



Mary Taylor, CPA
Auditor of State

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

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Mary Taylor, CPA

Auditor of State

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

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

August 17, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lincoln Heights
Hamilton County
1201 Steffen Avenue
Cincinnati, 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, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 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 two paragraphs, the financial statements referred to above for the year ended December 31, 2005 and 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, 2005 and 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village of Lincoln Heights, Hamilton County, Ohio as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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, 2005 and 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 August 17, 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.

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

Mary Taylor, CPA
Auditor of State

August 17, 2007

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, 2005**

	<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 and Local Taxes	\$284,147	\$330,922	\$0	\$0	\$7,700	\$622,769
Municipal Income Tax	587,095					587,095
Intergovernmental	183,181	263,446			971	447,598
Special Assessments	858					858
Charges for Services	149,581					149,581
Fines, Licenses and Permits	73,714	3,173				76,887
Earnings on Investments	7,130	2,270				9,400
Miscellaneous	15,785	19,889				35,674
Total Cash Receipts	<u>1,301,491</u>	<u>619,700</u>	<u>0</u>	<u>0</u>	<u>8,671</u>	<u>1,929,862</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	681,948	236,569			9,000	927,517
Public Health Services	1,605					1,605
Leisure Time Activities		24,515				24,515
Community Environment	25,645	114,303				139,948
Basic Utility Service		137,852				137,852
Transportation		139,543				139,543
General Government	544,799	550				545,349
Debt Service:						
Redemption of Principal	60,280	20,587	11,000			91,867
Interest and Fiscal Charges	8,780	1,827	330			10,937
Capital Outlay		97,723		6,310		104,033
Total Cash Disbursements	<u>1,323,057</u>	<u>773,469</u>	<u>11,330</u>	<u>6,310</u>	<u>9,000</u>	<u>2,123,166</u>
Total Receipts Over/(Under) Disbursements	<u>(21,566)</u>	<u>(153,769)</u>	<u>(11,330)</u>	<u>(6,310)</u>	<u>(329)</u>	<u>(193,304)</u>
Other Financing Receipts / (Disbursements):						
Transfers-In		68,225	11,350	6,400		85,975
Transfers-Out	(85,975)					(85,975)
Other Financing Sources					30,095	30,095
Other Financing Uses					(29,839)	(29,839)
Total Other Financing Receipts / (Disbursements)	<u>(85,975)</u>	<u>68,225</u>	<u>11,350</u>	<u>6,400</u>	<u>256</u>	<u>256</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(107,541)	(85,544)	20	90	(73)	(193,048)
Fund Cash Balances, January 1	154,793	393,892	41	5,211	25,016	578,953
Fund Cash Balances, December 31	<u>\$47,252</u>	<u>\$308,348</u>	<u>\$61</u>	<u>\$5,301</u>	<u>\$24,943</u>	<u>\$385,905</u>
Reserve for Encumbrances, December 31	<u>\$8,683</u>	<u>\$4,348</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$13,031</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, 2004**

	<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 and Local Taxes	\$307,642	\$356,681	\$0	\$0	\$8,248	\$672,571
Municipal Income Tax	585,106				899	586,005
Intergovernmental	188,323	315,998		16,951		521,272
Charges for Services	179,398					179,398
Fines, Licenses and Permits	22,241	1,810				24,051
Earnings on Investments	4,339	194				4,533
Miscellaneous	23,923	23,221				47,144
Total Cash Receipts	<u>1,310,972</u>	<u>697,904</u>	<u>0</u>	<u>16,951</u>	<u>9,147</u>	<u>2,034,974</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	603,091	379,732			8,415	991,238
Public Health Services	1,550					1,550
Leisure Time Activities		17,260				17,260
Community Environment	15,869	88,480				104,349
Basic Utility Service		120,460				120,460
Transportation		121,063				121,063
General Government	857,659					857,659
Debt Service:						
Redemption of Principal	265,569	19,738	11,000			296,307
Interest and Fiscal Charges	15,416	2,676	990			19,082
Capital Outlay		49,255		22,601		71,856
Total Cash Disbursements	<u>1,759,154</u>	<u>798,664</u>	<u>11,990</u>	<u>22,601</u>	<u>8,415</u>	<u>2,600,824</u>
Total Receipts Over/(Under) Disbursements	<u>(448,182)</u>	<u>(100,760)</u>	<u>(11,990)</u>	<u>(5,650)</u>	<u>732</u>	<u>(565,850)</u>
Other Financing Receipts / (Disbursements):						
Proceeds from Sale of Public Debt:						
Sale of Notes	200,000					200,000
Sale of Fixed Assets	755,018					755,018
Transfers-In		106,340	11,600			117,940
Transfers-Out	(117,940)					(117,940)
Other Financing Sources					23,309	23,309
Other Financing Uses					(17,579)	(17,579)
Total Other Financing Receipts / (Disbursements)	<u>837,078</u>	<u>106,340</u>	<u>11,600</u>	<u>0</u>	<u>5,730</u>	<u>960,748</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>388,896</u>	<u>5,580</u>	<u>(390)</u>	<u>(5,650)</u>	<u>6,462</u>	<u>394,898</u>
Fund Cash Balances, January 1	<u>(234,103)</u>	<u>388,312</u>	<u>431</u>	<u>10,861</u>	<u>18,554</u>	<u>184,055</u>
Fund Cash Balances, December 31	<u>\$154,793</u>	<u>\$393,892</u>	<u>\$41</u>	<u>\$5,211</u>	<u>\$25,016</u>	<u>\$578,953</u>
Reserve for Encumbrances, December 31	<u>\$42,796</u>	<u>\$86,186</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$128,982</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, 2005 AND 2004**

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 six-member Council governs the Village. The Village provides road maintenance, fire, police, and basic life support 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 2004 and 2005, the Village paid \$17,000 and \$25,000 respectively 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 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 adequately disclose material matters the Auditor of State prescribes.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash Deposits

The Village's funds are deposited in checking accounts and certificates of deposit. The Village values certificates of deposit at cost.

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 Funds:

Street Construction, Maintenance, and Repair 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:

Memorial Park Grant - This fund accounts for revenue received from the Ohio Department of Natural Resources for the Village's Nature Works project to provide an outdoor recreation improvement by installing lighting, ball fields and a walking path at Memorial Park.

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, 2005 AND 2004
(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 2005 and 2004 budgetary activity appears in Note 3.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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:

	2005	2004
Demand deposits	\$173,875	\$337,717
Certificates of deposit	211,393	240,270
Total deposits	\$385,268	\$577,987

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

At December 31, 2005 and 2004 the Village did not reconcile with the bank resulting in the variance between the financial statement ending balances and the bank balance presented above.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,300,000	\$1,301,491	\$1,491
Special Revenue	682,027	687,925	5,898
Debt Service	11,330	11,350	20
Capital Projects	6,400	6,400	0
Fiduciary	9,000	8,671	(329)
Total	\$2,008,757	\$2,015,837	\$7,080

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,461,406	\$1,417,715	\$43,691
Special Revenue	805,613	777,817	27,796
Debt Service	11,330	11,330	0
Capital Projects	6,400	6,310	90
Fiduciary	9,000	9,000	0
Total	<u>\$2,293,749</u>	<u>\$2,222,172</u>	<u>\$71,577</u>

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,062,000	\$2,265,990	\$203,990
Special Revenue	722,925	804,244	81,319
Debt Service	11,600	11,600	0
Capital Projects	18,000	16,951	(1,049)
Fiduciary	8,550	9,147	597
Total	<u>\$2,823,075</u>	<u>\$3,107,932</u>	<u>\$284,857</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,822,115	\$1,919,890	(\$97,775)
Special Revenue	985,574	884,850	100,724
Debt Service	11,990	11,990	0
Capital Projects	0	22,601	(22,601)
Fiduciary	8,500	8,415	85
Total	<u>\$2,828,179</u>	<u>\$2,847,746</u>	<u>(\$19,567)</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Police Levy fund by \$1,218, the Weed & Seed fund by \$652, and the Recycle and Litter Grant fund by \$18,280 for the year ended December 31, 2005; in the General fund by \$97,775, the Street Fund by \$12,555, the Fire Levy fund by \$7,486, the Waste Levy fund by \$6,460, the Weed & Seed fund by \$68,800, and the Memorial Park fund by \$22,601 for the year ended December 31, 2004. Also contrary to Ohio law, at December 31, 2004, appropriations exceeded estimated resources in the Street fund by \$34,469, the FEMA fund by \$93,336 and the Brownfield fund by \$50,000.

Contrary to Ohio law, during FY 2004 and FY 2005 the Village had eighty percent and fifty percent respectively of general non-payroll disbursements tested that did not have proper certification prior to the obligation date. Also, during FY 2004 and FY 2005 the Village had twenty-eight and fifty-seven percent of unrecorded non-payroll liabilities tested that did not have proper certification prior to the obligation date.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

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.

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. The income tax per Village legislation is credited to the Village's General fund.

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, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Building Improvement Note	\$18,902	4.95%
Ohio Public Works Street Program	\$43,792	0.00%
State Fire Marshall Loan	\$82,732	0.00%
1998 Sutphen Fire Pumper Lease	95,190	5.00%
Total	<u>\$240,616</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.

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 semi annual installments of \$1,288 over twenty years.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. DEBT (Continued)

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 Village issued \$200,000 of revenue anticipation notes on January 5, 2004 for the purpose of financing certain cash flow deficits that were expected to occur during 2004. The notes matured on September 29, 2004.

The Village paid off a lease for two Ford Crown Victoria Police Interceptors in fiscal year 2004. The Village paid off leases for a Ford 650 Snow Plow and the Motorola XTS 5000 Digital Console System in fiscal year 2005.

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.

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>Building Improvement Notes</u>	<u>Fire Pumper Lease</u>	<u>OPWC Street Program</u>	<u>State Fire Marshall Loan</u>	<u>Total All Debt</u>
2006	\$19,838	\$35,316	\$2,576	\$4,800	\$62,530
2007		35,316	2,576	4,800	\$42,692
2008		35,316	2,576	4,800	\$42,692
2009			2,576	4,800	\$7,376
2010			2,576	4,800	\$7,376
2011-2015			12,880	24,000	\$36,880
2016-2020			12,880	24,000	\$36,880
2021-2023			5,152	10,732	\$15,884
Total	<u>\$19,838</u>	<u>\$105,948</u>	<u>\$43,792</u>	<u>\$82,732</u>	<u>\$252,310</u>

7. RETIREMENT SYSTEMS

The Village's law enforcement officers and firefighters 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 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant and 24 percent of fire 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, 2005.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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 occurrence, including claim 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 \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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 township.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT (Continued)

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004:

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately \$92,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

Based on discussions with PEP the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT (Continued)

<u>Contributions to PEP</u>	
2003	\$29,407
2004	\$66,554
2005	\$46,210

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

9. SUBSEQUENT EVENTS

The Village incurred fire damage on December 23, 2005 to the Smith-Flowers Civic Center located at 1100 Lindy Street. On March 31, 2006, the Crawford Insurance Company issued a settlement check in the amount of \$219,958 for the damage incurred for the fire at the Smith-Flowers Civic Center. This was recorded in the General Fund of the Village.



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 Lincoln Heights
Hamilton County
1201 Steffen Avenue
Cincinnati, 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 year ended December 31, 2005 and 2004, and have issued our report thereon dated August 17, 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. 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 2005-001 to 2005-009.

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 2005-001 and 2005-005 through 2005-007 listed above to be material weaknesses. In a separate letter to the Village's management dated August 17, 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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-008. In a separate letter to the Village's management dated August 17, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

August 17, 2007

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

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.

In addition, **Ohio Administration Code, Section 117-2-02**, states in part that

- (A) 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, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.
- (B) The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:
- (1) Existence/occurrence: That recorded assets (and liabilities, if generally accepted accounting principles apply) Exist as of fiscal year end, recorded transactions have occurred and are not fictitious.
 - (2) Completeness: That all account balances and transactions that should be included in the financial records are included.
 - (3) Rights and obligations: That recorded assets are rights of the public office and recorded liabilities (if generally accepted accounting principles apply), are obligations of the public office at the fiscal year end.
 - (4) Valuation/allocation: That generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices that are not required to follow generally accepted accounting principles.
 - (5) Presentation and disclosure: That financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

The following items were noted from review of the Village's financial records and bank statements:

- Bank reconciliations were not accurate or complete for the twenty-four months under audit. At December 31, 2004 and 2005, the Village's book balance was greater than the bank balance by \$2,639 and \$2,990 respectively.
- The Village's outstanding check list for their payroll account was not accurate on their December 31, 2004 and 2005 cash reconciliation. The Village reported outstanding payroll checks at December 31, 2004 and 2005 at (\$2,974) and (\$19,096) respectively. However, the Village's actual outstanding payroll checks at December 31, 2004 and 2005 were \$3,834 and \$3,797 respectively.

FINDING NUMBER 2005-001
(Continued)

The Village had payroll expenses that were not posted to their accounting system during FY 2004 and 2005 totaling \$142 and \$1,844 respectively.

- The Village had bank analysis service charges for their general account that were not posted to their accounting system during FY 2004 and 2005 totaling \$423 and \$24 respectively.
- Loan payments made during FY 2004 and 2005 were recorded as Capital Outlay in the Recreation Fund totaling \$19,838 per fiscal year and in the Street Fund totaling \$2,576 per fiscal year. Loan payments should be recorded as debt service principal and debt service interest.
- The official estimated resources and appropriations and amendments for certain funds in both 2005 and 2004 were not properly reflected in the computer system. Incorrect estimated receipt amounts in the system gives Council members an inaccurate view of budgeted financial activity, and increases the risk of overspending or making decisions based on inaccurate or incomplete information. All official budgetary documents should be reflected in the system and a review performed to verify the amounts in the system accurately reflect the supporting budgetary documentation.
- Lease payments made during FY 2004 and 2005 were recorded as General Government in the General Fund totaling \$78,638 and \$69,060 respectively. Lease payments should be consistently recorded as either debt service or capital outlay expenditures.
- There were several instances where receipts were not properly classified:
 - In FY 2004, personal property exemption was recorded as taxes instead of intergovernmental in the General Fund, Police Levy Fund, Fire Levy Fund, and Waste Levy Fund totaling \$2,294, \$853, \$718, and \$808 respectively.
 - In FY 2005, a portion of special assessments was recorded as taxes rather than special assessments totaling \$1,679.
 - In FY 2004 and 2005 Permissive Motor Vehicle Sales Tax revenue was posted to the Street, Maintenance and Repair Fund rather than to a Permissive Motor Vehicle License Tax Fund totaling \$18,052 and \$17,778 respectively.
 - In FY 2005 Motor Vehicle License, Cents per Gallon, and Gas Excise Tax revenue was posted to Taxes rather than Intergovernmental totaling \$95,747.
 - In FY 2004 and 2005, cable franchise fees were recorded as charges for services instead of fines, licenses, and permits totaling \$25,093 and \$25,930 respectively.

As a result of these errors, receipts and disbursements for certain line items and funds were incorrectly reported on the Annual Report. Significant reclassifications and adjustments were made to individual line items and funds on the financial statements. We recommend due care be exercised when posting entries to the cash journal to prevent errors and assist in properly reflected the Village's financial activity in the annual report.

**FINDING NUMBER 2005-001
 (Continued)**

Failure to accurately prepare and reconcile the accounting records reduces the accountability over Village funds and reduces Council’s ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected, and increases the likelihood that the Village’s financial statements will be misstated. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well, as ensure that all recorded transactions have been deposited with the financial institution.

We recommend that the Clerk perform a detailed reconciliation between the bank balance and the Village’s general ledger balance monthly. The reconciled account balance (bank balance, less outstanding checks, plus deposits in transit) plus any investment balance should equal the total fund balance. Any variances should be immediately investigated and an explanation provided for any adjustments needed to be made each month to the accounting system. In addition, the Clerk should review checks which are outstanding for six or more months to determine the reason they have not been cashed and establish procedures to pay those stale dated checks into an unclaimed money fund. We further recommend that the Village Manager, a member of Council or all Council members review and sign off on the reconciliations thereby indicating approval and monitoring the timeliness of these bank reconciliations.

Officials’ Response

Procedures will be put in place to correct this matter.

FINDING NUMBER 2005-002

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.39, states, in part, that the total appropriation from each fund should not exceed the total estimated resources. Appropriations exceeded total estimated resources at December 31, 2004 in the following funds:

Fund	Estimated Resources	Appropriations	Variance
Street	\$125,871	\$160,340	\$(34,469)
FEMA	0	93,336	(93,336)
Brownfield Grant	144,425	194,425	(50,000)

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.

Officials’ Response

The Village followed the proper procedures during the year. However the former Clerk did not submit the information to the County Auditor until after December 31st.

FINDING NUMBER 2005-003

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
2005			
Police Levy Fund	\$136,034	\$137,252	\$(1,218)
Weed & Seed Fund	11,000	11,652	(652)
Recycle and Litter Grant	0	18,280	(18,280)
2004			
General Fund	\$1,822,115	\$1,919,890	\$(97,775)
Street Fund	160,340	172,895	(12,555)
Fire Levy Fund	106,373	113,859	(7,486)
Waste Levy Fund	114,000	120,460	(6,460)
Weed & Seed Fund	75,000	143,800	(68,800)
Memorial Park Fund	0	22,601	(22,601)

Expending more than is appropriated could result in negative fund balances and fiscal distress due to over spending. The Finance Director should deny 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.

Officials' Response

Procedures will be put in place to correct this matter.

FINDING NUMBER 2005-004

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.10, provides, in part, that money that is paid into a fund must be used only for the purposes for which such fund has been established. On an interim basis, the Village had a negative fund balance in the following funds indicating that money from one fund was used to cover the expenses of another fund.

**FINDING NUMBER 2005-004
(Continued)**

Fund [Fund Number]	Month and Year	Negative Fund Balance
Street Maintenance & Repair [201]	May 2004	681
Street Maintenance & Repair [201]	June 2004	23,049
Street Maintenance & Repair [201]	July 2004	20,433
Street Maintenance & Repair [201]	August 2004	19,048
Street Maintenance & Repair [201]	September 2004	18,612
Street Maintenance & Repair [201]	October 2004	18,378
Street Maintenance & Repair [201]	January 2005	2,203
Street Maintenance & Repair [201]	February 2005	7,641
Recreation & Maintenance [204]	January 2004	\$15,788
Recreation & Maintenance [204]	February 2004	18,088
Recreation & Maintenance [204]	March 2004	19,317
Recreation & Maintenance [204]	April 2004	19,130
Recreation & Maintenance [204]	May 2004	17,215
Recreation & Maintenance [204]	June 2004	17,215
Recreation & Maintenance [204]	July 2004	19,199
Recreation & Maintenance [204]	August 2004	19,199
Recreation & Maintenance [204]	September 2004	19,199
Recreation & Maintenance [204]	October 2004	19,199
Recreation & Maintenance [204]	November 2004	18,560
Recreation & Maintenance [204]	January 2005	15,423
Recreation & Maintenance [204]	February 2005	15,423
Community Development Fund [212]	April 2005	2,075
Community Development Fund [212]	May 2005	2,075
Police Pension [213]	October 2005	466
Police Fund [214]	June 2004	12,192
Police Fund [214]	July 2004	12,338
Police Fund [214]	August 2004	16,721
Police Fund [214]	September 2004	14,305
Waste Levy Fund [230]	March 2005	17,690
Waste Levy Fund [230]	April 2005	17,690
Capital Improvement [327]	June 2004	11,357
Capital Improvement [327]	July 2004	11,357
Capital Improvement [327]	November 2005	1,239
Memorial Park Project [328]	January 2004	14,884

Allowing expenditures to exceed appropriations could result in negative fund balances and the use of Village resources required for other services. We recommend the Fiscal Officer deny any payments until the Council has passed the necessary changes to the appropriation measure.

Officials' Response

Process for correction has been put in place during 2006.

FINDING NUMBER 2005-005

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 encumbrances.

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 encumbrances, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certifications 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 Certificates** – 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.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

General Non-payroll Disbursements

During FY 2004, eighty percent (80%) and during FY 2005, fifty percent (50%) of the transactions tested did not have certification prior to the obligation date and none of the three exceptions provided above were utilized.

FINDING NUMBER 2005-005
(Continued)

Unrecorded Non-payroll Liabilities

During FY 2004, twenty-eight percent (28%) and during FY 2005, fifty-seven percent (57%) of the transactions tested did not have certification prior to the obligation date and none of the three exceptions provided above were utilized.

Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances.

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Officials' Response

Procedures to correct have been put in place to correct this matter.

FINDING NUMBER 2005-006

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 733.40, provides, in part, that all fines, forfeitures, and costs in ordinance cases and all fees that are collected by the mayor, that in any manner come into the mayor's hands, or that are due the mayor, any other fees and expenses that have been advanced out of the treasury of the municipal corporation, and all money received by the mayor for the use of the municipal corporation shall be paid by the mayor into the treasury of the municipal corporation on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all moneys received, from whom and for what purposes received, and when paid into the treasury.

Ohio Rev. Code, Section 2743.70(A)(1), requires the collection of additional court costs when any person is convicted or pleads guilty to an offense other than a traffic offense that is not a moving violation. These moneys must be transmitted to the Treasurer of State on the first business day of each month.

During the audit, it was noted that all twenty-four, 100%, of the disbursements to the Village were not made prior to the first Monday of each month. Furthermore, it was noted that all twenty-four, 100%, of the State disbursements were not made on the first business day of each month. The Mayor should pay the disbursements within the mandated timeframe set through the ORC.

FINDING NUMBER 2005-006
(Continued)

In addition, **Ohio Administration Code, Section 117-2-02**, states, in part that

- (A) 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, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.
- (B) The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:
 - (1) Existence/occurrence: That recorded assets (and liabilities, if generally accepted accounting principles apply) Exist as of fiscal year end, recorded transactions have occurred and are not fictitious.
 - (2) Completeness: That all account balances and transactions that should be included in the financial records are included.
 - (3) Rights and obligations: That recorded assets are rights of the public office and recorded liabilities (if generally accepted accounting principles apply), are obligations of the public office at the fiscal year end.
 - (4) Valuation/allocation: That generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices that are not required to follow generally accepted accounting principles.
 - (5) Presentation and disclosure: That financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

The Mayor is not performing a detailed reconciliation each month. Monthly reconciliations should show a detail of how the bank balance goes back to the book balance. Without detailed reconciliations it may be difficult to determine whether the amount remaining in the bank ties to the book balance. Detailed reconciliations also help the clerk track both positive and negative balances as well as bonds still on hand. The Mayor should be doing reconciliations monthly as a means of verifying that book balances are totaling open items and that the book reconciles with the bank. During testing it was noted that the current bank balance at 12/31/05 was \$24,130. Per review of the Mayor's records there was no documentation of open bonds outstanding at 12/31/05. We re-performed reconciliations for both 2005 and 2004 through performing a "Proof of Cash" for each year. We verified a book balance of \$24,306 at December 31, 2005. During review of 2004 and 2005 it was noted that there was no listing of bonds maintained to support the large bank balance held by the Court. Also, during review of the receipts we noted that no receipt in 2004 and 2005 was stated as being a bond payment. Therefore, we recommend all money received and not distributed for 2004 and 2005 be paid out to the Village. In 2004 and 2005, these amounts totaled \$2,216 and \$1,087 respectively. This would leave a remaining balance of \$21,003. We further recommend that the Court determine their open items as of December 31, 2005. The Mayor's Court is not intended to accumulate funds but is merely a holding account for fines being paid to either the Village, State, or held for bond.

**FINDING NUMBER 2005-006
(Continued)**

Officials' Response

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

FINDING NUMBER 2005-007

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 4511.19(G)(5)(a), provides that each legislative authority receiving part of the fine imposed under this section should establish an Enforcement and Education Fund (a special revenue fund). This fund should be used by the law enforcement agency to pay only those costs it incurs in enforcing Section 4511.19 of the Revised Code or a substantially similar municipal ordinance and in educating the public of laws governing operation of a motor vehicle while under the influence of alcohol, the dangers of operation of a motor vehicle while under the influence of alcohol, and other information relating to the operation of a motor vehicle and the consumption of alcoholic beverages. No additional Auditor of State permission is necessary for fund establishment; only a resolution of the legislative authority is needed. Also, a part of the fine money is to be paid to the political subdivision responsible for housing the offender during his term of incarceration. This share of the fine should be used by the political subdivision to pay or reimburse incarceration costs and should be paid to the fund that pays the costs of incarceration.

Per Auditor of State MAS Bulletin 90-25, we recommend that the Village establish the following funds for Mayor's Court monies:

- Indigent Drivers Alcohol Treatment Fund (ORC 4511.191(H) & 4511.193(A))
- Enforcement and Education Fund (ORC 4511.19(G)(5)(a))

Money that has been collected under this category has previously and currently been posted to the Village's Agency Fund and to date remains in the Agency Fund balance. We recommend that once the Village establishes these funds, the Village should contact the Hamilton County Clerk of Courts to determine which funds these monies belong and post to the appropriate fund.

Officials' Response

The Village has prepared legislation to establish the funds in September 2007.

FINDING NUMBER 2005-008

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 9.38, provides that public money must be deposited with the treasurer of the public office or to the designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited. The Mayor's Court Clerk did not always deposit monies within the required time frame if the total amount of such moneys received exceeded \$1,000; the Village ranged between five to forty-one days in depositing these monies. We recommend the Village review its depositing policies to determine if the alternative method is appropriate, and include provisions to safeguard the assets and to monitor daily receipts for proper depositing.

Officials' Response

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

FINDING NUMBER 2005-009

Reportable Condition

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control activities are policies and procedures that help ensure management directives are carried out.

The following control weaknesses were noted in the non-payroll disbursement process:

- Sixty percent of the disbursements tested did not have a purchase order completed or approved and there was no indication that expenditures were approved prior to purchases being made, and
- Requisitions were not completed or approved in order to request approval for the purchase of goods or services for sixty-seven percent of the disbursements tested.

These control weaknesses could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of the Village's assets. The processing of non-payroll disbursements should include, but is not limited to:

- Prior authorization of a purchase should be obtained, through the use of a purchase order which documents approval by the Financial Director and includes appropriate coding of expenditures, and
- All purchases should be formally approved at the department level through the use of a requisition, and that requisitions should be submitted to the Financial Director for final approval.

Officials' Response

Procedures to correct have been put in place to correct this matter.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Finding for Recovery	Yes	Finding no Longer Valid
2003-002	Village books not being maintained properly	No	Not Corrected, reissued as finding 2005-001
2003-003	Village purchased items over the bidding threshold and did not bid.	Yes	Finding no longer valid.
2003-004	Negative fund balances	No	Not Corrected, reissued as finding 2005-004
2003-005	Illegal and unapproved transfers	Yes	Finding no longer valid.
2003-006	Estimated Resources less than Appropriations	No	Not Corrected, reissued as finding 2005-002.
2003-007	Appropriations less than Disbursements	No	Not Corrected, reissued as finding 2005-003.
2003-008	Village did not properly encumber or certify all outstanding encumbrances at year-end	No	Not Corrected, reissued as finding 2005-005.
2003-009	Mayor's Court record keeping	No	Not Corrected, reissued as finding 2005-006.
2003-010	Village was not reconciling books to the bank	No	Not Corrected, reissued as finding 2005-001.
2003-011	Inadequate internal controls	No	Partially Corrected, reissued parts that have not been corrected as finding 2005-001.
2003-012	Income tax records not being reconciled with the Village books	Yes	Finding no longer valid.
2003-013	Clerk and City Manager were not bonded	Yes	Finding no longer valid.



Mary Taylor, CPA
Auditor of State

**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
OCTOBER 11, 2007**