



**Auditor of State
Betty Montgomery**

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lincoln Heights
Hamilton County
1201 Steffen Avenue
Lincoln Heights, Ohio 45215

To the Village Council:

We have audited the accompanying financial statements of the Village of Lincoln Heights, Hamilton County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2005, 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.

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 16, 2005

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| | <u>Governmental Fund Types</u> | | | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-------------------------|-----------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Fiduciary Funds</u> | |
| Cash Receipts: | | | | | | |
| Property Tax and Other Local Taxes | \$908,953 | \$416,941 | \$0 | \$0 | \$7,734 | \$1,333,628 |
| Intergovernmental Receipts | 171,007 | 299,811 | | 116,100 | 853 | 587,771 |
| Special Assessments | 1,127 | | | | | 1,127 |
| Charges for Services | 149,907 | | | | | 149,907 |
| Fines, Licenses, and Permits | 70,244 | 4,060 | | | | 74,304 |
| Earnings on Investments | 623 | 590 | | | | 1,213 |
| Miscellaneous | 34,609 | 112,115 | | | | 146,724 |
| Total Cash Receipts | <u>1,336,470</u> | <u>833,517</u> | <u>0</u> | <u>116,100</u> | <u>8,587</u> | <u>2,294,674</u> |
| Cash Disbursements: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 607,196 | 344,715 | | | 14,547 | 966,458 |
| Public Health Services | 1,533 | | | | | 1,533 |
| Leisure Time Activities | | 75,868 | | | | 75,868 |
| Community Environment | 27,717 | 41,666 | | | | 69,383 |
| Basic Utility Services | 19,000 | 125,514 | | | | 144,514 |
| Transportation | | 162,636 | | | | 162,636 |
| General Government | 608,448 | | | | | 608,448 |
| Debt Service: | | | | | | |
| Principal Payments | 84,957 | 18,928 | 11,000 | | | 114,885 |
| Interest Payments | 20,419 | 3,486 | 1,650 | | | 25,555 |
| Capital Outlay | 53,706 | 81,473 | | 158,516 | | 293,695 |
| Total Cash Disbursements | <u>1,422,976</u> | <u>854,286</u> | <u>12,650</u> | <u>158,516</u> | <u>14,547</u> | <u>2,462,975</u> |
| Total Receipts Over/(Under) Disbursements | <u>(86,506)</u> | <u>(20,769)</u> | <u>(12,650)</u> | <u>(42,416)</u> | <u>(5,960)</u> | <u>(168,301)</u> |
| Other Financing Receipts and (Disbursements): | | | | | | |
| Sale of Assets | 54,350 | | | 23,380 | | 77,730 |
| Transfers-In | | 76,900 | 11,400 | 20,800 | | 109,100 |
| Transfers-Out | (109,100) | | | | | (109,100) |
| Other Financing Sources | | | | | 40,188 | 40,188 |
| Other Financing Uses | | | | | (36,053) | (36,053) |
| Proceeds of Lease | 53,706 | | | 5,953 | | 59,659 |
| Total Other Financing Receipts/(Disbursements) | <u>(1,044)</u> | <u>76,900</u> | <u>11,400</u> | <u>50,133</u> | <u>4,135</u> | <u>141,524</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | <u>(87,550)</u> | <u>56,131</u> | <u>(1,250)</u> | <u>7,717</u> | <u>(1,825)</u> | <u>(26,777)</u> |
| Fund Cash Balances, January 1 | <u>(146,553)</u> | <u>332,181</u> | <u>1,681</u> | <u>3,144</u> | <u>20,379</u> | <u>210,832</u> |
| Fund Cash Balances, December 31 | <u>(\$234,103)</u> | <u>\$388,312</u> | <u>\$431</u> | <u>\$10,861</u> | <u>\$18,554</u> | <u>\$184,055</u> |
| Reserves for Encumbrances, December 31 | <u>\$203,691</u> | <u>\$56,261</u> | | | | <u>\$259,952</u> |

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

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

| | <u>Governmental Fund Types</u> | | | | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|-------------------------|-----------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Fiduciary Funds</u> | |
| Cash Receipts: | | | | | | |
| Property Tax and Other Local Taxes | \$921,810 | \$334,028 | \$0 | \$0 | \$7,078 | \$1,262,916 |
| Intergovernmental Receipts | 200,539 | 28,750 | | 630,163 | 848 | 860,300 |
| Special Assessments | 4,719 | | | | | 4,719 |
| Charges for Services | 40,051 | 65,000 | | | | 105,051 |
| Fines, Licenses, and Permits | 103,145 | 2,750 | | | | 105,895 |
| Earnings on Investments | 2,494 | 3,026 | | | | 5,520 |
| Miscellaneous | 75,646 | 91,091 | | 25,170 | | 191,907 |
| Total Cash Receipts | <u>1,348,404</u> | <u>524,645</u> | <u>0</u> | <u>655,333</u> | <u>7,926</u> | <u>2,536,308</u> |
| Cash Disbursements: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 924,692 | 166,733 | | | 13,420 | 1,104,845 |
| Public Health Services | 1,457 | | | | | 1,457 |
| Leisure Time Activities | | 97,765 | | | | 97,765 |
| Community Environment | 34,662 | 48,171 | | | | 82,833 |
| Basic Utility Services | 7,418 | 101,935 | | | | 109,353 |
| Transportation | | 212,466 | | | | 212,466 |
| General Government | 604,241 | | | | | 604,241 |
| Debt Service: | | | | | | |
| Principal Payments | 80,501 | 15,581 | 11,000 | | | 107,082 |
| Interest Payments | 17,489 | 4,257 | 2,310 | | | 24,056 |
| Capital Outlay | 23,695 | | | 814,460 | | 838,155 |
| Total Cash Disbursements | <u>1,694,155</u> | <u>646,908</u> | <u>13,310</u> | <u>814,460</u> | <u>13,420</u> | <u>3,182,253</u> |
| Total Receipts (Under) Disbursements | <u>(345,751)</u> | <u>(122,263)</u> | <u>(13,310)</u> | <u>(159,127)</u> | <u>(5,494)</u> | <u>(645,945)</u> |
| Other Financing Receipts and (Disbursements): | | | | | | |
| Sale of Assets | | 28,839 | | | | 28,839 |
| Transfers-In | 1,291 | | 14,000 | 55,193 | | 70,484 |
| Transfers-Out | (69,193) | (1,291) | | | | (70,484) |
| Proceeds from Loans | | | | 45,569 | | 45,569 |
| Other Financing Sources | | | | 5,502 | | 88,444 |
| Other Financing Uses | | | | | (74,630) | (74,630) |
| Proceeds of Loan | 95,932 | | | | | 95,932 |
| Proceeds of Lease | 23,695 | | | | | 23,695 |
| Total Other Financing Receipts/(Disbursements) | <u>51,725</u> | <u>27,548</u> | <u>14,000</u> | <u>106,264</u> | <u>8,312</u> | <u>207,849</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (294,026) | (94,715) | 690 | (52,863) | 2,818 | (438,096) |
| Fund Cash Balances, January 1 | 147,473 | 426,896 | 991 | 56,007 | 17,561 | 648,928 |
| Fund Cash Balances, December 31 | <u>(\$146,553)</u> | <u>\$332,181</u> | <u>\$1,681</u> | <u>\$3,144</u> | <u>\$20,379</u> | <u>\$210,832</u> |
| Reserves for Encumbrances, December 31 | <u>\$35,123</u> | <u>\$30,237</u> | | | | <u>\$65,360</u> |

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

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

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 Lincoln Heights, Hamilton County, Ohio (the Village), as a body corporate and politic. A publicly-elected seven-member Council governs the Village. The Village provides road maintenance, fire, and police services. The Village contracts with the City of Wyoming to provide advanced life support services.

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (3) the Village is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the levying of taxes. The Village has a related organization as described below.

The Lincoln Heights Community Improvement Corporation (CIC) is located within the corporate limits of the Village and has designated the Village of Lincoln Heights as its Village Agent. The governing Board of the Corporation is comprised of the Mayor of the Village, five of the Village Council persons, and nine other persons. The Mayor appoints the members of the Board for the CIC. The Corporation issues separate financial statements in accordance with general accepted accounting principles (GAAP).

In 2003, the Village paid \$39,000 to the Lincoln Heights Community Improvement Corporation for community improvement services.

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 basis of 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).

These statements include adequate disclosure of material matters the Auditor of State prescribes.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit at cost. STAR Ohio is recorded at share values reported by the State Treasurer.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

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

3. Debt Service Fund

This fund accounts for resources the Village accumulates to pay bond and note debt.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Funds:

Mangham Street – This fund accounts for the proceeds remaining from a road improvement project funded by OPWC and Hamilton County.

Lindy Street – This fund accounts for the proceeds remaining from a road improvement project funded by Ohio Public Works Commission money.

Medosch Street - This fund accounts for the proceeds remaining from a road improvement project funded by Ohio Public Works Commission money.

Memorial Park Grant - This fund accounts for the proceeds remaining from a road improvement project funded by Ohio Department of Natural Resources money.

Other Capital Projects – This fund is used to account for smaller capital projects not requiring a separate fund.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Fiduciary Funds (Trust and Agency Funds)

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Funds:

Police Pension (expendable trust) – This fund receives tax revenue that is used to offset accrued liability for the Ohio Police pension and benefit cost.

Mayor's Court Fund (agency) – This fund receives fines and costs from criminal and traffic citations heard in Mayor's Court. The Village and State distributions are made to the appropriate agency.

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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when 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. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2003 and 2002 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 LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | 2003 | 2002 |
|--------------------------------|-----------|-----------|
| Demand deposits | \$184,055 | \$83,773 |
| Certificate of deposit | 0 | 122,807 |
| Total deposits | 184,055 | 206,580 |
| STAR Ohio - Investment | 0 | 4,252 |
| Total deposits and Investments | \$184,055 | \$210,832 |

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows (except agency fund):

2003 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|------------|
| General | \$1,495,700 | \$1,444,526 | (\$51,174) |
| Special Revenue | 875,200 | 949,417 | 74,217 |
| Debt Service | 11,400 | 11,400 | 0 |
| Capital Project | 174,670 | 166,233 | (8,437) |
| Fiduciary Funds | 6,000 | 8,587 | 2,587 |
| Total | \$2,562,970 | \$2,580,163 | \$17,193 |

2003 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|-------------|
| General | \$1,547,923 | \$1,735,767 | (\$187,844) |
| Special Revenue | 1,083,151 | 910,547 | 172,604 |
| Debt Service | 13,000 | 12,650 | 350 |
| Capital Projects | 174,671 | 158,516 | 16,155 |
| Fiduciary | 6,000 | 14,547 | (8,547) |
| Total | \$2,824,745 | \$2,832,027 | (\$7,282) |

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|--------------------|
| General | \$1,495,235 | \$469,322 | (\$1,025,913) |
| Special Revenue | 529,557 | 553,484 | 23,927 |
| Debt Service | 11,660 | 14,000 | 2,340 |
| Capital Projects | 0 | 761,597 | 761,597 |
| Fiduciary | 8,095 | 7,926 | (169) |
| Total | <u>\$2,044,547</u> | <u>\$1,806,329</u> | <u>(\$238,218)</u> |

2002 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|--------------------|
| General | \$1,595,507 | \$1,798,471 | (\$202,964) |
| Special Revenue | 800,715 | 678,436 | 122,279 |
| Debt Service | 14,000 | 13,310 | 690 |
| Capital Projects | 0 | 814,460 | (814,460) |
| Fiduciary | 6,500 | 13,420 | (6,920) |
| Total | <u>\$2,416,722</u> | <u>\$3,318,097</u> | <u>(\$901,375)</u> |

Contrary to Ohio law, there were cash deficit balances at December 31, 2003 in the General Fund [\$234,104]; and at December 31, 2002 in the General Fund [\$146,554] and the Recreation Fund [\$3,713].

Contrary to Ohio law, transfers were made from the Community Development Fund to the General Fund in the amount of \$81,713 in 2003, and from the Community Development Fund into the General Fund in the amount of \$149,000 in 2002.

Contrary to Ohio law, a resolution authorizing transfers was not passed by council for various transfers during the period of January 1, 2002 through December 31, 2003.

Contrary to Ohio law, appropriations exceeded total estimated resources in the General [\$156], Street [\$2,410], Recreation [\$88], Drug [2,497], Community Development [\$12,500], and Fire Levy [\$844] funds at December 31, 2003; and in the Street [\$96,438], Recreation [\$10,442], JTPA [3,790], Police Computer [\$1,733], Drug [\$572], and Debt [\$1,349] funds at December 31, 2002.

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General [\$187,844], Summer Youth [\$12,295], Waste Levy [\$61], Weed and Seed [\$164,854], Memorial Park Grant [\$6,117], Medosh Street [\$5,953], Lindy Street [\$3,224], Mangham Street [\$3,486] funds at December 31, 2003; and General [\$202,964], Police Levy [\$36,187], Other Capital Projects [\$316,440], Mangham Street [\$189,750], Lindy Street [\$198,256], Medosh Street [\$110,014], Police Pension [\$6,920] funds at December 31, 2002.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding 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.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 2% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|---|------------------|----------------------|
| Building Improvement Notes | \$54,075 | 4.95% |
| Storm Sewer System Revenue Bond | 14,000 | 6% |
| Water System Revenue Bond | 8,000 | 6% |
| Ohio Public Works Street Program | 48,944 | 0% |
| State Fire Marshall Loan | 92,332 | 0% |
| 2001 Ford 650 Snow Plow Lease | 23,718 | 8% |
| 2002 Crown Victoria Police Interceptors Lease | 9,342 | 6% |
| 1998 Sutphen Fire Pumper Lease | 150,598 | 5% |
| Motorola Digital Console System Lease | 37,380 | 9% |
| Total | <u>\$438,389</u> | |

The Village issued \$115,000 Building Improvement Notes on January 26, 1999, maturing on January 26, 2006 at an interest rate of 4.95% for the purpose of acquiring and financing building improvements to the Smith Flowers Civic Center. The Village will repay the notes in annual installments of \$19,838, including interest over seven years.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. DEBT (Continued)

The \$188,000 [original issuance amount] Storm Sewer Improvement Bonds are designated as "first mortgage revenue bonds". The bonds were issued September 15, 1973 by General Electric Capital as fully registered bonds of various denominations maturing March 15, 2005 carrying an interest rate of 6%. The revenue bonds are payable semi-annually on March 1 and September 1. The bonds are callable at par plus accrued interest on any interest payment date on or after March 15, 1988, at the option of the Village, upon sixty days prior written notice to the registered holders thereof.

The \$112,000 [original issuance amount] Water System Improvement Bonds are designated as "first mortgage revenue bonds". The bonds were issued September 15, 1973 by General Electric Capital as fully registered bonds of various denominations maturing March 15, 2005 carrying an interest rate of 6%. The revenue bonds are payable semi-annually on March 1 and September 1. The bonds are callable at par plus accrued interest on any interest payment date on or after March 15, 1988, at the option of the Village, upon sixty days prior written notice to the registered holders thereof.

The Village acquired an interest free loan in the amount of \$51,522 in April 2003 from the Ohio Public Works Street Program that was issued to facilitate improvements to Medosch Street, Mangham Drive and Lindy Avenue. The Village will repay the loan in annual installments of \$1,288 over twenty years.

The Village acquired a loan in December 2002 from the Small Government Fire Departmental Services Revolving Loan Program which was approved and administered by the State Fire Marshall. The interest free loan was issued in the amount of \$95,932 for the purpose of purchasing an Emergency Medical Services Vehicle. The Village will repay the loan in quarterly installments of \$1,200 over twenty years.

The lease purchase dated June 28, 2001 in the amount of \$57,402 at an interest rate of 7.75% for a period of five years is for a 2001 Ford 650 Snow Plow to be used by the Village's Street Department. This lease is to be paid in annual installments of \$13,255.

The lease purchase dated November 02, 2001 in the amount of \$40,912 at an interest rate of 5.5% for a period of four years is for Two 2002 Ford Crown Victoria Police Interceptors for the use of the Police Department. This lease had one annual installment of \$10,000 with the remaining balance payable in monthly installments of \$958.

The lease purchase dated September 11, 1998 in the amount of \$265,546 at an interest rate of 4.91% for a period of ten years is for the 1998 Sutphen Fire Pumper for use by the Fire Department. This lease is to be paid in annual installments of \$35,316.

The lease purchase dated December 15, 2002 in the amount of \$53,706 at an interest rate of 8.98% for a period of three years is for the Motorola XTS 5000 Digital Console System to be used as the Village's phone service system. This lease is to be paid in monthly installments of \$1,707.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. DEBT (Continued)

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

| | Building Improvement Notes | Storm Sewer | Water Revenue Bonds | 2001 Plow Lease | 2002 Police Lease |
|--------------------------|----------------------------------|-----------------|---------------------------|--------------------|----------------------|
| Year ending December 31: | | | | | |
| 2004 | \$19,838 | \$7,630 | \$4,360 | \$13,255 | \$9,579 |
| 2005 | 19,838 | 7,210 | 4,120 | 13,255 | 0 |
| 2006 | 19,838 | 0 | 0 | 0 | 0 |
| Total | <u>\$59,514</u> | <u>\$14,840</u> | <u>\$8,480</u> | <u>\$26,510</u> | <u>\$9,579</u> |

| | OPWC Street Program | State Fire Marshall Loan | Fire Pumper Lease | Motorola Lease | Total All Debt |
|--------------------------|------------------------|-----------------------------|----------------------|-------------------|------------------|
| Year ending December 31: | | | | | |
| 2004 | \$1,288 | \$4,800 | \$35,316 | \$20,488 | \$116,554 |
| 2005 | 2,576 | 4,800 | 35,316 | 20,488 | 107,603 |
| 2006 | 2,576 | 4,800 | 35,316 | | 62,530 |
| 2007 | 2,576 | 4,800 | 35,316 | | 42,692 |
| 2008 | 2,576 | 4,800 | 35,316 | | 42,692 |
| 2009 – 2013 | 12,880 | 24,000 | 0 | | 36,880 |
| 2014 – 2018 | 12,880 | 24,000 | 0 | | 36,880 |
| 2019 – 2023 | 11,592 | 20,332 | 0 | | 31,924 |
| Total | <u>\$48,944</u> | <u>\$92,332</u> | <u>\$176,580</u> | <u>\$40,976</u> | <u>\$477,755</u> |

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2003 and 2002, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. 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, 2003.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

8. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective Village.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002:

| <u>Casualty Coverage</u> | <u>2003</u> | <u>2002</u> |
|--------------------------|--------------|--------------|
| Assets | \$25,288,098 | \$20,174,977 |
| Liabilities | (12,872,985) | (8,550,749) |
| Retained earnings | \$12,415,113 | \$11,624,228 |

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

8. RISK MANAGEMENT (Continued)

| <u>Property Coverage</u> | <u>2003</u> | <u>2002</u> |
|--------------------------|--------------------|--------------------|
| Assets | \$3,158,813 | \$2,565,408 |
| Liabilities | (792,061) | (655,318) |
| Retained earnings | <u>\$2,366,752</u> | <u>\$1,910,090</u> |

9. SUBSEQUENT EVENTS

The Village authorized the conveyance of Village-owned property to the Princeton City School District for \$750,000 on April 26, 2004. Funds were received for the sale of the property on August 19, 2004, and recorded in the General fund of the Village.

The Village also issued Revenue Anticipation Notes on January 5, 2004 in the amount of \$200,000 at an interest rate of 1.6 percent. These notes matured on October 1, 2004.

10. OTHER MATERIAL NONCOMPLIANCE

Contrary to Ohio law, the records of the Village did not exhibit accurate statements of all monies received and expended.

Contrary to Ohio law, the Village did not competitively bid all required contracts.

Contrary to Ohio law, the records of Mayor's Court did not exhibit accurate statements of all monies received and expended.

Contrary to Ohio law and the Village Charter, the Village Finance Director and the Village Manager were not properly bonded.



**Auditor of State
Betty Montgomery**

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

Village of Lincoln Heights
Hamilton County
1201 Steffen Road
Lincoln Heights, Ohio 45215

To the Village Council:

We have audited the financial statements of the Village of Lincoln Heights, Hamilton County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated November 16, 2005. 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 Village'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 2003-002 through 2003-012.

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 2003-002, 2003-004, and 2003-008 listed above to be material weaknesses. In a separate letter to the Village's management dated November 16, 2005, 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 2003-001 through 2003-009, and 2003-013. In a separate letter to the Village's management dated November 16, 2005, 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.



Betty Montgomery
Auditor of State

November 16, 2005

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Finding for Recovery

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a public entity should serve a proper public purpose. McClure indicates that as a general rule, the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary and unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that the decision to expend public funds "... must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision must be memorialized by a duly enacted ordinance or resolution and may have prospective effect only." Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

On August 30, 2002, a check signed by Barry Ruffin, prior Finance Director, and Carol Cornelison, prior Village Manager, was issued to Cash in the amount of \$9,000 to pay for entertainment and petty cash for the Lincoln Heights Day Festival. The check was later endorsed by Barry Ruffin.

A purchase order was prepared and signed by Barry Ruffin on August 30, 2002 noting that of the \$9,000, \$7,475 was for the cost of entertainers for the festival and \$1,525 was for petty cash to make change for festival booths. On September 3, 2002, \$1,070 was returned to the Village for reimbursement for the petty cash amount. The difference between the petty cash amount issued and the petty cash amount returned was \$455. The total amount for which there was no documentation to substantiate purchases made or entertainers paid is \$7,930.

In accordance with the forgoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Barry Ruffin and Carol Cornelison, jointly and severally, in the amount of \$7,930, in favor of the Village Treasury.

FINDING NUMBER 2003-002

Noncompliance/Material Weakness

Ohio Rev. Code, Section 733.28, requires the Village Finance Director to maintain the books of the Village and exhibit accurate statements of monies received and expended. Ohio Admin. Code Section 117-9-01 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).

Review of the Village's ledgers noted the following exceptions:

- Loan payments made during 2002 were recorded as Leisure Time Activities in the Recreation Fund. Loan payments made during 2003 were recorded as capital outlay in the Recreation Fund, Capital Outlay in the Street Fund. Loan payments should be recorded as debt service principal and debt service interest.
- Lease payments made during 2003 and 2002 were recorded as general government in the General Fund. Lease payments should be consistently recorded as either debt service or capital outlay expenditures.

FINDING NUMBER 2003-002
(Continued)

- Loan proceeds for the Medosch Street Improvement received in 2002 from OPWC in the amount of \$45,569 and in 2003 in the amount of \$5,954 were not recorded in the Village records.
- New lease purchase agreement proceeds in 2002 for the Ford Escape in the amount of \$23,695, and in 2003 for the Motorola 800 MHZ radio system in the amount of \$53,706 were not recorded in the Village records.
- On-behalf payments [receipts and expenditures] from OPWC in the amount of \$348,249 in 2002 and \$6,710 in 2003 were not recorded to the Village records. Auditor of State bulletin 2002-004 states that all local governments participating in Issue 2 Funds must, for each project awarded, establish a capital projects fund to account for both the Issue 2 monies and local matching funds. OPWC will make payments to the contractor(s) for its share of the grant based on invoices submitted by the fiscal officer or to the local government as a reimbursement. For payments made to the contractor, the State will notify the fiscal officer of the amount disbursed. Upon receipt of this notice, each local government shall record a receipt and expenditure in the capital projects fund equal to the amount disbursed by the OPWC.
- Several receipts were not properly classified:
 - Personal property exemption was recorded as taxes instead of intergovernmental
 - Special Assessments were recorded as taxes and miscellaneous instead of special assessments
 - Homestead & Rollback was recorded as taxes instead of intergovernmental
 - Permissive Tax, MVL, and Gas Tax were recorded as intergovernmental instead of taxes

Audit adjustments were proposed to address the exceptions noted above. Failure to accurately maintain the Village's account records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity, 3) increases the likelihood that monies will be misappropriated and not detected, and 4) increases the likelihood that the Village's financial statements will be misstated. The Village has properly reclassified the transactions described above in the accompanying financial statements.

We recommend the Village Finance Director accurately maintain the Village's accounting records in accordance with the Ohio Admin. Code Section 117-9-01 and utilize the Village Officers Handbook as additional guidance.

FINDING NUMBER 2003-003

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 125.04(C), provides that a political subdivision may purchase supplies or services from another party other than the Ohio Department of Administrative Services, including another political subdivision, instead of through participation in contracts described in division (B) of the same section if the political subdivision can purchase services from the other party on equivalent terms, conditions, and specifications but at a lower price than it can through the Ohio Department of Administrative Services. A political subdivision that makes any purchase under this division shall maintain sufficient information regarding the purchase to verify that the political subdivision satisfied the conditions for making a purchase under this division.

**FINDING NUMBER 2003-003
(Continued)**

Additionally, Ohio Rev. Code, Section 731.14, requires contracts for material exceeding \$15,000 (\$25,000 effective 9/26/05) to be subject to competitive bidding in the manner provided for in this section.

The Village entered into a lease-purchase agreement in 2002 with Ford Motor Company for a Ford Escape in the amount of \$23,695 without bidding.

We recommend the Village either follow proper bidding procedures as mandated by the Ohio Revised Code or maintain documentation that the purchases were made at a lower cost than that offered by the Ohio Department of Administrative Services. All lease agreements should be approved by the Village Council and documented in the minutes.

FINDING NUMBER 2003-004

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.10, states that money paid into any fund shall be used only for the purposes for which such fund is established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had negative fund balances at the end of the year during the audit period.

| | |
|-----------------|-----------|
| 2003 | |
| General Fund | \$234,103 |
| 2002 | |
| General Fund | \$146,553 |
| Recreation Fund | 3,713 |

This could result in funds being spent outside of their intended purpose. The Village should monitor their fund balances, and keep their spending within the limits of each funds balance, providing assurance that funds are used solely for their intended purpose. Proper budgetary monitoring is a good tool for reducing the risk of this occurring.

FINDING NUMBER 2003-005

Noncompliance Citation/Reportable Condition

Ohio Rev. Code Section 5705.14 provides that no transfer shall be made from one fund of a subdivision to any other fund, by order of the court or otherwise, unless it satisfies one of the exceptions designated in the Section.

Additionally, interfund transfers shall only be made by resolution of the taxing authority. *See also* 1989 Op. Atty. Gen. No. 89-075 (Ohio Rev. Code, Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by a resolution passed by a two-thirds vote of the taxing authority.

**FINDING NUMBER 2003-005
 (Continued)**

In addition to transfers from the General Fund and those permitted by Ohio Rev. Code 5705.14, Ohio Rev. Code, Section 5705.15, permits the taxing authority of any political subdivision, with the approval of the Council and the Court of Common Pleas, to transfer from one fund to another any public funds under its supervision, except the proceeds or balances of loans, bond issues, special levies for the payment of loans or bond issues, the proceeds of funds derived from any excise tax levied by law for a specified purpose, and the proceeds or balances of any license fee imposed by law for a specified purpose.

During the audit period the Village made the following illegal transfers:

- \$81,713 from the Community Development Fund to the General Fund in 2003.
- \$149,000 from the Community Development Fund to the General Fund in 2002.

Adjustments have been made to the financial statements and the Village financial records to eliminate these transfers.

Ohio Rev. Code, Section 5705.16, provides that a resolution of the taxing authority of any political subdivision shall be passed by a majority of all the members thereof, declaring the necessity for the transfer of funds authorized. During the audit period the following transfers were made without the required resolution declaring their necessity by Council:

| From | To | Amount | Date |
|----------------------------|----------------------------|----------|----------|
| JTPA Fund | General Fund | \$ 1,291 | 1/1/02 |
| General Fund | Bond Debt Fund | 14,000 | 1/1/02 |
| General Fund | Community Development Fund | 19,000 | 4/15/02 |
| Community Development Fund | General Fund | 120,713 | 1/3/03 |
| General Fund | Memorial Park Project | 20,800 | 4/30/03 |
| General Fund | Bond Debt Fund | 11,400 | 4/30/03 |
| General Fund | Community Development Fund | 39,000 | 5/19/03 |
| General Fund | Street Maintenance Fund | 76,900 | 11/25/03 |

Illegal and unauthorized transfers could result in funds being spent outside of their intended purpose. The Village should comply with the Ohio Rev. Code Sections above when making transfers.

FINDING NUMBER 2003-006

Noncompliance Citation/Reportable Condition

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

2003

| Fund | Estimated Resources | Appropriations | Variance |
|----------------|----------------------------|-----------------------|-----------------|
| General | \$1,512,644 | \$1,512,800 | \$ (156) |
| Street | 175,490 | 177,900 | (2,410) |
| Recreation | 96,912 | 97,000 | (88) |
| Drug Fund | 203 | 2,700 | (2,497) |
| Community Dev. | 167,214 | 179,714 | (12,500) |
| Fire Levy | 116,956 | 117,800 | (844) |

2002

| Fund | Estimated Resources | Appropriations | Variance |
|-----------------|----------------------------|-----------------------|-----------------|
| Street | \$162,352 | \$258,790 | \$(96,438) |
| Recreation | 120,505 | 130,947 | (10,442) |
| JTPA | 1,210 | 5,000 | (3,790) |
| Police Computer | 3,267 | 5,000 | (1,733) |
| Drug Fund | 1,428 | 2,000 | (572) |
| Debt | 12,651 | 14,000 | (1,349) |

Appropriating more resources than the Village is expecting for the year could result in negative fund balances and possibly lead to fiscal distress due to overspending. We recommend that the Village monitor budgetary activity monthly and make the necessary amendments to their official budgetary documents and system so that they reflect the actual budgetary situation. All amendments should be reviewed and approved by Council.

Furthermore, during the audit, it was noted that official budgetary documents, including estimated resources and appropriations for both 2003 and 2002 were not reflected in the computer system. Incorrect estimated receipt and appropriation amounts in the system gives Council members an inaccurate view of budgeted financial activity, and increases the risk of overspending or making decision based on inaccurate or incomplete information. Therefore, we recommend that all official documents be reflected in the system. Also, we recommend that a review be performed to verify the amounts in the system accurately reflect the supporting budgetary documentation.

FINDING NUMBER 2003-007

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41 (B), provides that no subdivision or taxing unit is to expend money unless it has been appropriated. The Village had expenditures in excess of appropriations in the following funds:

| Fund | Appropriation | Disbursements plus Encumbrances | Variance |
|-----------------------------|---------------|---------------------------------|-------------|
| 2003 | | | |
| General Fund | \$1,547,923 | \$1,735,767 | \$(187,844) |
| Summer Youth Fund | 0 | 12,295 | (12,295) |
| Waste Levy Fund | 125,453 | 125,514 | (61) |
| Weed & Seed Fund | 0 | 164,854 | (164,854) |
| Memorial Park Grant Fund | 139,736 | 145,853 | (6,117) |
| Medosh Street Fund | 0 | 5,953 | (5,953) |
| Lindy Street Fund | 0 | 3,224 | (3,224) |
| Mangham Street Fund | 0 | 3,486 | (3,486) |
| 2002 | | | |
| General Fund | 1,595,507 | 1,798,471 | (202,964) |
| Police Levy Fund | 79,658 | 115,845 | (36,187) |
| Other Capital Projects Fund | 0 | 316,440 | (316,440) |
| Mangham Street Fund | 0 | 189,750 | (189,750) |
| Lindy Street Fund | 0 | 198,256 | (198,256) |
| Medosh Street Fund | 0 | 110,014 | (110,014) |
| Police Pension Fund | 6,500 | 13,420 | (6,920) |

Expending more than is appropriated could result in negative fund balances and fiscal distress due to over spending. The Finance Director should consider denying payment requests exceeding appropriations. We recommend that the Village monitor budgetary activity monthly and make the necessary amendments to their official budgetary documents and system so that they reflect the actual budgetary situation, and that they operate within their budget. All amendments should be reviewed and approved by Council.

FINDING NUMBER 2003-008

Noncompliance Citation/Material Weakness

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.

Of the expenditures we selected for testing, eighty seven percent of the purchase commitments were not properly certified by the Finance Director. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying the availability of funds on properly approved purchase orders. We recommend the Village obtain approved purchase orders, which contain the Finance Director's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

**FINDING NUMBER 2003-008
(Continued)**

Furthermore, Ohio Rev. Code, Section 5705.36, requires the fiscal officer to certify to the County Auditor on or about January 1 the amount available for expenditures in each fund in the budget, with year end balances. Because commitments were not properly certified and recorded to the accounting records, incorrect amounts were certified to the County Auditor for January 1, 2003 and 2002. We performed a review of the commitments existing at each year end and have included these outstanding commitments as reserve for encumbrances on the financial statements.

FINDING NUMBER 2003-009

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 733.40, states that the Mayor needs to maintain an accountability of all money collected in the name of the office. Contrary to this section, there were several exceptions and weakness noted during our review of the Mayor's Court records.

- The cashbook maintained by the Clerk of the Court had no book balance and was not reconciled to the bank balance each month. The cash book is the chronological record of all cash transactions processed by the court and should include disbursements as well as receipts.
- After tracing all duplicate receipts to the cashbook and to the bank for the audit period, it was noted that in 2003 \$3,998 was not posted in the cash book and therefore was never distributed to the Village. During 2002 there was an over posting to the cash book of \$1,040 and bank fees of \$160 were never deducted from the Village disbursement. These errors net out to an additional \$2,798 owed to the Village. We recommend the Mayor's Court Clerk increase the current amount due to the Village by the amount that is owed.
- An "Open Items" listing was not maintained. An open items list is a periodic listing of all cases where money is being held as an appearance bond and is not yet disbursed. Mayor's Courts should be able to identify all pending items comprising the balance at the end of the month. Open Items should be maintained on a regular basis as offenders have bonds applied to cases or bonds are returned.
- The Village does not issue sequentially ordered receipts to individuals who make payments. This results in a lack of accountability over the receipts process.
- During the audit it was noted that bank charges, fees, and undeposited items were not being deducted from the amount owed to the Village. The clerk should reduce the amount distributed in each month by the amount of bank fees paid in the previous month.
- There is no evidence that the Mayor reviews the records produced by the Clerk of the Court. Lack of oversight for the Mayor's Court activity and records is evident from the exceptions and weaknesses noted above. We recommend that the Mayor review and approve the activity of the Mayor's Court account.
- The Mayor's Monthly Statistical Report that is noted as being presented to council in the minutes each month could not be produced for audit review.

Failure to reconcile the cash book to the bank balance; maintain an open items list; maintain receipt accountability, and lack of oversight or responsibility increases the risk of undetected errors occurring, and increases the risk of loss or misappropriation of funds without timely detection. We recommend that the Village put procedures in place to make sure the recommendations listed above are instituted.

**FINDING NUMBER 2003-010
(Continued)**

Reportable Condition

The Village did not prepare complete cash reconciliations for the audit period for all accounts. As a result, the reconciliations prepared by the Village were not accurate and had unexplained variance of \$5,938 at December 31, 2002 and \$861 at December 31, 2003 [bank over book].

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and verify that all recorded transactions have been properly posted to the bank; and that all transactions with the bank have been recorded to their records. Failure to post all transactions and to reconcile the book balance to the bank balance on a regular basis increases the risk of unauthorized or inaccurate transactions, undetected errors, and loss or misappropriation of funds occurring without timely detection. The Village also incurred additional costs for the audit as errors were identified and corrections proposed. We recommend the Village reconcile their accounts on a monthly basis. Any variances should be immediately investigated and documented. All reconciliations should be review and approved by Council.

FINDING NUMBER 2003-011

Reportable Condition

The Village did not have adequate internal controls in place, record keeping was inaccurate and inconsistent, and there did not appear to be account controls instituted by Village Council to review monthly financial records. This could result in an environment which promotes possible fraud risk or misappropriation of funds. This risk is increased due to the small size of the Village, and a lack of segregation of duties.

The following weaknesses were noted:

- Most of the prior audit findings had not been addressed or corrected.
- Prior year audit adjustments were not posted by the Finance Director.
- The Village's bank accounts had not been properly reconciled to the Village records during the audit period, and this weakness was not detected by Council.
- Per the Ohio Revised Code, OPWC project funds (three projects), an Indigent Drivers Alcohol Treatment fund, and an Enforcement and Education fund were required to be established by the Village but were not established by the Finance Director and approved by Council.
- Expenditures were made without supporting documentation, resulting in a finding for recovery in the amount of \$7,930 for the audit period. See finding #2003-001 for details.
- The Finance Director routinely posted revenues and expenditures to the wrong funds or accounts and this was not detected by Council.
- On-behalf grants such as the Community Development Block Grant and Ohio Public Works Commission Grants were not accounted for in the Village records.
- Bills were often paid late. Twenty seven percent of the expenditures tested were paid two to five months after the invoice date.
- There was no evidence that Council was receiving and approving monthly financial reports.

**FINDING NUMBER 2003-011
(Continued)**

Monitoring controls should be put into place to help assure that work being performed, laws required to be followed and reports being generated are meeting the objectives of Council and Management. Monitoring controls should be performed by someone independent of those performing the tasks.

The following procedures should be implemented:

- Council should receive monthly financial reports including, but not limited to: bank reconciliations (with supporting documentation such as bank statements and outstanding checklists, deposits in transit), estimated versus actual receipts, and appropriations compared to actual expenditures. Council should receive these reports prior to the regular meetings so that members have an opportunity to review the information and ask informed questions. Council's approval of these reports should be documented in the minutes.
- Upon receiving audit reports, Council should take action to see that the findings are addressed and corrected.
- When Council approves the payment of bills at its regularly scheduled meetings, members should make sure invoices are attached and that the invoices are approved to be paid by the receiving department. Any late fees or vendors threatening to discontinue services for late or nonpayment should be investigated. Any unusual items such [as manually generated checks] should be questioned and response documented.

FINDING NUMBER 2003-012

Reportable Condition

During the time period of June 2002 to April 2003, the former Income Tax Administrator did not utilize the Village's software to post receipts and did not maintain some records. As a result, the following weaknesses were noted during that time period:

- For ten of the twenty-four months tested, the income tax receipts did not reconcile to the amount deposited with the finance office.
- Transaction & deposit reports were unavailable and could not be produced, and
- The Village was unable to locate income tax deposit slips for thirty four percent of those requested.

These weaknesses increase the risk that discrepancies between the income tax reports and the Village's books may occur and not be detected in a timely manner. The processing of income tax receipts should include the following:

- A reconciliation between the monthly report of income tax receipts and refunds and the Village's books,
- Monthly reports should be printed and reviewed by the Income Tax Administrator for any discrepancies, and
- The validated deposit slips should be agreed to the income tax deposit reports and maintained in a secured location.

**FINDING NUMBER 2003-012
(Continued)**

Failure to retain records that are the property of the Village could result in incorrect receipt records and misappropriation of funds. All records should be maintained pursuant to the Village's records retention policy to improve accountability and financial reporting, and the income tax receipt reports should be reconciled to the Village general ledger on a monthly basis.

FINDING NUMBER 2003-013

Noncompliance Citation

Ohio Rev. Code, Section 705.27, state that the treasurer, auditor, and such other officers or employees of the municipal corporation as the legislative authority directs, shall give a bond to the municipal corporation for the faithful performance of their duties, in such sum as the legislative authority fixes by ordinance or resolution. Premiums on official bonds may be paid by the municipal corporation.

Ohio Rev. Code, Section 705.60, states that before entering upon the duties of his office, the city manager shall execute a bond in favor of the municipal corporation for the faithful performance of his duties, in such sum as is fixed by the council.

Also, the Village Charter requires that any officer or employee of the Municipality whose duties require them to handle or be concerned with the management of its money or other property shall furnish to the Clerk a corporate surety bond issued by a company authorized to do business in Ohio, to protect the Municipality against loss due to their acts. The amount of such bond shall, in each case, be determined by Council. The premiums of such bonds shall be paid from the funds of the Municipality. All such bonds shall be filed with the Clerk of Council.

Neither the Village Finance Director nor the Village Manager was properly bonded as required by the Ohio Revised Code and the Village Charter.

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**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|-----------------------|---|------------------|--|
| Compliance – 1. | Update Appropriations as Needed | No. | Not Corrected. Reissued as 2003-006 |
| Compliance – 2. | Negative Fund Balance | No. | Not Corrected. Reissued as 2003-004 |
| Compliance – 3. | Retain Mayor's Court Records | No. | Not Corrected. Reissued as 2003-009 |
| Material Weaknesses | Segregate Cash Receipts and Record Keeping Function. | No. | Not Corrected. Reissued as 2003-011 |
| Internal Control – 1. | Pay Principal and Interest Payments from Debt Service Funds. | No. | Not Corrected. Reissued as 2003-002 |
| Internal Control – 2. | Code Property and Real Estate Taxes Properly. | No. | Not Corrected. Reissued as 2003-002 |
| Internal Control – 3. | Correctly Reconcile Cash Balance on Submitted Annual Financial Report | No. | Not Corrected. Reissued as 2003-010 |
| Internal Control – 4. | Review Unopened Bank Statements and Cancelled Checks Monthly. | Partially. | Partially Corrected. Reissued as 2003-010 |
| Internal Control – 5. | Adjust Records According to Monthly Bank Reconciliation. | No. | Not Corrected. Reissued as 2003-011 |
| Internal Control – 6. | Mayor's Court – bank reconciliations. | No. | Not Corrected. Reissued as 2003-009 |



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**VILLAGE OF LINCOLN HEIGHTS
HAMILTON 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
DECEMBER 30, 2005**