprise	786,650	129,393	657,257
Total	\$913,075	\$232,019	\$681,056

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Fire, Police, and Sewer funds by \$8,349, \$838, and \$2,885, respectively for the year ended December 31, 2003. Budgetary expenditures exceeded appropriation authority in the Police fund by \$1,704 and in the Fire Levy fund by \$54,860 for the year ended December 31, 2004.

Contrary to Ohio Law, appropriations exceeded estimated resources in the Sewer Project fund by \$644,013 for the year ended December 31, 2003. Appropriations exceed estimated resources in the Street, State Highway, and Sewer Project funds by \$1,856, \$224, and \$253,065, respectively for the year ended December 31, 2004.

Also contrary to Ohio law, at December 31, 2004, the Police fund had a cash deficit balance of \$1,356.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**VILLAGE OF HIGGINSPORT
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Fire Truck Installment Loan - Citizens Bank	\$54,312	4.50%
OWDA Loan - Wastewater Planning	20,000	0.00%
OWDA Loan - Treatment Plant & Collection System	133,093	0.00%
Total	<u>\$207,405</u>	

The Village borrowed \$54,312 from the Citizens Bank of Higginsport in 2004 to purchase a fire truck. The loan was repaid in one payment of \$54,727 due on February 10, 2005, including interest, from the fire levy tax money and fire contract money received from Lewis Township. The loan is collateralized by the fire truck.

The Village borrowed \$25,000 from the Ohio Water Development Authority (OWDA) to finance a feasibility study for a new wastewater treatment plant and collection system. The loan is to be repaid in annual installments of \$2,500 on July 1 of each year for 10 years from sewer charges and intergovernmental grants. The loan is collateralized by sewer receipts.

The Village borrowed \$133,093 from the Ohio Water Development Authority (OWDA) to finance the design phase of the new wastewater treatment and collection system project. The loan will be repaid in semi-annual installments of \$13,309 on January 1 and July 1 of each year for 5 years from sewer charges and intergovernmental grants. The final payment is due July 1, 2011. The loan is collateralized by sewer receipts.

Amortization of the above debt, including interest, follows:

Year ending December 31:	Fire Truck Installment Loan - Citizens Bank	OWDA Loan - Wasterwater Planning	OWDA Loan - Treatment Plant & Collection System	Total
2005	\$54,727	\$2,500		\$57,227
2006		2,500		2,500
2007		2,500	26,619	29,119
2008		2,500	26,619	29,119
2009		2,500	26,619	29,119
2010-2014		7,500	53,236	60,736
Total	<u>\$54,727</u>	<u>\$20,000</u>	<u>\$133,093</u>	<u>\$207,820</u>

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

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 plans. The Ohio Revised Code prescribes the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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



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 Higginsport
Brown County
204 Jackson Street
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, 2004 and 2003, and have issued our report thereon dated February 2, 2007, 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 and wherein we noted the Village has outstanding audit fees due to the Auditor of State. We also qualified our opinion for the lack of evidential matter supporting recorded receipts of the Agency fund type and for the Village not classifying disbursements in the financial statements. 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Government's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001, 2004-002 and 2004-006 through 2006-008.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2004-001 and 2006-006 to be material weaknesses. In a separate letter to the Village's management dated February 2, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 2004-001 through 2004-005. In a separate letter to the Village's management dated February 2, 2007 we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

February 2, 2007

**VILLAGE OF HIGGINSPO
BROWN COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 733.28, requires the Village Clerk to maintain the books of the Village and exhibit accurate statements of all monies received and expended. The Village's fiscal officer did not properly maintain a receipt ledger or an appropriation ledger. The Village did not properly classify receipt and disbursement transactions. The Village was therefore unable to monitor compliance with its appropriation resolution. The Village was also unable to classify receipts by source or 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 accounting 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. Per Ohio Admin Code, Section 117-2-02(D), 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 Village maintained a receipts ledger during the audit period; however, the ledger did not include estimated receipts, credit postings, and declining balances. The receipts ledger was also not totaled and did not utilize account classifications to facilitate preparation of the Village's annual financial report.

2. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution. The Village maintained an appropriation ledger during the audit period; however, the ledger did not include appropriations, encumbrances, and declining unencumbered appropriation balances. The appropriation ledger was also not totaled and did not utilize account classifications to facilitate preparation of the Village's annual financial report.

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.

FINDING NUMBER 2004-002

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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 (\$1,000 prior to April 7, 2003) 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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, respectively, for 2004 and 2003 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.

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 Clerk 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.

**FINDING NUMBER 2004-002
(Continued)**

We recommend the Village officials and employees obtain the Clerk'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 Clerk should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Rev. Code, Sections 2743.70 and 2949.091, require the Mayor's Court to collect and remit State reparations costs and General Fund costs to the state on all offenses, other than a traffic offense that is not a moving violation, of which any person is convicted or pleads guilty. Ohio Rev. Code Section 1905.21 requires the mayor to account for and dispose of all fines, forfeitures, fees and costs collected. Additionally, Ohio Rev. Code, Section 733.40, requires the Mayor to remit funds due to the Village on the first Monday of each month.

During the audit period funds were collected but not remitted timely to the State and the Village. In the prior two audits as of the end of the audit period the Village had funds that were due the State and not remitted. During our audit period we did see where the Village had made extra payments to the State to attempt to repay these amounts from the previous audits. From review of the opening outstanding balances and all the revenues received and fines that should have been distributed to the Village and State during this audit period as of December 31, 2004 we found that the Village had submitted \$500 too much to the State and had an outstanding balance due the Village of \$1,407.

We recommend that the Village review the Mayor's court activity for 2005, 2006 and up to the current date of this report to determine if any amounts over their required monthly distributions were made during this time period and then determine if the amounts outstanding as of December 31, 2004 have been paid. If it appears, the Village has still overpaid the State they should consult with their legal counsel and the State to determine what corrective action should be taken.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Rev. Code, Section 5705.39, states that the total appropriations from each fund should not exceed the total estimated revenue. Appropriations exceeded estimated revenue in the following fund for fiscal year 2003:

Fund	Appropriations	Estimated Revenue	Variance
Sewer Project	772,250	128,237	(644,013)

Appropriations exceeded estimated revenue in the following funds for fiscal year 2004:

Fund	Appropriations	Estimated Revenue	Variance
Street	16,800	14,944	(1,856)
State Highway	2,300	2,076	(224)
Sewer Project	600,000	346,935	(253,065)

Failure to comply with the above Ohio Revise Code section resulted in the Village appropriating more funds than they expected to have available. This practice could result in negative fund balances due to spending more funds than are available. We recommend that the Village compare estimated revenue with appropriations before making any modifications to these official documents.

FINDING NUMBER 2004-005

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), provides that no subdivision or taxing unit is to expend money unless it has been properly appropriated. Expenditures exceeded appropriations at fiscal year-end 2003 in the following funds:

Fund	Expenditures	Appropriations	Variance
Fire	37,349	29,000	(8,349)
Police	10,338	9,500	(838)
Sewer	5,185	2,300	(2,885)

Expenditures exceeded appropriations at fiscal year-end 2004 in the following fund:

Fund	Expenditures	Appropriations	Variance
Police	12,204	10,500	(1,704)
Fire Levy	96,860	42,000	(54,860)

We recommend that the Village monitor budgetary activity and obtain supplemental appropriations throughout the year to mitigate negative variances.

FINDING NUMBER 2004-006

Reportable Condition - Material Weakness

Good internal control procedures would indicate that proper control should be maintained of issued and unissued tickets by the Police Chief. Thus, unissued ticket books should be stored in a secure location and a 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 keep Part 4 (the back copy) of the traffic citations stored in a ticket file in numeric ticket order with every ticket accounted for. Void tickets should be maintained in this file with all four copies of the ticket attached. A ticket register should be maintained in ticket 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. Review of the tickets found in the case jackets did not provide accountability over all the traffic citations since there were gaps in the sequence of numbers of tickets found in the case jackets.

The purpose of a citation log is to maintain an independent record of all citations issued. Not maintaining a 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 validity 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.

FINDING NUMBER 2004-007

Reportable Condition

Mayor's Court

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 the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village did not have adequate control procedures over the operation of the Mayor's Court. The following conditions were noted concerning the Mayor's Court:

- The Mayor's Court Clerk did not maintain documentation of their monthly bank reconciliations. There were some various bank charges that were not documented as part of the reconciliation process. The reconciling process is composed of taking the bank balances from which outstanding checks are subtracted, other adjustments considered (unrecorded interest income and deposits in transit are examples) and the resulting amount should agree with the Mayor's Court's book/fund balances. Reconciliations should be done monthly and documented in writing for future reference, this can be done utilizing the format as shown on the back of their monthly bank statement.
- It originally appeared that the May 2003 receipts posted in the mayor's cashbook were not deposited in bank. Further review disclosed that these same receipts were posted a second time in the mayor's court cashbook in June 2003 with the deposit being made in July 2003. This would have been detected by the Mayor's Court had they been reconciling monthly. Due care should be taken in assuring that cases are not posted twice in the cashbook and that the cashbook is reconciled with the bank statement on a monthly basis.
- The bank statement for May 2003 was not presented for audit. The bank statement activity for that month was eventually obtained from the bank and presented for audit. Bank statements and all supporting documents should be safeguarded so they are available for future reference and if financial documents are to be disposed of they should assure this disposal is in accordance with the Village's record retention schedule and approval process.
- The cashbook had the following deficiencies: it did not identify which receipts were being distributed; monthly distributions were not posted at all in cashbook; there were no dates noted in the cashbook just the month; and receipt numbers were not entered in the cashbook. Lack of a properly maintained cashbook makes reconciliations difficult, does not document details that are necessary for future court use and increases the probability that errors or misappropriation of funds will go undetected.

The mayor's court cashbook should contain the date, payee, ordinance section they are cited under, case/ticket number, receipt number, amount received and then a breakdown for the amount of village fines, village costs, state fines, state cists and miscellaneous fines detailed. All transactions should be entered and then columns totaled at the end of the month to assist with determining amounts that should be remitted to the Village and State monthly. These remittances along with check number, date and amount should be included in the cashbook.

**FINDING NUMBER 2004-007
(Continued)**

- Duplicate receipts were only prepared for money paid in person or when requested. Not issuing receipts contribute to a lack of control over the recording of mayor's court activity. A duplicate prenumbered receipt should be issued for each item received. The receipt should always be signed by the person issuing the receipt and receiving the money.
- The court docket did not list cases in a numerical order but rather somewhat by court date. Also the docket numbers that were assigned were the actual traffic citation number thus they were not case numbers in numerical order. In order to assist in documenting the completeness of the docket it is recommended that case numbers be assigned in numerical order for each year. Often the courts would use a numbering sequence which had the year first and then used numbers in order thus for example the cases would be numbered 2007-001, 2007-002, 2007-003 etc. These case numbers would be referenced in the cashbook so that you could go from a traffic citation to the docket easily.

FINDING NUMBER 2004-008

Reportable Condition

All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. When designing the public office's system of internal control and the specific control activities, management should consider monitoring financial activities to ensure the reliability of financial reporting, the effectiveness and efficiency of operations; compliance with applicable laws and regulations; and safeguarding of assets.

We noted the following weaknesses in the Village's monitoring of financial activity:

Village Council was being presented with a listing of bills for approval for payment and fund balances at each monthly Council meeting however they were not receiving detailed financial reports monthly. Also, monthly bank reconciliations were not documented as being presented to the Council for review and approval.

Failure to present monthly financial reports to Village Council could result in transactions occurring without Council approval and does not provide for monitoring of budget versus actual status of receipts and disbursements. We recommend the following procedures be implemented:

The Clerk-Treasurer should present monthly financial reports including receipts and disbursements, and budgeted receipts and disbursements as well and bank reconciliations to the Council for review and approval They should also continue to present the listing of bills for approval by Council denoting the vendor name, amount and appropriation code from which they are approving payment.

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**VILLAGE OF HIGGINSPO
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	ORC Section 733.28, failure to properly maintain receipt and appropriation ledgers and classify receipts and disbursements	No	Not corrected. Reissued as Finding 2004-001
2002-002	ORC Section 731.14	N/A	Finding not valid this audit.
2002-003	ORC Section 5705.41(D), failure to properly certify the availability of funds	No	Not corrected. Reissued as Finding 2004-002
2002-004	Police citation log not maintained	No	Not corrected. Reissued as Finding 2004-006
2002-005	ORC Section 5705.39, appropriations exceeding estimated revenue	No	Not corrected. Reissued as Finding 2004-004
2002-006	ORC Section 5705.41(B), expenditures exceeding appropriations	No	Not corrected. Reissued as Finding 2004-005
2002-007	ORC Section 1905.21, failure to post all receipts and disbursements and maintain accountability over Mayor's Court money.	No	Partially corrected. Reissued as Finding 2004-007
2002-008	ORC Section 2743.70 and 2949.091 and finding for recovery, failure to remit to the State of Ohio monies collected for state preparations costs and general fund costs.	No	Partially corrected. Reissued as Finding 2004-003
2002-009	Lack of financial monitoring.	Partially corrected	Partially corrected. Reissued as Finding 2004-008



Mary Taylor, CPA
Auditor of State

VILLAGE OF HIGGINSPOORT

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 20, 2007**