



Mary Taylor, CPA
Auditor of State

VILLAGE OF LINCOLN HEIGHTS
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 Similar Fiduciary Fund Types - For the Year Ended December 31, 2007	5
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Fiduciary Fund Type - For the Year Ended December 31, 2007	6
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, 2006	7
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Fiduciary Fund Type - For the Year Ended December 31, 2006	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Schedule of Findings.....	21
Schedule of Prior Audit Findings	31

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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 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.

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

Mary Taylor, CPA
Auditor of State

February 17, 2009

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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, 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.

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

The Village did not prepare and maintain sufficient evidence supporting the financial activity of their Mayor's Court, which is recorded as other non-operating cash receipts and other non-operating cash disbursements in the Agency Fund. Without a full accountability over the revenue received and disbursed out of the Mayor's Court, we could not assure ourselves regarding the completeness of the Mayor's Court receipts and disbursements or satisfy ourselves regarding the completeness of receipts and disbursements through other audit procedures. The Mayor's Court receipts and disbursements represent 100% of the other non-operating cash receipts and other non-operating cash disbursements recorded in the Agency Fund.

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, except for adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amount recorded as other non-operating cash receipts and other non-operating cash disbursements in the Agency Fund, 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 Lincoln Heights, 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 February 17, 2009, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

February 17, 2009

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

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

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$346,340	\$379,893	\$0	\$0	\$726,233
Municipal Income Tax	624,205				624,205
Intergovernmental	207,418	197,592			405,010
Special Assessments	220				220
Charges for Services	165,034	4,568			169,602
Fines, Licenses and Permits	98,390	4,484			102,874
Earnings on Investments	42,077				42,077
Miscellaneous	11,030	13,183			24,213
	1,494,714	599,720	0	0	2,094,434
Cash Disbursements:					
Current:					
Security of Persons and Property	633,562	288,984			922,546
Public Health Services	1,657				1,657
Leisure Time Activities		18,267			18,267
Community Environment	30,628				30,628
Basic Utility Service		137,109			137,109
Transportation		152,358			152,358
General Government	626,429				626,429
Debt Service:					
Redemption of Principal	12,495	34,275			46,770
Interest and Fiscal Charges	1,394	3,617			5,011
Capital Outlay				23,747	23,747
	1,306,165	634,610	0	23,747	1,964,522
Total Receipts Over/(Under) Disbursements	188,549	(34,890)	0	(23,747)	129,912
Other Financing Receipts / (Disbursements):					
Transfers-In		41,700		78,690	120,390
Transfers-Out	(120,390)				(120,390)
Total Other Financing Receipts / (Disbursements)	(120,390)	41,700	0	78,690	0
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	68,159	6,810	0	54,943	129,912
Fund Cash Balances, January 1	483,900	162,118	61	3,441	649,520
Fund Cash Balances, December 31	\$552,059	\$168,928	\$61	\$58,384	\$779,432
Reserve for Encumbrances, December 31	\$47,288	\$10,120	\$0	\$4,943	\$62,351

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

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Fiduciary Fund Type</u>
	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	<u>\$50,535</u>
Total Non-Operating Cash Receipts	<u>50,535</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>45,924</u>
Total Non-Operating Cash Disbursements	<u>45,924</u>
Net Receipts Over Disbursements	4,611
Fund Cash Balances, January 1	<u>25,044</u>
Fund Cash Balances, December 31	<u><u>\$29,655</u></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 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>	
Cash Receipts:					
Property and Local Taxes	\$372,369	\$391,463	\$0	\$0	\$763,832
Municipal Income Tax	683,110				683,110
Intergovernmental	170,091	166,944			337,035
Special Assessments	241				241
Charges for Services	129,859	3,333			133,192
Fines, Licenses and Permits	41,666	2,208			43,874
Earnings on Investments	15,255				15,255
Miscellaneous	229,157	28,587			257,744
	<u>1,641,748</u>	<u>592,535</u>	<u>0</u>	<u>0</u>	<u>2,234,283</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	608,945	221,543			830,488
Public Health Services	1,640				1,640
Leisure Time Activities		38,750			38,750
Community Environment	25,466	33,224			58,690
Basic Utility Service		124,434			124,434
Transportation		157,906			157,906
General Government	663,156	250			663,406
Debt Service:					
Redemption of Principal	8,300	52,031			60,331
Interest and Fiscal Charges		6,247			6,247
Capital Outlay				4,470	4,470
	<u>1,307,507</u>	<u>634,385</u>	<u>0</u>	<u>4,470</u>	<u>1,946,362</u>
Total Receipts Over/(Under) Disbursements	<u>334,241</u>	<u>(41,850)</u>	<u>0</u>	<u>(4,470)</u>	<u>287,921</u>
Other Financing Receipts / (Disbursements):					
Transfers-In	191,138	86,121		2,610	279,869
Transfers-Out	(88,731)	(191,138)			(279,869)
	<u>102,407</u>	<u>(105,017)</u>	<u>0</u>	<u>2,610</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	436,648	(146,867)	0	(1,860)	287,921
Fund Cash Balances, January 1	47,252	308,985	61	5,301	361,599
Fund Cash Balances, December 31	<u>\$483,900</u>	<u>\$162,118</u>	<u>\$61</u>	<u>\$3,441</u>	<u>\$649,520</u>
Reserve for Encumbrances, December 31	<u>\$18,201</u>	<u>\$1,473</u>	<u>\$0</u>	<u>\$0</u>	<u>\$19,674</u>

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

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Fiduciary Fund Type</u>
	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	<u>\$56,117</u>
Total Non-Operating Cash Receipts	<u>56,117</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>55,379</u>
Total Non-Operating Cash Disbursements	<u>55,379</u>
Net Receipts Over Disbursements	738
Fund Cash Balances, January 1	<u>24,306</u>
Fund Cash Balances, December 31	<u><u>\$25,044</u></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, 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 Lincoln Heights, Hamilton County, Ohio (the Village), as a body corporate and politic. A publicly-elected seven-member Council directs 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.

The Village participates in the Public Entities Pool of Ohio public entity risk pool which provides the Village with liability and property insurance coverage. Note 8 to the financial statements provides additional information for this entity.

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 Fiscal 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 2007 and 2006, the Village paid \$0 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. 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.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

The Village's funds are deposited in checking accounts and certificates of deposits. 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 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.

Police Fund - This fund receives property tax money for providing police protection services for the Village and its residents.

Waste Levy Fund - This fund receives property tax money for providing waste removal services for the Village and its residents.

3. Debt Service Funds

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:

Other Capital Projects - This fund receives transfers from the General Fund and is used to account for various capital projects not requiring a separate fund.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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 received by the Village Mayor's Court.

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

	2007	2006
Demand deposits	\$577,180	\$493,515
Certificates of deposit	237,664	211,750
Total deposits	\$814,844	\$705,265

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village; or collateralized by the financial institution's public entity deposit pool.

At December 31, 2007, the Village did not fully reconcile its accounts with the bank resulting in an unreconciled book balance that is greater than an unreconciled bank balance for the general account by \$4,448 and an unreconciled bank balance that is greater than an unreconciled book balance for the Mayor's Court account by \$10,205. At December 31, 2006, the Village did not fully reconcile its accounts with the bank resulting in a an unreconciled book balance that is greater than an unreconciled bank balance for the general account by \$4,255 and an unreconciled bank balance that is greater than an unreconciled book balance for the Mayor's Court account by \$34,956.

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	\$1,385,000	\$1,494,714	\$109,714
Special Revenue	733,148	641,420	(91,728)
Capital Projects	78,690	78,690	0
Total	\$2,196,838	\$2,214,824	\$17,986

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,619,369	\$1,473,843	\$145,526
Special Revenue	778,421	644,730	133,691
Capital Projects	78,690	28,690	50,000
Total	\$2,476,480	\$2,147,263	\$329,217

**VILLAGE OF LINCOLN HEIGHTS
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	\$1,697,581	\$1,832,886	\$135,305
Special Revenue	656,771	678,656	21,885
Capital Projects	2,610	2,610	0
Total	\$2,356,962	\$2,514,152	\$157,190

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,543,415	\$1,414,439	\$128,976
Special Revenue	897,057	826,996	70,061
Capital Projects	4,510	4,470	40
Total	\$2,444,982	\$2,245,905	\$199,077

Contrary to Ohio law, the Village should have obtained a reduced amended certificate of estimated resources for certain funds. As of December 31, 2007, the Summer Youth Activities Fund should have been reduced by \$7,568, the Lincoln Heights Day Festival Fund should have been reduced by \$1,402 and the CDBG Fund should have been reduced by \$89,897. As of December 31, 2006, the Recycle and Litter Grant Fund should have been reduced by \$1,158 and the CDBG Fund should have been reduced by \$3,776.

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 LINCOLN HEIGHTS
HAMILTON COUNTY**

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

5. Local Income Tax

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

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

6. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
OPWC Street Program Loan	\$38,642	0%
State Fire Marshal Loan	71,935	0%
1998 Sutphen Fire Pumper Lease	33,459	4.91%
2007 Ford Crown Victoria Lease	16,290	6.8%
Total	\$160,326	

The Village acquired an interest free loan in the amount of \$51,522 in April, 2003 from an Ohio Public Works Commission (OPWC) Street Program Loan that was issued to facilitate improvements to Village Streets. The Village will repay the loan in semi annual installments of \$1,288 over twenty years.

The Village acquired a loan in December 2002 from the Small Government Fire Departmental Services Revolving Loan Program which was approved and administered by the State Fire Marshal. 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 entered into a lease-purchase agreement dated September 11, 1998 in the amount of \$265,546 at an interest rate of 4.91% for a period of ten years for the 1998 Sutphen Fire Pumper for use by the Fire Department. This lease is to be paid in annual installments of \$35,316.

The Village entered into a lease-purchase agreement dated December 19, 2006 in the amount of \$26,509 (excluding down payment of \$3,500) at an interest rate of 6.8% for a period of three years for the 2007 Ford Crown Victoria police cruiser for use by the Police Department. This lease is to be paid in monthly installments of \$757.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

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

6. Debt (Continued)

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

Year ending December 31:	OPWC Street Program Loan	State Fire Marshal Loan	1998 Sutphen Fire Pumper Lease	2007 Ford Crown Victoria Lease	Total All Debt
2008	\$2,576	\$4,800	\$35,316	\$9,089	\$51,781
2009	2,576	4,800		8,331	15,707
2010	2,576	4,800			7,376
2011	2,576	4,800			7,376
2012	2,576	4,800			7,376
2013 – 2017	12,881	24,000			36,881
2018 – 2022	12,881	23,932			36,813
Total	<u>\$38,642</u>	<u>\$71,932</u>	<u>\$35,316</u>	<u>\$17,420</u>	<u>\$163,310</u>

7. Retirement Systems

The Village's certified Fire Fighters and full-time Police Officers belong to the Ohio Police and Fire Pension Fund (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 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 and 24% of full-time fire fighters' wages, respectively. 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.

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.

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

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

8. Risk Management (Continued)

Casualty Coverage

For an occurrence prior to January 1, 2006 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.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage 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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006) as noted above.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, 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 values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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 government.

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

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, 2007 and 2006.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

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

8. Risk Management (Continued)

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$53,727. 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.

<u>Contributions to PEP</u>	
2005	\$46,210
2006	46,719
2007	46,719

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they 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 budgetary 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 occurred or was reported prior to the withdrawal.

9. Contingent Liabilities

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY**

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

10. Material Noncompliance

The Village did not obtain prior certification of the availability of funds from the fiscal officer for all commitments in accordance with Ohio Rev. Code Section 5705.41(D)(1).

The Village did not fully account and dispose of all funds collected by the Mayor's Court in accordance with Ohio Rev. Code Sections 733.40, 2743.70(A) and 2949.091(A)(1).

The Village did not maintain all financial activity on its accounting records in accordance with Ohio Rev. Code Section 733.28, and Ohio Admin. Code Section 117-2-02.

The Village did not maintain all Mayor's Court financial activity on its accounting records in accordance with Ohio Rev. Code Section 1905.01(F) and Ohio Admin. Code Section 117-2-02.

11. Subsequent Events

The Auditor of State is currently conducting a special audit of the Village's Mayor's Court. The results of this special audit cannot be determined at this time.



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 years ended December 31, 2007 and 2006, and have issued our report thereon dated February 17, 2009, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also qualified our opinion for the lack of evidential matter to support the amounts recorded as other non-operating cash receipts and other non-operating cash disbursements of the Agency Fund. 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 Government'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 Government's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Government'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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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 Government'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: 2007-002, 2007-004, 2007-005 and 2007-007.

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 internal control deficiencies that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings number 2007-002, 2007-004 and 2007-005 are also material weaknesses.

We also noted certain matters that we reported to the Village's management in a separate letter dated February 17, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items: 2007-001 through 2007-006.

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 February 17, 2009.

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

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

February 17, 2009

VILLAGE OF LINCOLN HEIGHTS
HAMILTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006

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

FINDING NUMBER 2007-001

Finding for Recovery

Chad Essert, former Village Police Officer, had a starting sick leave balance of 90.87 hours as of January 1, 2007. During 2007, he accrued 91.51 hours of sick leave and used 43.50 hours. Mr. Essert's ending sick leave balance should have been 138.88 hours, however due to a miscalculation in the leave records, these records stated the balance as 155.88 hours. The sick leave balance was overstated by 17.00 hours.

In September, 2007, Mr. Essert left employment of the Village and was paid a termination benefit of half of his sick leave balance. Mr. Essert was paid half of the reported balance totaling 77.94 hours instead of half of the actual balance totaling 69.44 hours. This resulted in an overpayment of \$119.85 (\$14.10/hr times 8.5 hours). This over-payment was authorized by the Police Chief D'Angelo Sumler and the Village Manager Susan Upton-Farley and signed by the acting Fiscal Officer Sharon Willis.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Mr. Chad Essert, in the amount of \$119.85, in favor of the General Fund.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State ex. Rel. Village of Linndale v. Masten (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondary liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

Therefore, because D'Angelo Sumler, Susan Upton-Farley, and Sharon Willis approved and/or signed the warrants resulting in the improper payments, they and Hartford Fire Insurance Company, the bonding company for Ms. Willis, are jointly and severally liable in the amount of \$119.85, in favor of the General Fund.

Officials' Response:

Based on this information the subject employee Chad Essert has been advised by the State Auditor's Office of the overpayment of \$119.85 resulting from a miscalculation of the final sick leave balance paid in 2007. Collection of this amount from Chad Essert will be pursued by the Village.

FINDING NUMBER 2007-002

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.

FINDING NUMBER 2007-002
(Continued)

In addition, **Ohio Admin. 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, 2006 and 2007, the Village's unreconciled general account book balance was greater than an unreconciled bank balance by \$4,255 and \$4,448 respectively.
- The Village had State of Ohio Fees of \$231 deducted from the homestead and rollback settlement, which were included in the Village's posting of gross receipts, but for which a memo expense was not reflected on the Village's accounting system.
- The Village had County Auditor, Treasurer Fees of \$134 deducted from the First half personal property settlement, which were included in the Village's posting of gross receipts, but for which a memo expense was not reflected on the Village's accounting system.
- The Village had payroll expenses that were not posted to the Village's accounting system during 2006 and 2007 totaling \$184 and \$12 respectively.
- Throughout the period, the Village's monthly reconciliations did not accurately reflect the outstanding check amounts for the pension remittances. These variances were not identified but represented timing differences for employee retirement amounts reflected on the Village's service organization payroll reports, reflected on the Village's accounting system and deducted from the Village's financial institution.

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

- The Village did not post interest income received on Certificates of Deposit during 2006. In February, 2007, all of the matured interest was posted to the Village's accounting system. The total unrecorded interest income as of December 31, 2006 was \$14,426.
- Loan and lease payments made during 2006 and 2007 were recorded as Capital Outlay or Security of Persons and Property Expenditures in the General Fund, Recreation Fund, Street Fund and the Fire Fund. The amounts reclassified for debt payments for 2006 and 2007 in the General Fund totaled \$8,300 and \$13,889 respectively; in the Fire Fund totaled \$35,316 and \$3,617 respectively; in the Recreation Fund totaled \$20,386 in 2006; and in the Street Fund totaled \$2,576 in 2006. Loan and lease payments should be recorded as debt service principal and debt service interest expenditures.
- There were instances where receipts were not properly classified:
 - In 2006 and 2007, Interest Income Revenue was not allocated to the Street Fund as required. The amounts were determined to be \$810 and \$2,765 respectively.
 - In 2006, Building Permit Fees, Business License Fees and Cable Franchise Fees were posted to Charges for Services revenue instead of Fines, Licenses and Permits Revenue in the General Fund totaling \$9,723, \$2,550 and \$21,498 respectively.

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

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 Finance Director 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, and other reconciling items.) 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. 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:

This finding identifies a number of items inadvertently unrecorded in the Village accounting system. A concerted effort will be made to perform the monthly reconciliations as indicated in the finding which would help identify and eliminate the variances detected during the audited period in future audits.

The 2007 Annual Report correctly reflects the revenue classifications incorrectly reported in 2006. This correction in 2007 was possible because the audit findings in the previous bi-annual audit of 2004-2005 was reviewed and presented in September 2007 in time for the 2007 annual report to correctly reflect the accurate classifications. Each month the Village Manager will sign off on the bank reconciliation.

FINDING NUMBER 2007-003

Noncompliance

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 thirty-six percent (36%) and forty-five percent (45%) of expenditures tested, respectively, for 2007 and 2006 totaling \$43,562 and \$91,096, respectively, and none of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2007-003
(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 Finance Director 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 Finance Director'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 Finance Director 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.

Officials' Response:

The fiscal officer has aggressively implemented a directive to all departments that requisitions must be prepared and submitted prior to issuance of a purchase order and before services are rendered and supplies are received. This effort was again initiated as a result of the prior audit findings presented in September 2007. This effort will continue to be enforced to reduce the use of the "then and now" certificates, if possible.

FINDING NUMBER 2007-004

Noncompliance/Material Weakness

Ohio Rev. Code, Section 733.40, provides, in part, that the mayor shall account for and dispose of all such fines, forfeitures, fees, and costs collected. All moneys collected shall be paid by the mayor into the Village treasury on the first Monday of each month. Also, at the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury.

Ohio Rev. Code, Section 2743.70(A)(1), states that, the court, in which any person is convicted of or pleads guilty to any offense other than a traffic offense that is not a moving violation, shall impose the following sum as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender; (a) Thirty dollars, if the offense is a felony; (b) nine dollars, if the offense is a misdemeanor. The court shall not waive the payment of the thirty or nine dollars court costs, unless the court determines that the offender is indigent and waives the payment of all court costs imposed upon the indigent offender. All such moneys shall be transmitted on the first business day of each month by the clerk of the court to the treasurer of state and deposited by the treasurer in the reparations fund.

Ohio Rev. Code, Section 2949.091(A)(1), states, the court, in which any person is convicted of or pleads guilty to any offense other than a traffic offense that is not a moving violation, shall impose the sum of fifteen dollars as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender. All such moneys collected during a month shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of state and deposited by the treasurer of state into the general revenue fund. The court shall not waive the payment of the additional fifteen dollars court costs, unless the court determines that the offender is indigent and waives the payment of all court costs imposed upon the indigent offender.

**FINDING NUMBER 2007-004
(Continued)**

For funds collected before September, 2007, the distributions processed to the Village were not made prior to the first Monday of each month. The distribution check which was noted for March 2006 was held for the longest period, representing 324 days beyond the first Monday of the following month and the date the check was written.

During 2006 and 2007, the Mayor's Court generated distribution checks to the Village and to the State of Ohio based on amounts posted to the CAPIAS court accounting system for the following months: December 2005 through June 2007 and September 2007 through December 2007. The total distributions to the Village in 2006 and 2007 totaled \$8,355 and \$79,079 respectively. The total distributions to the State of Ohio in 2006 and 2007 totaled \$1,840 and \$14,927 respectively. As discussed in Finding Number 2007-005, certain amounts received were not entered onto the CAPIAS court accounting system and were therefore not distributed to the appropriate agency.

The Mayor's Court should develop and implement procedures to provide for the distribution of monies collected to the appropriate agency within the timeframe outlined in the Ohio Rev. Code.

Officials' Response:

This finding states the reasons why the Village requested a special audit of the court process be undertaken. The comments in this finding are the first indications of variances that existed in the process. Undoubtedly the special audit results will identify the full extent of the process problems which will need to be addressed by improvement in the internal control of the court revenues. The results of the special audit will further identify what checks and balances will need to be established and adhered to in the future.

FINDING NUMBER 2007-005

Noncompliance/Material Weakness

Ohio Rev. Code, Section 1905.01(F), states in keeping a docket and files, the mayor, and a mayor's court magistrate appointed under section 1905.05 of the Revised Code shall be governed by the laws pertaining to county courts.

Ohio Rev. Code, Section 1907.20(B), states, in pertinent part, the clerk shall file and safely keep all journals, records, books and papers belonging or appertaining to the court, record its proceedings, perform all other duties that the judges of the court may prescribe, and keep a book showing all receipts and disbursements, which shall be open for public inspection at all times.

Ohio Admin. 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.

FINDING NUMBER 2007-005
(Continued)

- (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.

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.

For the period January 1, 2006 through September 30, 2007, the recomputed receipt amounts for manual receipts issued, the receipt amounts entered onto the CAPIAS court accounting system and the total amounts deposited into the Mayor's Court bank account did not agree as shown below:

	Manual Receipts	CAPIAS Receipts	Manual vs. CAPIAS Variance	Bank Credits	Manual vs. Bank Variance	CAPIAS vs. Bank Variance
1/1/06 through 12/31/06	\$61,039	\$56,117	\$4,922	\$50,070	\$10,969	\$6,047
1/1/07 through 9/30/07	53,992	33,280	20,712	52,173	1,819	(18,893)
Total	<u>\$115,031</u>	<u>\$89,397</u>	<u>\$25,634</u>	<u>\$102,243</u>	<u>\$12,788</u>	<u>(\$12,846)</u>

There was a lack of reconciliation of the Mayor's Court cashbook to the open items listings each month and a lack of completeness of activity between manual receipts and those entered into the CAPIAS court accounting system.

**FINDING NUMBER 2007-005
 (Continued)**

Additionally, bank reconciliations were not accurate or complete for the twenty-four months under audit. At December 31, 2006 and 2007, the Village Mayor's Court account unreconciled book balance was less than an unreconciled bank balance by \$34,956 and \$10,205 respectively.

Based on the records and information presented and available, we are unable to determine if all monies collected by the Mayor's Court were deposited into the Village's bank account or if the deposits were made within the required time frame outlined in Ohio Rev. Code Section 9.38. 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.

Failure to accurately prepare and maintain accounting records reduces the accountability over the Village's Mayor's Court activity and reduces the Village's ability to monitor financial activity of the Mayor's Court. Without this evidential matter we were unable to determine the complete and accurate financial activity of the Mayor's Court.

Officials' Response:

We have implemented in the court process beginning in late September 2007 the attachment of documentation that can be verified and reconciled from the court receipts and disbursements. We recognize that enhancements to this recently implemented process may need to occur after the results of the special audit are known. We recognize that compliance with the statutes is essential and staying current is a requirement.

FINDING NUMBER 2007-006

Noncompliance

Ohio Rev. Code, Section 5705.36(A)(4), states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

As of year-end, the following funds had estimated receipts that exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations in several funds.

Fund	Available Resources plus Beginning Fund Cash Balance	Current Year Appropriations plus Prior Year Carryover Appropriations	Excess
<i>December 31, 2007:</i>			
Summer Youth Activities Fund	\$7,432	\$15,000	(\$7,568)
Lincoln Heights Day Festival Fund	14,598	16,000	(1,402)
CDBG Fund	30,103	120,000	(89,897)
<i>December 31, 2006:</i>			
Recycle and Litter Grant Fund	8,342	9,983	(1,641)
CDBG Fund	8,224	12,000	(3,776)

**FINDING NUMBER 2007-006
(Continued)**

Failure to monitor budgetary activity may result in overspending and negative fund balances. We recommend that the Village request an amended certificate when the amount of deficiency will reduce available resources below the current level of appropriation.

Officials' Response:

We recognize the importance of monitoring the actual revenues received before authorizing the use of appropriations to avoid overspending in each fund. Each time a requisition is received and before a purchase order is issued the availability of an adequate fund balance and appropriation level is checked by the fiscal officer.

The specific three funds cited are less predictable concerning revenues to be received since in two funds donations cannot be controlled when they would be received. The CDBG fund appropriation and estimated revenues are initially based on our request for funding from Hamilton County. Approval by Hamilton County does not occur until February of the appropriation year; however, later in the year because of increases in the County's unspent funds they have provided us an opportunity to ask for and receive additional funding. This has in fact happened.

FINDING NUMBER 2007-007

Significant Deficiency

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:

- Seven out of Forty (or 17.5%) of the disbursements tested did not have a purchase order completed or approved and there was no indication that expenditures were approved prior to purchase being made. All of these errors were noted in 2006, and
- Twenty out of Forty (or 50.0%) of the disbursements tested, ten for 2006 and ten for 2007, did not have a completed or approved requisition made to request approval for the purchase of goods or services.

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. We recommend the Village non-payroll disbursement processing include, but not be limited to the following:

- Prior authorization of a purchase should be obtained, through the use of a purchase order which documents approval by the Finance 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 requisition should be submitted to the Finance Director for final approval.

Officials' Response:

The fiscal officer has aggressively implemented a directive to all departments that requisitions must be prepared and submitted prior to issuance of a purchase order and before services are rendered and supplies are received. This effort was again initiated as a result of the prior audit findings presented in September 2007. This effort will continue to be enforced to reduce the use of the "then and now" certificates, if possible.

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**VILLAGE OF LINCOLN HEIGHTS
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	Ohio Rev. Code Section 733.28 and Ohio Admin. Code Section 117-2-02 regarding Village records not being maintained properly.	No	Reissued as finding 2007-002
2005-002	Ohio Rev. Code Section 5705.39 regarding appropriations exceeding estimated resources.	Yes	
2005-003	Ohio Rev. Code Section 5705.41(B) regarding budgetary disbursements exceeding total appropriations.	Yes	
2005-004	Ohio Rev. Code Section 5705.10 regarding negative fund balances.	Yes	
2005-005	Ohio Rev. Code Section 5705.41(D) regarding lack of certification of availability of funds.	No	Reissued as finding 2007-003
2005-006	Ohio Rev. Code Section 733.40 and 2743.70(A)(1) regarding collection and remittance of fines, forfeitures and costs of the Mayor's Court to the appropriate agencies. Also, Ohio Admin. Code Section 117-2-02 regarding Village court records not being maintained properly.	No	Reissued as findings 2007-004 and 2007-005
2005-007	Ohio Rev. Code Section 4511.19(G)(5)(a) regarding establishment of the Indigent Drivers Alcohol Treatment Fund and the Enforcement and Education Fund.	Yes	
2005-008	Ohio Rev. Code Section 9.38 regarding timely depositing of monies collected.	No	Reissued as part of finding 2007-005
2005-009	Reportable Condition regarding the Village's internal control environment.	No	Reissued as finding 2007-007



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
DECEMBER 10, 2009