



Dave Yost • Auditor of State

VILLAGE OF LAKEMORE
SUMMIT COUNTY

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Dave Yost • Auditor of State

Village of Lakemore
Summit County
P.O. Box 455
1400 Main Street
Lakemore, Ohio 44250-0455

To the Honorable Mayor and 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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Dave Yost
Auditor of State

November 4, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lakemore
Summit County
P.O. Box 455
1400 Main Street
Lakemore, Ohio 44250-0455

To the Honorable Mayor and Village Council:

We have audited the accompanying financial statements of Village of Lakemore, Summit County, Ohio, (the Village) as of and for the years ended December 31, 2010 and 2009. 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 discussed in the second following paragraph, 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

The Auditor of State served during a portion of the year ended December 31, 2010 as the Village's financial supervisor under Ohio Revised Code § 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(A) mandates the Auditor of State to audit Ohio governments.

For the year ended December 31, 2009, the Village outsourced emergency medical service processing to a third party administrator. The financial statements report these fees as charges for services in the Special Revenue Fund. The third party administrator did not provide us with information we requested regarding the design of proper operation of its internal controls. We were therefore unable to satisfy ourselves as to the proper processing of emergency medical services fees. Those fees represent 45% of revenues reported in Special Revenue Funds for the year ended December 31, 2009.

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, 2010 and 2009 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, 2010 and 2009, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to examine information regarding emergency medical service fees reported with the Special Revenues Funds, as described in the fourth preceding paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Lakemore, Summit County, as of December 31, 2010 and 2009, 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.

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As discussed in Note 10 to the financial statements, the Village has suffered recurring losses from operations and has a deficiency that raises substantial doubt about its ability to continue as a going concern. In addition, the Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. Note 10 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

November 4, 2011

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**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$101,769	\$19,247	\$0	\$0	\$121,016
Municipal Income Tax	471,822				471,822
Intergovernmental	230,699	118,705			349,404
Special Assessments	9,564				9,564
Charges for Services	6,920	124,570			131,490
Fines, Licenses and Permits	90,398				90,398
Miscellaneous	55,545	5,182			60,727
	<u>966,717</u>	<u>267,704</u>	<u>0</u>	<u>0</u>	<u>1,234,421</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	689,783	195,059			884,842
Public Health Services	500				500
Leisure Time Activities	17,202				17,202
Community Environment	16,006				16,006
Transportation	99,370	151,825			251,195
General Government	311,081				311,081
Debt Service:					
Redemption of Principal	71,148				71,148
Interest and Fiscal Charges	4,911				4,911
Capital Outlay				6	6
	<u>1,210,001</u>	<u>346,884</u>	<u>0</u>	<u>6</u>	<u>1,556,891</u>
Total Receipts (Under) Disbursements	<u>(243,284)</u>	<u>(79,180)</u>	<u>0</u>	<u>(6)</u>	<u>(322,470)</u>
Other Financing Receipts / (Disbursements):					
Sale of Fixed Assets	850				850
Other Financing Sources	670	670			1,340
Other Financing Uses	(437)				(437)
	<u>1,083</u>	<u>670</u>	<u>0</u>	<u>0</u>	<u>1,753</u>
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(242,201)	(78,510)	0	(6)	(320,717)
Fund Cash Balances, January 1	<u>(733,613)</u>	<u>168,183</u>	<u>(59,359)</u>	<u>(32,182)</u>	<u>(656,971)</u>
Fund Cash Balances, December 31	<u>(\$975,814)</u>	<u>\$89,673</u>	<u>(\$59,359)</u>	<u>(\$32,188)</u>	<u>(\$977,688)</u>

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$937,270
Miscellaneous	4,314
	941,584
Total Operating Cash Receipts	941,584
Operating Cash Disbursements:	
Personal Services	150,180
Employee Fringe Benefits	57,119
Contractual Services	136,000
Supplies and Materials	137,475
Other	261,300
	742,074
Total Operating Cash Disbursements	742,074
Operating Income	199,510
Non-Operating Cash Receipts:	
Other Debt Proceeds	40,000
Other Non-Operating Cash Receipts	1,340
	41,340
Total Non-Operating Cash Receipts	41,340
Non-Operating Cash Disbursements:	
Redemption of Principal	3,391
	3,391
Total Non-Operating Cash Disbursements	3,391
Net Receipts Over Disbursements	237,459
Fund Cash Balances, January 1	631,402
Fund Cash Balances, December 31	\$868,861

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$103,889	\$13,014	\$0	\$0	\$116,903
Municipal Income Tax	648,943				648,943
Intergovernmental	446,625	146,400			593,025
Charges for Services	13,029	136,409			149,438
Fines, Licenses and Permits	48,087	150			48,237
Earnings on Investments	65				65
Miscellaneous	30,301	6,787			37,088
Total Cash Receipts	1,290,939	302,760	0	0	1,593,699
Cash Disbursements:					
Current:					
Security of Persons and Property	830,183	169,272			999,455
Public Health Services	434				434
Leisure Time Activities	22,000	1,200			23,200
Community Environment	18,435				18,435
Transportation	187,312	144,999			332,311
General Government	408,667				408,667
Debt Service:					
Redemption of Principal	244,636				244,636
Interest and Fiscal Charges	20,594				20,594
Capital Outlay				30,436	30,436
Total Cash Disbursements	1,732,261	315,471	0	30,436	2,078,168
Total Receipts (Under) Disbursements	(441,322)	(12,711)	0	(30,436)	(484,469)
Other Financing Receipts:					
Sale of Fixed Assets	1,597				1,597
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements	(439,725)	(12,711)	0	(30,436)	(482,872)
Fund Cash Balances, January 1	(293,888)	180,894	(59,359)	(1,746)	(174,099)
Fund Cash Balances, December 31	<u>(\$733,613)</u>	<u>\$168,183</u>	<u>(\$59,359)</u>	<u>(\$32,182)</u>	<u>(\$656,971)</u>

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$1,034,952
Miscellaneous	524
	1,035,476
Operating Cash Disbursements:	
Personal Services	151,056
Employee Fringe Benefits	56,915
Contractual Services	194,841
Supplies and Materials	68,405
Other	223,526
	694,743
Total Operating Cash Disbursements	694,743
Operating Income	340,733
Non-Operating Cash Receipts:	
Earnings on Investments	2
Other Debt Proceeds	19,887
	19,889
Total Non-Operating Cash Receipts	19,889
Net Receipts Over Disbursements	360,622
Fund Cash Balances, January 1	270,780
Fund Cash Balances, December 31	\$631,402

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 Lakemore, Summit County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, trash collection, park operations, emergency medical services, police and fire protection services. The Village appropriates general fund money to support a volunteer fire department. On May 18, 2009, the Village authorized to contract with Springfield Township to provide police services.

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

On August 31, 2010, the Auditor of State's office declared the Village of Lakemore to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the Village, Council President, three financial consultants from various corporations and/or organizations within the Village and two representatives from the State of Ohio. This Commission is responsible for approving a financial recovery plan which has to be adopted by the Village. Once the plan has been adopted, the Village's discretion is limited in that all financial activity of the Village must be in accordance with the plan. State law requires that the plan be updated annually. See Notes 10 and 11 for more information on the Village's fiscal emergency status.

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. Deposits 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.

The Village invested in an overnight repurchase agreement through a local bank from January through March, 2009. The investments in the repurchase agreement were valued at cost.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from 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.

Emergency Medical Services Ambulance Fund – This fund receives charges for services for emergency medical and ambulance services to residents.

3. Debt Service Funds

These funds account for resources the Village accumulates to pay note debt. The Village had the following significant Debt Service Fund:

Police Facility Note – This fund was originally established to repay the Police Facility 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 Fund:

Capital Improvement Fund – This fund receives transfers from the general fund to purchase capital equipment for various departments of the Village.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

D. Fund Accounting – (Continued)

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Trash Collection Fund - This fund receives charges for services from residents to cover trash collection service costs.

E. Budgetary Process

The Ohio Revised Code requires that each fund 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 for the General Fund and fund and function level of control over all other funds, 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. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. The Village did not encumber all commitments required by Ohio law.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

G. Accumulated Leave

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

2. Equity in Pooled Deposits

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

	2010	2009
Demand deposits	(\$108,827)	(\$25,569)
Total deposits	(\$108,827)	(\$25,569)

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

3. Budgetary Activity and Noncompliance

The Village did not maintain accounting records of budgetary activity, nor did they comply with other laws which the Village deems material. As a result, the following noncompliance citations have been issued:

- Contrary to Ohio Rev. Code Section 5705.41(B), the Village had expenditures that exceeded appropriations in several funds for both years.
- Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify certain expenditures prior to the financial obligation.
- Contrary to Ohio Rev. Code Section 5705.10 (H), the Village had negative fund balances at both December 31, 2010 and 2009.
- Contrary to Ohio Rev. Code Section 5705.34, the Village did not pass a resolution authorizing the necessary tax levies and to certify the levies to the County Fiscal Officer.
- Contrary to Ohio Rev. Code Section 5705.36(A), the Village did not certify to the County Fiscal Officer the total amount from all sources which is available for expenditure from each fund in the tax budget along with any balances that existed at the end of the preceding year for 2009.
- Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded total estimated fund resources in various finds each year.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity and Noncompliance

Budgetary activity for the years ended December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,246,102	\$968,237	(\$277,865)
Special Revenue	368,442	268,374	(100,068)
Capital Projects	0	0	0
Enterprise	1,127,600	982,924	(144,676)
Total	\$2,742,144	\$2,219,535	(\$522,609)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,301,475	\$1,210,438	\$91,037
Special Revenue	355,930	346,884	9,046
Capital Projects	0	6	(6)
Enterprise	902,595	745,465	157,130
Total	\$2,560,000	\$2,302,793	\$257,207

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,439,300	\$1,292,536	(\$146,764)
Special Revenue	255,522	302,760	47,238
Capital Projects	0	0	0
Enterprise	684,000	1,055,365	371,365
Total	\$2,378,822	\$2,650,661	\$271,839

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,399,793	\$1,732,261	(\$332,468)
Special Revenue	332,231	315,471	16,760
Debt Service	65,300	0	65,300
Capital Projects	294,494	30,436	264,058
Enterprise	857,500	694,743	162,757
Total	\$2,949,318	\$2,772,911	\$176,407

Actual receipts and budgetary expenditures above include audit adjustments.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

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.

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. Residents of the Village are granted 100 percent credit for taxes paid to other municipalities. Income taxes are collected by the Regional Income Tax Agency (RITA).

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, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Police Facility General Obligation Loan	\$31,779	6%
Ohio Water Development Authority Loan	16,496	0%
Rural Community Action Loan	40,000	4%
Fire Truck Lease	72,416	5.87%
Total	<u>\$160,691</u>	

The General Obligation Loan relates to a bank loan obtained to construct a police facility. The original amount of this loan was \$500,000. The loan will be repaid in semiannual installments of \$32,615 including interest, over 10 years. The General Obligation Loan is collateralized by the Village's taxing authority.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

6. Debt (Continued)

The Ohio Water Development Authority (OWDA) loan relates to a Village Capital Improvement Fund Loan for the design of the drinking water facilities improvements. The OWDA approved up to \$33,905 in loans to the Village for this project. The Village received \$19,887 of this loan on September 11, 2009. The Village will repay the loan in annual installments of \$3,391, interest free, over 10 years. The scheduled payment amount below assumes that \$33,905 will be borrowed. The OWDA will adjust scheduled payments to reflect any revisions in amounts the Village actually borrows. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Rural Community Action Loan relates to the installation of a new control panel for the Village water system. The Village received \$40,000 on November 5, 2010. The Village will repay the loan in monthly installments of \$405 including interest, over 10 years. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover the debt service requirements.

The Village entered into a lease purchase agreement for a Pierce Saber fire truck in February, 2009. The Village will make annual lease payments of \$10,829 including interest, over 5 years with a final payment of \$44,248 due in February, 2014. The lease is collateralized by the Village's taxing authority.

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

Year ending December 31:	Police Facility General Obligation Note	OWDA Loan	Rural Action Community Loan	Fire Truck Lease
2011	\$32,615	\$3,391	\$4,860	\$10,829
2012		3,390	4,860	10,829
2013		3,391	4,860	10,829
2014		3,390	4,860	55,077
2015		3,391	4,860	
2016-2020		13,561	24,298	
Total	<u>\$32,615</u>	<u>\$30,514</u>	<u>\$48,598</u>	<u>\$87,564</u>

7. Retirement Systems

The Village's certified Fire Fighters and full-time Police Officers belong to the 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 2010 and 2009, OP&F participants contributed 10% of their wages. For 2010 and 2009, 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. From August 7, 2009 through December 31, 2010 and from January 1, 2009 through August 7, 2009, OPERS members contributed 10% and 9%, respectively, of their gross salaries and the Village contributed an amount of 14%, plus 1% of the employee share from January 1, 2009 through August 7, 2009. The Village has paid all contributions required through December 31, 2010.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

8. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

9. Contingent Liabilities

The Village is a defendant in a lawsuit. Although management cannot presently determine the outcome of the suit, management believes that the resolution of this matter 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.

10. Fiscal Emergency

The Auditor of State's office placed the Village in fiscal emergency on August 31, 2010 in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the village mayor, the president of village council, and three individuals appointed by the Governor who are residents of the Village and meet certain criteria.

In accordance with Section 118.06 of the Ohio Revised Code, the Village is required to submit to the Commission a financial recovery plan for the Village which outlines the measures to be taken to eliminate the fiscal emergency conditions.

A Village is placed into fiscal emergency when any one of six conditions is present. For the Village of Lakemore, two of the six conditions were present at the date of the Auditor of State's determination. The conditions present in the Village included deficit fund balances and treasury deficiency. Under Section 118.03(A)(5) of the Revised code, the aggregate sum of all deficit funds at the end of the preceding fiscal year, less any transferable balance in the general fund and in any special revenue fund that exceed one-sixth of the general fund budget and the receipts of the deficit funds is a fiscal emergency condition. As of December 31, 2009, the Village had deficit fund balances in the following funds: general fund, emergency medical services fund, note on police facility fund, capital improvement fund and the water fund. The Auditor of State's calculation determined the total unprovided portion of aggregate deficit funds was \$766,921 for the year ended December 31, 2009. Under Section 118.03(A)(6) of the Revised code, the treasury balances were less than the aggregate of all positive balances at the end of the preceding fiscal year that exceed one-sixth of the total amount received into the unsegregated treasury. As of December 31, 2009, the Auditor of State's calculation determined a treasury deficiency of \$553,737.

As of December 31, 2010, the Village has not determined when the situation will be resolved.

VILLAGE OF LAKEMORE
SUMMIT COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)

11. Subsequent Events

On June 20, 2011, Council approved to reduce the local income tax credit allowed for income tax paid to other communities by 50% effective July 1, 2011. The reduction will remain in effect until the Village is released from fiscal emergency.

The Village adopted its initial financial recovery plan on July 5, 2011.

The Village placed a .25 percent income tax increase on the ballot of the November 2011 general election which failed.

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Dave Yost • 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 Lakemore
Summit County
P.O. Box 455
1400 Main Street
Lakemore, Ohio 44250-0455

To the Village Council:

We have audited the financial statements of the Village of Lakemore, Summit County, Ohio, (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated November 4, 2011, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. In addition, we noted the Village is in fiscal emergency. The Auditor of State served during a portion of the year ended December 31, 2010 as the Village's financial supervisor under Ohio Revised Code § 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(A) mandates the Auditor of State to audit Ohio governments. We also noted the Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We qualified our report on the 2009 Special Revenue Funds since a Tier II SAS70 report was not obtained for the EMS charges for services and alternate procedures could not be performed. Except, as discussed in the preceding sentence, 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-08 and 2010-09 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-10 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-01 through 2010-07.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated November 4, 2011.

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, Village Council, the Financial Planning and Supervision Commission, and others within the Village. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

November 4, 2011

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**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 and 2009**

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

1. Expenditures Exceeding Appropriations

Finding Number 2010-01

NONCOMPLIANCE

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2009, expenditures plus outstanding encumbrances exceeded appropriations in the General Fund by \$352,355. At December 31, 2010, expenditures plus outstanding encumbrances exceeded appropriations in the Emergency Medical Services Fund, Water Operating Fund, and LFD EMS Donations fund by \$7,891, \$7,117 and \$1,648, respectively. At December 31, 2010, expenditures plus outstanding encumbrances exceeded appropriations at the object level in the General Fund for the Department of Public Services by \$16,340.

The Fiscal Officer should frequently compare actual expenditures plus outstanding encumbrances to appropriations to avoid overspending.

Official's Response: All actual and outstanding encumbrances are monitored to avoid overspending. Through spending cuts and other measures we have been able to reduce the amount of overspending significantly from prior years for the audit period and have reached a point in 2011 where overspending should not be an issue.

2. Certification of Expenditures

Finding Number 2010-02

NONCOMPLIANCE

Ohio Rev. Code Section 5705.41(D) requires no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), 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 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.

During 2010 and 2009, the Village issued "blanket" certificates; however, Village Council has not established an amount by resolution or ordinance to limit the "blanket" certificate amount. During 2009, 10 of 35 or 28.6% of expenditures tested and during 2010, 19 of 39 or 48.7% expenditures tested were not certified by the Fiscal Officer nor was evidence discovered that the Village issued Then and Now Certificates. The Village should certify the availability of funds for expenditure and also implement the use of Then and Now Certificates, Blanket Certificates and Super Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend Village Council establish a "blanket" certificate amount. In addition, the Fiscal Officer should certify the availability of funds for expenditure prior to commitment and also implement the use of Then and Now Certificates, Blanket Certificates and Super Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D). Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

Official's Response: We have been working on this issue. PO's, Blankets and Then and Nows are required before any purchase is made in the village. Ordinance 1425-2010 established a clear ordering policy.

3. Negative Cash Fund Balances

Finding Number 2010-03

NONCOMPLIANCE

Ohio Rev. Code Section 5705.10(H) requires that monies paid into any fund be used only for the purposes for which such fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2010, we noted the following negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
General Fund	(\$975,814)
Lakemore Fire/EMS Grants Fund	(5,000)
Emergency Medical Services Fund	(99,218)
Note Principal on Police Facilities Fund	(65,229)
Capital Improvements Fund	(34,876)

At December 31, 2009, we noted the following negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
General Fund	(\$733,613)
Emergency Medical Services Fund	(104,434)
Note Principal on Police Facilities Fund	(65,229)
Capital Improvements Fund	(34,876)
Water Operating Fund	(78,781)

Negative cash fund balances are an indication that revenues from other sources were used to pay obligations of these funds.

Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

Official's Response: We have worked with LGS and the Fiscal Oversight Board to consolidate negative fund balances into the General Fund and put together a plan which assures that expenditures shall not exceed revenues to avoid any future negative fund balance issues.

4. Finding for Recovery

Finding Number 2010-04

NONCOMPLIANCE

Section 6.14 of the Village of Lakemore, Ohio, Employees Policies and Procedures Manual, Revised September 30, 2003, states, in part, no more than one hundred dollars (\$100.00) per day, for lodging, parking, taxi fares, telephone calls and other similar items of expenses incident and necessary for performance of official Village business; provided, however, that such items of business shall be documented fully. However, additional dollars may be reimbursed under special circumstances such as the city traveled to and the prevailing expenses for lodging and travel there, upon approval by the Mayor and department manager; Village employees required staying overnight outside of the Village on official business will be reimbursed for meals not more than \$30.00 per day when costs of meals are itemized and accompanied by receipts; the amount of the expenditure may exceed the cap with prior approval by the Village Mayor; the Village of Lakemore will reimburse employees for gratuities (15%) and appropriate taxes with proof of expenditures; gratuities in excess of 15% must have prior approval.

State ex rel. McClure v. Hagerman (1951), 155 Ohio St. 320 provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Auditor of State Bulletin 2003-005 states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. The Bulletin indicates that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states that the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

During 2009, the Village issued the following payment to Michael Kolomichuk, Mayor, in contravention of Village policy:

On January 30, 2009 check number 6969 in the amount of \$660.32 was issued and authorized by Richard Quay, Fiscal Officer and Michael Kolomichuk, Mayor. Included in this payment was \$9.60 for a meal at a meeting requiring an overnight stay, \$65.66 for a meal, and a \$12.00 gratuity for a meeting requiring an overnight stay and no itemized receipt was provided for any of the above amounts.

Without appropriate supporting documentation it is not possible to determine if the expenditure included items that would not be considered a proper public purpose. The failure to maintain adequate support for these expenditures could result in a loss of accountability over the Village's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Pursuant to the Village's reimbursement for meals during travel requiring an overnight stay, an itemized receipt is required. Failure to provide an itemized receipt is in direct noncompliance of Section 6.14 of the Village of Lakemore, Ohio, Employees Policies and Procedures Manual.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Michael Kolomichuk, Mayor, and his bonding company, Western Surety Company in the amount of \$87 and in favor of the Village of Lakemore.

Additionally, 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 liable for the amount of such expenditure. *Steward v. National Surety Co.* (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 liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen 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 Richard Quay, Fiscal Officer, signed the improper payment, he and his bonding company, Western Surety Company, will be jointly and severally liable in the amount of \$87 to the extent that recovery is not obtained from Michael Kolomichuk.

Official's Response: These expenditures were stopped in 2009 and correct. Ordinance 1410-2009 and 1413-2009 were put in place to immediately halt these expenditures. Ordinance 1424-2010 was adopted to provide a comprehensive policy requiring prior written approval from Council, inclusion of dates, reasons, locations and mileage of travel and explicit limits on subsistence reimbursements.

5. Certifying Tax Levies

Finding Number 2010-05

NONCOMPLIANCE

Ohio Rev. Code Section 5705.34 requires the Village to pass an ordinance or resolution authorizing the necessary tax levies. The Village is required to certify the levies to the County Fiscal Officer before October 1 in each year, unless a later date is approved by the tax commissioner.

The Village did not pass a resolution authorizing the necessary tax levies and did not certify the levies to the County Fiscal Officer for 2010 or 2009. The County Fiscal Officer does not have authority to collect levy monies until the rates and amounts have been certified by the Village. As a result, the Village's collection of tax levy revenues for the 2010 and 2009 fiscal years could have been jeopardized.

The Village should ensure the necessary tax levies are formally approved and certified to the County Fiscal Officer timely. This will help ensure monies generated from the Village's tax levies can be collected and available for the Village.

Official's Response: The 2010 certification was provided to the County of Summit late. It was passed and certified, and the correction has been made going forward. If there is a reason that the certification may be late, we will obtain an extension from the county and file it within the allowed period. The certifications for 2011 and 2012 were corrected to follow ORC.

6. Certification of Total Amount From All Sources Available for Expenditures

Finding Number 2010-06

NONCOMPLIANCE

Ohio Rev. Code Section 5705.36(A) requires on or about the first day of each fiscal year, the fiscal officers of each subdivision and other taxing units shall certify to the county fiscal officer the total amount from all sources available for expenditures from each fund in the tax budget along with any encumbered balances that existed at the end of the preceding year. In addition, this section allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenues to be collected will be greater or less than the amount in the official certificate of estimated resources.

For the year ended December 31, 2009, the Village failed to certify the total amount available from each fund to the county fiscal officer. By not certifying year-end balances to the county fiscal officer, and subsequently obtaining an amended certificate of estimated resources, the Village could base appropriations on outdated estimates of available resources which could result in negative fund balances.

The Village should file its certificate of available resources with the county fiscal officer on or about the first day of each fiscal year and should amend it throughout the year as deemed necessary.

Official's Response: This has been corrected and was presented for the 2011 and 2012 budgets. All certificate amendments are also forwarded to the County of Summit for approval as well.

7. Appropriations Exceeding Estimated Resources

Finding Number 2010-07

NONCOMPLIANCE

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund. This section also requires the Village to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

As of December 31, 2009, total appropriations exceeded total estimated resources as follows:

Fund	Estimated Resources	Appropriations	Variance
General	\$1,141,513	\$1,399,793	\$258,280
Emergency Medical Services	\$36,890	\$146,050	\$109,160
Note Principal on Police Facility	(\$65,229)	\$65,300	\$130,529
Capital Improvements	(\$4,440)	\$50,900	\$55,340
Water Operating	\$43,058	\$210,000	\$166,942
Trash Operating	\$85,192	\$160,000	\$74,808

As of December 31, 2010, total appropriations exceeded total estimated resources as follows:

Fund	Estimated Resources	Appropriations	Variance
General	\$516,636	\$1,301,475	\$784,839
Emergency Medical Services	\$69,154	\$108,720	\$39,566
Trash Operating	\$125,281	\$144,930	\$19,649
Lakemore Fire/EMS Grants	\$0	\$5,000	\$5,000

In addition, the Village did not obtain "Does Not Exceed" Certificates from the County Fiscal Officer.

Village Council should monitor appropriations versus estimated resources to avoid overspending. In addition, the Fiscal Officer should obtain "Does Not Exceed" Certificates from the County Fiscal Officer to ensure compliance with the Ohio Revised Code.

Official's Response: The village has worked diligently at cost reductions in order to assure that this no longer occurs. Through spending cuts and revenue increase measures we are confident that this has been corrected in the year 2011 going forward. Appropriations will not exceed County Auditor Certificates in any year forward.

8. Service Organization

Finding Number 2010-08

MATERIAL WEAKNESS

The Village has delegated emergency medical service fee processing and billing, which is a significant accounting function, to North Coast Physicians, (the service organization), a third party administrator for the period of January 1, 2009 to January 19, 2010. The Village has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that emergency medical service fees have not been authorized or completely and accurately processed in accordance with the contract. Therefore, we were unable to satisfy ourselves as to the proper processing of emergency medical services fees which represent 45% of revenues reported in Special Revenue Funds for the year ended December 31, 2009.

We recommend the Village help assure the completeness, accuracy and eligibility of emergency medical service fees processed by its third-party administrator, Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness in accordance with SAS No. 70 should provide the Village with reasonable assurance that emergency medical service fees transactions conform to the contract.

We recommend the Village require a Type Two SAS 70 report in its contract with the third-party administrator. The Village should review the SAS 70 report timely. The report should follow the American Institute of Certified Public Accountants' standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the Village with a Type Two SAS 70 report, we recommend the Village contract with a third-party administrator that will provide this report. As an alternative to a SAS 70 Report, the Village may monitor fees its administrator processes.

The Village can monitor these fees by obtaining reports of processed fees, selecting approved fees from the list, and then re-determining:

- The eligibility of the fee billed.
- The eligibility of the service.
- Whether the amount received was in accordance with the billing agreement, net of adjustments.

This monitoring normally requires assistance from someone with sufficient understanding of EMS billing.

Official's Response: The village has changed EMS billing to Life Force Management Inc. which does provide SAS 70 reports to be compliant from 2010 forward.

9. Council Review of Financial Reports and Audit Adjustments

Finding Number 2010-09

MATERIAL WEAKNESS

Council did not receive or review any financial reports of the Village's financial activity during 2009. During 2010 Council received monthly "Appropriation and Expenditures Budget to Actual Report" but did not begin to formally approve them until early 2011. The absence of review and approval of monthly reports demonstrates a lack of fiscal monitoring by Council. The Village continued to operate on a deteriorating fund balance and unreconciled cash balance without knowing the accurate fund balances and financial condition of the Village. As a result, numerous posting errors were noted in the receipt and expenditure ledgers. Receipts and expenditures were posted to incorrect funds and/or accounts due to delays in recording transactions in a timely manner and lack of maintaining sufficient supporting documentation. The following is a summary of posting errors:

two reclassification adjustments totaling \$49,564 for 2010, of receipts which were originally posted to incorrect accounts.

three reclassification adjustments totaling \$79,586 and three reclassification adjustments totaling \$286,354 for 2010 and 2009, respectively, of expenditures which were originally posted to incorrect accounts.

seven adjustments totaling \$21,318 and six adjustments totaling \$55,864 for 2010 and 2009, respectively, of receipts which were originally posted to an incorrect fund.

one adjustment totaling \$6,782 and two adjustments totaling \$39,774 for 2010 and 2009, respectively, of expenditures which were originally posted to an incorrect fund.

All amounts noted above were adjusted to the financial statements. Additionally, the cash fund balance affect of these adjustments were posted to the Village's books. These errors compromise management's ability to effectively monitor the finances and make appropriate decisions for the Village.

Council should require monthly financial reports and formally recognize in the minutes the acceptance of monthly reports they receive from the Fiscal Officer. In addition to the "Appropriation and Expenditures Budget to Actual Report", other reports given to council should include, but not be limited to, monthly cash reconciliations (including cash fund balances) and budget to actual revenue statements. These reports should reflect all activity of the Village and should be up-to-date. This will increase Council's awareness of all finance related activity and may help facilitate their decision making process. The Fiscal Officer should exercise due care in recording receipts and expenditures on the Village's accounting system. The Fiscal Officer should review the Uniform Accounting Network (UAN) manual for the proper account codes and fund descriptions and review entries for accuracy on a monthly basis. These procedures will help ensure receipts and expenditures are accurately reported in the Village's financial statements.

Official's Response: Council, beginning in 2010, receives all financial reports from the Fiscal Officer and accepts these through a Motion during Council Meetings that is included in the minutes.

10. Cash Reconciliation

Finding Number 2010-10

SIGNIFICANT DEFICIENCY

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the difference between the balance on the bank statement(s) and the cash and investment balances according to the entity's records.

The December 2010 bank reconciliation originally included the following errors:

- Four checks totaling \$281 were improperly included as outstanding checks;
- One check in the amount of \$184 was improperly excluded from the outstanding checks list;
- Three checks totaling \$3,093 from December 2010, and included as outstanding checks, were held and not mailed to the vendor for payment until May 2011.
- The Bond and Coupon account at FirstMerit was overstated by \$205; bank fees of \$205 from the Bond and Coupon account at FirstMerit were not included;
- Fourteen errors in recording receipts and expenditures, resulting in a net amount of \$158 and ranged from (\$26) to \$184, were not included;
- Outstanding pension disbursements were understated by \$11,352;
- Outstanding income tax withholding disbursements were overstated by \$10,616;

The December 2009 bank reconciliation originally included the following errors:

- Eleven checks totaling \$1,645 were improperly included as outstanding checks;
- Seven checks totaling \$1,345 were improperly excluded from the outstanding checks list;
- The Bond and Coupon account at FirstMerit was overstated by \$96.

Without complete and accurate monthly bank reconciliations, the Village's internal control is significantly weakened which could hinder the timely detection of errors or irregularities in the financial records and/or financial statements by management.

The above noted errors were subsequently corrected with the assistance of the Auditor of State's Local Government Services Division, after the auditors brought various issues with the reconciliations to the Village's attention. The Fiscal Officer should perform complete monthly bank reconciliations in a timely manner. A copy of the monthly bank reconciliation and listing of outstanding checks and other reconciling items should be provided to the Village Council each month for review. Any unreconciled differences should be resolved as quickly as possible and should not be carried forward month-to-month. All reconciling items should be appropriately documented.

Official's Response: Monthly reconciliations are up to date and presented to Council with the Financial Statements. Un-reconciled amounts are corrected with the supervision of Local Government Services.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Finding for Recovery - Section 6.14 of the Village of Lakemore, Ohio, Employees Policies and Procedures Manual, Revised September 30, 2003 , a Finding for Recovery for public monies illegally expended was issued against Michael Kolomichuk, Mayor, in the amount of \$915 and in favor of the Village of Lakemore.	No	Partially Corrected. Michael Kolomichuk repaid \$609 on July 1, 2010.
2008-002	Finding for Recovery Repaid Under Audit - Section 6.14 of the Village of Lakemore, Ohio, Employees Policies and Procedures Manual, Revised September 30, 2003 , a Finding for Recovery for public monies illegally expended was issued against Richard K. Quay, Fiscal Officer, in the amount of \$427 and in favor of the Village of Lakemore.	Yes	Richard Quay repaid \$427 on January 21, 2010.
2008-003	Finding for Recovery - Section 6.14 of the Village of Lakemore, Ohio, Employees Policies and Procedures Manual, Revised September 30, 2003 , a Finding for Recovery for public monies illegally expended was issued against Marlene Hill, Council Member, in the amount of \$6 and in favor of the Village of Lakemore.	Yes	Repaid on October 28, 2011.
2008-004	Finding for Recovery - Section 6.14 of the Village of Lakemore, Ohio, Employees Policies and Procedures Manual, Revised September 30, 2003 , a Finding for Recovery for public monies illegally expended was issued against Chad Pryor, Village Administrator, in the amount of \$217 and in favor of the Village of Lakemore.	Yes	Chad Pryor repaid \$217 on June 2, 2011.
2008-005	Finding for Recovery - a Finding for Recovery for public monies illegally expended was issued against Michael Fox in the amount of \$418 in favor of the Village of Lakemore.	No	Not Corrected
2008-006	Finding for Recovery - a Finding for Recovery for public monies illegally expended was issued against Mark Dodez in the amount of \$331 in favor of the Village of Lakemore.	No	Not Corrected

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-007	Cash Reconciliation Bank reconciliations were not performed monthly	No	Partially corrected, similar comment issued as Finding Number 2010-10.
2008-008	Financial Reports Village Council did not receive or approve any financial reports during the audit period.	No	Partially corrected, similar comment issued as Finding Number 2010-09.
2008-009	Classification of Receipts and Expenditures Receipts were not accounted for or properly classified when posted to the Village's accounting system.	No	Partially corrected, similar comment issued as Finding Number 2010-09.
2008-010	Utility Operations Various utility department weaknesses.	No	Partially corrected, similar comment issued in Management Letter.
2008-011	Segregation of Duties No segregation of duties between Fiscal Officer and Utility departments.	Yes	Finding no longer valid.
2008-012	Service Organization No SAS-70 report was obtained for EMS billings.	No	Partially corrected, reissued as Finding 2010-08.
2008-013	Income Tax Receipts Income tax receipts were recorded at net rather than gross amounts.	Yes	Finding no longer valid.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2008-014	Ohio Rev. Code Section 118.021 , the Village should undergo a fiscal watch review.	No	Village was declared in Fiscal Emergency on August 31, 2010.
2008-015	Ohio Rev. Code Section 5705.10(H) The Village had several funds with negative cash fund balances during the year and at year end.	No	Not corrected, reissued as Finding Number 2010-03.
2008-016	Ohio Rev. Code Section 5705.34 The Village did not pass resolutions authorizing the necessary tax levies.	No	Not corrected, reissued as Finding Number 2010-05.
2008-017	Ohio Rev. Code Section 5705.36(A) The Village failed to certify the total amount available from each fund to the county fiscal officer.	No	Not corrected, reissued as Finding Number 2010-06.
2008-018	Ohio Rev. Code Sections 5705.38(A)(C) & 5705.41(B) The Village adopted a permanent appropriation measure late and had expenditures exceeding appropriations.	No	Partially corrected, reissued as Finding Number 2010-01 and similar comment issued in Management Letter.
2008-019	Ohio Rev. Code Section 5705.39 Total Appropriations exceeded Estimated Resources in several funds.	No	Not corrected, reissued as Finding Number 2010-07.
2008-020	Ohio Rev. Code Section 5705.41(D) The Village did not certify the availability of funds for its expenditures.	No	Not corrected, reissued as Finding Number 2010-02.
2008-021	Ohio Rev. Code Section 117.38 The Village did not file or publish the notice of availability of the required reports for fiscal year 2007.	No	Partially Corrected.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2008-022	Ohio Rev. Code Section 149.351 Certain documents could not be located and are assumed to have been destroyed without the appropriate reviews.	Yes	Finding no longer valid.
2008-023	Ohio Rev. Code Section 733.28 and Ohio Admin. Code Section 117-2-02(A) During 2008 and 2007, receipts and expenditures were not posted timely or accurately to the correct funds and accounts by the Village's Fiscal Officer. In addition, the Village was not able to provide utility billing records outlined above or capital asset records.	Yes	Finding no longer valid.



Dave Yost • Auditor of State

VILLAGE OF LAKEMORE

SUMMIT 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 13, 2011