



Mary Taylor, CPA
Auditor of State

VILLAGE OF TERRACE PARK
HAMILTON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental and Fiduciary Fund Types - For the Year Ended December 31, 2007	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental and Fiduciary Fund Types - For the Year Ended December 31, 2006	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings	21

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Mary Taylor, CPA
Auditor of State

Village of Terrace Park
Hamilton County
428 Elm Avenue
Terrace Park, Ohio 45174

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Mary Taylor, CPA
Auditor of State

October 30, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Terrace Park
Hamilton County
428 Elm Avenue
Terrace Park, Ohio 45174

To the Village Council:

We have audited the accompanying financial statements of the Village of Terrace Park, Hamilton County, Ohio (the Village), as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 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, 2007 and 2006, 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 the Village of Terrace Park, Hamilton County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008, 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.

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Mary Taylor, CPA
Auditor of State

October 30, 2008

VILLAGE OF TERRACE PARK
HAMILTON COUNTY

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

	<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</u>	
Cash Receipts:						
Property Taxes and Other Local Taxes	\$1,144,338	\$10,673	\$155,096	\$0	\$0	\$1,310,107
State Levied Shared Taxes, Etc.	75,183	96,754				171,937
Intergovernmental	313,997		19,913			333,910
Fees, License and Permits	52,682					52,682
Interest Earnings	76,972	10,348		5,035		92,355
Special Assessments		47,122				47,122
Fines and Forfeitures	24,624	2,381				27,005
Contributions		2,700				2,700
All Other Revenue	9,346					9,346
Total Cash Receipts	<u>1,697,142</u>	<u>169,978</u>	<u>175,009</u>	<u>5,035</u>	<u>0</u>	<u>2,047,164</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	706,509	582				707,091
Public Health Services	2,961					2,961
Leisure Time Activities	1,123					1,123
Community Environment	62,013	26,220				88,233
Basic Utility Service	99,324					99,324
Transportation	177,633	69,064				246,697
Materials and Supplies		1,200				1,200
General Government	369,134		1,936	121		371,191
Debt Service:						
Redemption of Principal			40,000			40,000
Interest and Fiscal Charges			88,531			88,531
Capital Outlay		10,050		676,136		686,186
Total Cash Disbursements	<u>1,418,697</u>	<u>107,116</u>	<u>130,467</u>	<u>676,257</u>	<u>0</u>	<u>2,332,537</u>
Total Receipts Over/(Under) Disbursements	<u>278,445</u>	<u>62,862</u>	<u>44,542</u>	<u>(671,222)</u>	<u>0</u>	<u>(285,373)</u>
Other Financing Receipts / (Disbursements):						
Non-Operating Revenues	4,071					4,071
Other Financing Sources					34,961	34,961
Other Financing Uses					(33,855)	(33,855)
Total Other Financing Receipts / (Disbursements)	<u>4,071</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,106</u>	<u>5,177</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>282,516</u>	<u>62,862</u>	<u>44,542</u>	<u>(671,222)</u>	<u>1,106</u>	<u>(280,196)</u>
Fund Cash Balances, January 1	<u>1,126,195</u>	<u>229,504</u>	<u>49,187</u>	<u>756,290</u>	<u>443</u>	<u>2,161,619</u>
Fund Cash Balances, December 31	<u><u>\$1,408,711</u></u>	<u><u>\$292,366</u></u>	<u><u>\$93,729</u></u>	<u><u>\$85,068</u></u>	<u><u>\$1,549</u></u>	<u><u>\$1,881,423</u></u>
Reserve for Encumbrances, December 31	<u><u>\$12,538</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$2,248</u></u>	<u><u>\$0</u></u>	<u><u>\$14,786</u></u>

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

VILLAGE OF TERRACE PARK
HAMILTON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<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</u>	
Cash Receipts:						
Property Taxes and Other Local Taxes	\$1,089,604	\$9,907	\$145,543	\$0	\$0	\$1,245,054
State Levied Shared Taxes, Etc.	72,841	94,730				167,571
Intergovernmental	192,361		19,407			211,768
Fees, License and Permits	52,348					52,348
Interest Earnings	68,013	2,480		75,092		145,585
Special Assessments		46,087				46,087
Fines and Forfeitures	30,272	2,697				32,969
All Other Revenue	13,694					13,694
	<u>1,519,133</u>	<u>155,901</u>	<u>164,950</u>	<u>75,092</u>	<u>0</u>	<u>1,915,076</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	687,309	609				687,918
Public Health Services	5,602					5,602
Leisure Time Activities	3,637					3,637
Community Environment	57,904	26,547				84,451
Basic Utility Service	87,692					87,692
Transportation	213,049	43,534				256,583
Materials and Supplies		1,292				1,292
General Government	350,042		1,914	121		352,077
Debt Service:						
Redemption of Principal			40,000			40,000
Interest and Fiscal Charges			89,931			89,931
Capital Outlay		10,400		1,132,300		1,142,700
	<u>1,405,235</u>	<u>82,382</u>	<u>131,845</u>	<u>1,132,421</u>	<u>0</u>	<u>2,751,883</u>
Total Receipts Over/(Under) Disbursements	<u>113,898</u>	<u>73,519</u>	<u>33,105</u>	<u>(1,057,329)</u>	<u>0</u>	<u>(836,807)</u>
Other Financing Receipts / (Disbursements):						
Non-Operating Revenues	6,976					6,976
Other Financing Sources					38,208	38,208
Other Financing Uses					(40,916)	(40,916)
	<u>6,976</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,708)</u>	<u>4,268</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	120,874	73,519	33,105	(1,057,329)	(2,708)	(832,539)
Fund Cash Balances, January 1	1,005,321	155,985	16,082	1,813,619	3,151	2,994,158
Fund Cash Balances, December 31	<u>\$1,126,195</u>	<u>\$229,504</u>	<u>\$49,187</u>	<u>\$756,290</u>	<u>\$443</u>	<u>\$2,161,619</u>
Reserve for Encumbrances, December 31	<u>\$45,395</u>	<u>\$5,482</u>	<u>\$0</u>	<u>\$625,400</u>	<u>\$0</u>	<u>\$676,277</u>

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

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 Terrace Park, Hamilton County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides road maintenance, fire, police, and basic life support services. The Village contracts with Miami Township Fire and EMS Department of Clermont County to provide advanced life support services.

The Village participates in the Ohio Government Risk Management Plan public entity risk pool which provides the Village with liability and property insurance coverage. Note 7 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

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

Money market funds (including STAR Ohio) are recorded at share values the mutual funds report.

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.

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Special Tree Program Fund - This fund receives special assessment monies to fund the planting and preservation of Village trees.

3. Debt Service Funds

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

Bond Retirement Fund - This fund receives property tax and homestead and rollback monies which are used to pay the principal and interest on Building Facilities and Equipment bonds.

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:

Community Building Complex and Fire Truck Fund – This fund received proceeds from the issuance of bonds which were issued in 2005 to pay the costs of improvements to the community building and for the purchase of a new fire truck.

5. Fiduciary Fund

The Village's fiduciary fund consists of the agency fund.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for fines and costs from criminal and traffic citations heard by the Village Mayor's Court.

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for items that should have been encumbered.

A summary of 2007 and 2006 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.

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.

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

2. Equity in Pooled Cash and Investments

The Village maintains a cash and investments pool that 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:

	2007	2006
Demand deposits	\$1,017,917	\$1,340,515
STAR Ohio	863,506	821,104
Total deposits and investments	\$1,881,423	\$2,161,619

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.

At December 31, 2007 and 2006, the Village did not fully reconcile the book balance to the bank balances. The variances are identified in Finding 2007-001 in the Schedule of Findings.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,478,699	\$1,701,213	\$222,514
Special Revenue	130,200	169,978	39,778
Debt Service	142,600	175,009	32,409
Capital Projects	20,000	5,035	(14,965)
Total	\$1,771,499	\$2,051,235	\$279,736

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,651,676	\$1,431,235	\$220,441
Special Revenue	135,122	107,116	28,006
Debt Service	137,500	130,467	7,033
Capital Projects	705,530	678,505	27,025
Total	\$2,629,828	\$2,347,323	\$282,505

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. Budgetary Activity (Continued)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,501,804	\$1,526,109	\$24,305
Special Revenue	147,061	155,901	8,840
Debt Service	173,080	164,950	(8,130)
Capital Projects	71,570	75,092	3,522
Total	\$1,893,515	\$1,922,052	\$28,537

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,559,324	\$1,450,630	\$108,694
Special Revenue	129,640	87,864	41,776
Debt Service	138,000	131,845	6,155
Capital Projects	1,792,508	1,757,821	34,687
Total	\$3,619,472	\$3,428,160	\$191,312

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Building Facilities and Fire Truck/ Equipment Bonds	\$1,940,000	4.2%
Total	\$1,940,000	

The Village's Building Facilities and Fire Truck/Equipment Bonds were issued on June 1, 2005, in the amount of \$2,100,000 for the purpose of acquiring a new fire truck and reconfiguring and expanding the community building facilities.

The Village will repay the bonds using property taxes and intergovernmental revenue generated from a tax levy approved in November, 2004 for the purpose of issuing these bonds. The debt service payments will be made from the Debt Service Fund.

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

Year ending December 31:	Building Facilities and Fire Truck/ Equipment Bonds
2008	\$127,132
2009	130,732
2010	129,156
2011	127,582
2012	126,006
2013 – 2017	703,314
2018 – 2022	743,440
2019 – 2027	782,692
2028 – 2029	319,340
Total	\$3,189,394

6. Retirement Systems

The Village's full-time police officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other 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 these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OP&F participants contributed 10% of their wages. For 2007 and 2006, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. Risk Management

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except the Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	2007	2006
Assets	\$11,136,455	\$9,620,148
Liabilities	<u>(4,273,553)</u>	<u>(3,329,620)</u>
Members' Equity	<u>\$6,862,902</u>	<u>\$6,290,528</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

8. Material Noncompliance

The Village did not obtain prior certification of the availability of funds from the fiscal officer for all commitments as required by Ohio Revised Code, Section 5705.41(D)(1).

The Village did not properly reflect certain accounting transactions and reconciling items on the Village's accounting records as required by Ohio Revised Code, Section 733.28 and the Ohio Administration Code, Section 117-2-02.

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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 Terrace Park
Hamilton County
428 Elm Avenue
Terrace Park, Ohio 45174

To the Village Council:

We have audited the financial statements of the Village of Terrace Park, Hamilton County, Ohio (the Village), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated October 30, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described as finding number 2007-001 is also a material weakness.

We also noted a certain internal control matter that we reported to the Village's management in a separate letter dated October 30, 2008.

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 2007-001 and 2007-002.

We also noted certain noncompliance matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 30, 2008.

The Village's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management and the Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 30, 2008

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Noncompliance/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.

Ohio Admin. Code, Section 117-2-02(A), states that:

all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for 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.

The Village Fiscal Officer presented monthly bank reconciliations to the Village Council which did not provide any indication of errors or problems related to the reconciliations. However, the Village could not locate the monthly reconciliations for ten months during 2006 and six months during 2007 for audit review. We noted the following issues based on our 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, 2006 and 2007, the Village's bank balance was greater than the reconciled book balance by \$2,523 and \$1,763 respectively.
- The Village's outstanding check/ outstanding payroll withholdings listing was not accurate on their December 31, 2006 and 2007 cash reconciliations. The Village reported outstanding checks/payroll withholdings at December 31, 2006 and 2007 at (\$121,874) and (\$31,918) respectively. However, the Village's actual outstanding checks/payroll withholdings at December 31, 2006 and 2007 were (\$98,312) and (\$39,036) respectively.
- In 2006, the Village issued two manual checks from the Building Fund checking account but did not include them in the bank reconciliations. Check # 146 cleared the bank for \$2,600 but the Village posted it to the accounting system as a disbursement for \$2,750. Check #150 never cleared the bank but the Village posted it to the accounting system as a disbursement for \$1,173.
- In 2007, the Village deposited a General Fund receipt of money for a Mayor's Court distribution to the Village in the amount of \$3,941 into the Village's general account but did not post it as a receipt on to the accounting system.
- In 2007, the Village did not post two payroll transactions (related to General Fund employees) in the gross amount totaling \$3,937.62 (\$2,205.12 and \$1,732.50, respectively,) as disbursements on the accounting system.

**FINDING NUMBER 2007-001
(Continued)**

- In 2007, the Village distributed the OPERS employer share contributions (related to General Fund employees) through a manual check. However, the Village did not post these transactions as disbursements on the accounting system. The Village issued unrecorded distribution checks totaling \$9,294.61 (\$4,295.85, \$2,698.47, and \$2,300.29, respectively) during October 2007 through December 2007 (for the months of September 2007 through November 2007.) Also, the Village did not post a penalty totaling \$72 paid in October 2006 to the accounting system.
- In 2007, the Village did not post the distribution of the employer share of Medicare (related to General Fund employees), totaling \$362.95 as a disbursement on the accounting system.
- In 2007, the Village posted intergovernmental revenue totaling \$9,971 to the General Fund instead of the Bond Fund. In 2006, the Village posted intergovernmental revenue totaling \$8,371 to the Bond Fund instead of the General Fund.

The Village adjusted all of these items have been adjusted in the accounting records and the accompanying financial statements.

As a result of these errors, the Village incorrectly reported receipts and disbursements for certain line items and funds on the Annual Financial Report requiring significant reclassifications and adjustments to individual line items and funds on the financial statements as noted above.

These errors occurred as a result of Village employees failing to post certain manual checks and other receipt and disbursement transactions to the accounting ledger. These errors would normally be identified and corrected through a comprehensive bank reconciliation process which was not fully implemented.

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.

We recommend that due care be exercised when posting entries to the cash journal to prevent errors and assist in properly reflecting the Village's financial activity in the Annual Financial Report.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well, as ensure that the Village deposits all recorded transactions with the financial institution.

We recommend that the Chief Fiscal Officer 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 Chief Fiscal Officer 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 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.

FINDING NUMBER 2007-002

Noncompliance/Significant Deficiency

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. Further contracts and orders for expenditures lacking prior certification shall be null and void.

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not properly certify the availability of funds for purchase commitments for forty percent (40%) and twenty-eight percent (28%) of expenditures tested, respectively, for 2006 and 2007 and none of the exceptions above applied. Additionally, the Village did not encumber two obligations as of December 31, 2006, (paid in January 2007) for which the Village adjusted the financial statements and one obligation as of December 31, 2007, (paid in January 2008) for which the Village adjusted the financial statements. While the Village does have procedures regarding the use of purchase orders, it does not consistently follow those procedures.

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

**FINDING NUMBER 2007-002
(Continued)**

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments 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 method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. We also recommend that the Village establish a maximum amount for blanket certificates by resolution.

We received the following response from the Village Officials to the findings reported above:

The State of Ohio conducted an audit of the Village of Terrace Park Financial Statements for calendar years 2006 and 2007. On 30 October 2008, an audit committee consisting of the Mayor, Finance Committee Councilman, Chief Fiscal Officer and Assistant Fiscal Officer met with State auditors to review their recommended financial statement adjustments and internal control improvements. As the auditors recommended, we adjusted our financial statements and are implementing procedures to improve daily processes and internal control.

**VILLAGE OF TERRACE PARK
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Material Weakness – Monthly Bank Reconciliations and Posting of Activity to the General Ledger.	No	Reissued as finding 2007-001
2005-002	Ohio Rev. Code Section 5705.41(D)(1) regarding encumbering of funds.	No	Reissued as finding 2007-002
2005-003	Ohio Rev. Code Section 5705.41(B) regarding budgetary expenditures exceeding total appropriations.	Yes	



Mary Taylor, CPA
Auditor of State

VILLAGE OF TERRACE PARK

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 2, 2008**