

***VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA

Auditor of State

Members of Council
Village of Fairfax
5903 Hawthorne Avenue
Fairfax, Ohio 45227

We have reviewed the *Report of Independent Accountants* of the Village of Fairfax, Hamilton County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Fairfax is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 10, 2007

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**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2006 & 2005**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Fairfax
Hamilton County
5903 Hawthorne Avenue
Cincinnati, Ohio 45227

To Village Council:

We have audited the accompanying financial statements of the Village of Fairfax, Hamilton County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, 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, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Fairfax, Hamilton County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. 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 May 31, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.

May 31, 2007

VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types and Fiduciary Fund
For the Year Ended December 31, 2006

	Governmental Fund Types			Fiduciary Fund Type	Total Memorandum Only
	General	Special Revenue	Capital Projects	Agency	
Receipts:					
Property and Local Taxes	\$ 161,259	\$ 6,156	\$ -	\$ -	\$ 167,415
Income Taxes	2,462,048	-	-	-	2,462,048
Intergovernmental	246,888	82,730	593,863	-	923,481
Charges for Services	8,340	17,469	-	-	25,809
Fines, Licenses and Permits	93,624	14,634	-	111,604	219,862
Interest	27,802	975	-	-	28,777
Other	138,590	34,555	-	3,200	176,345
Total Receipts	3,138,551	156,519	593,863	114,804	4,003,737
Disbursements:					
Security of Persons & Property	1,104,630	15,242	-	-	1,119,872
Public Health Services	3,592	-	-	-	3,592
Leisure Time Activities	72,018	273	-	-	72,291
Community Environment	41,623	17,469	-	-	59,092
Basic Utility Services	151,225	-	-	-	151,225
Transportation	127,228	35,380	-	-	162,608
General Government	767,164	275	-	-	767,439
Capital Outlay	-	51,941	549,721	-	601,662
Debt Service:					
Principal	19,811	-	995,000	-	1,014,811
Interest	-	-	44,151	-	44,151
Total Disbursements	2,287,291	120,580	1,588,872	-	3,996,743
Total Receipts Over/(Under) Disbursements	851,260	35,939	(995,009)	114,804	6,994
Other Financing Sources/(Uses):					
Loan Proceeds	-	-	870,000	-	870,000
Advances-In	-	-	3,000	-	3,000
Advances-Out	(3,000)	-	-	-	(3,000)
Transfers-In	-	-	342,750	-	342,750
Transfers-Out	(342,750)	-	-	-	(342,750)
Distribution of Fines	-	-	-	(115,969)	(115,969)
Total Other Financing Sources/(Uses)	(345,750)	-	1,215,750	(115,969)	754,031
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	505,510	35,939	220,741	(1,165)	761,025
Fund Cash Balance, January 1	436,138	162,403	16,943	11,834	627,318
Fund Cash Balance, December 31	\$ 941,648	\$ 198,342	\$ 237,684	\$ 10,669	\$ 1,388,343
Reserve for Encumbrances, December 31	\$ 25,054	\$ -	\$ 9,500	\$ -	\$ 34,554

See Accompanying Notes to the Financial Statements.

VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types and Fiduciary Fund
For the Year Ended December 31, 2005

	Governmental Fund Types			Fiduciary	Total Memorandum Only
	General	Special Revenue	Capital Projects	Agency	
Receipts:					
Property and Local Taxes	\$ 150,816	\$ 6,388	\$ -	\$ -	\$ 157,204
Income Taxes	2,320,791	-	-	-	2,320,791
Intergovernmental	255,362	349,955	1,301,172	-	1,906,489
Charges for Services	153,040	51,211	-	-	204,251
Distribution of Fines	128,063	19,645	-	129,110	276,818
Interest	10,736	498	673	-	11,907
Other	48,518	31,577	-	-	80,095
Total Receipts	3,067,326	459,274	1,301,845	129,110	4,957,555
Disbursements:					
Security of Persons & Property	1,244,880	18,970	-	-	1,263,850
Public Health Services	3,697	-	-	-	3,697
Leisure Time Activities	71,475	108	-	-	71,583
Community Environment	11,520	47,501	-	-	59,021
Basic Utility Services	143,518	-	-	-	143,518
Transportation	131,952	75,014	-	-	206,966
General Government	796,465	16,000	-	-	812,465
Capital Outlay	-	479,080	1,844,689	-	2,323,769
Debt Service:					
Principal	-	-	1,075,000	-	1,075,000
Interest	-	-	27,890	-	27,890
Total Disbursements	2,403,507	636,673	2,947,579	-	5,987,759
Total Receipts Over/(Under) Disbursements	663,819	(177,399)	(1,645,734)	129,110	(1,030,204)
Other Financing Sources/(Uses):					
Loan Proceeds	-	-	995,000	-	995,000
Advances-In	70,314	-	46,224	-	116,538
Advances-Out	(46,224)	-	(70,314)	-	(116,538)
Transfers-In	1,896	29,509	441,719	-	473,124
Transfers-Out	(471,228)	(1,896)	-	-	(473,124)
Distribution of Fines	-	-	-	(123,588)	(123,588)
Total Other Financing Sources/(Uses)	(445,242)	27,613	1,412,629	(123,588)	871,412
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	218,577	(149,786)	(233,105)	5,522	(158,792)
Fund Cash Balance, January 1	217,561	312,189	250,048	6,312	786,110
Fund Cash Balance, December 31	\$ 436,138	\$ 162,403	\$ 16,943	\$ 11,834	\$ 627,318
Reserve for Encumbrances, December 31	\$ 11,139	\$ 117	\$ -	\$ -	\$ 11,256

See Accompanying Notes to the Financial Statements.

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Fairfax, Hamilton County (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government and employs a Village Administrator. Elected officials include six council members, a clerk/treasurer, and a mayor. The Village provides various services including police protection, recreation, street maintenance and repair and general administrative services. The Village contracts for fire and emergency medical services.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. FUND ACCOUNTING - (Continued)

specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds: These funds are used to account for proceeds from special sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Village has the following significant Special Revenue funds:

- Street Construction, Maintenance and Repair Fund
- Murray Road Bike Trail Fund
- Hazard Mitigation Fund

Capital Projects: This fund is used to account for resources to be used for the acquisition or construction of capital assets. The Village has the following significant Capital Projects Funds:

- Red Bank Widening
- Community Block Grant
- Big Duck Creek

Fiduciary Fund Type: To account for custodial funds held by the Village acting as an agent for another government, organization, individual or fund. The Village had the following Fiduciary Fund:

Agency Fund:

- Mayor's Court

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. BUDGETARY PROCESS

A budget of estimated cash receipts and disbursements is prepared by the Clerk/Treasurer, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Clerk by September 1.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

On or about January 1, the Clerk sends the county auditor a certificate to which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected increases or the Clerk/Treasurer identifies decreases in revenue.

Budget receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2005 and 2006. However, those fund balances are available for appropriation.

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. BUDGETARY PROCESS - (Continued)

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The legal level of control is the object level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	<u>2006</u>	<u>2005</u>
Demand deposits	<u>\$1,388,343</u>	<u>\$ 627,318</u>

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Village, or (3) collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

3. PROPERTY TAXES

Real property taxes are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2004.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as Intergovernmental Receipts.

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

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

The County Treasurer collects property tax on behalf of all taxing authorities within the county. The County Auditor periodically remits to the taxing authorities their portions of the taxes collected.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

<u>Fund:</u>	<u>2006 Budgeted vs Actual Receipts</u>		<u>Variance</u>
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	
General Fund	\$ 3,090,503	\$ 3,138,551	\$ 48,048
Special Revenue Funds	198,576	156,519	(42,057)
Capital Projects Fund	5,097,307	1,809,613	(3,287,694)

<u>Fund:</u>	<u>2006 Budgeted vs Actual Budgetary Basis Expenditures</u>		<u>Variance</u>
	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	
General Fund	\$ 3,084,545	\$ 2,655,095	\$ 429,450
Special Revenue Funds	263,443	120,580	142,863
Capital Projects Fund	5,124,149	1,598,372	3,525,777

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

4. BUDGETARY ACTIVITY - (Continued)

<u>Fund:</u>	<u>2005 Budgeted vs Actual Receipts</u>		<u>Variance</u>
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	
General Fund	\$ 2,830,564	\$ 3,069,222	\$ 238,658
Special Revenue Funds	620,097	488,783	(131,314)
Capital Projects Fund	2,139,568	2,738,564	598,996

<u>Fund:</u>	<u>2005 Budgeted vs Actual Budgetary Basis Expenditures</u>		<u>Variance</u>
	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	
General Fund	\$ 3,073,637	\$ 2,885,874	\$187,763
Revenue Funds	852,632	638,686	213,946
Capital Projects Fund	2,270,260	2,947,579	(677,319)

Advances-In and Advances-Out are not required to be budgeted as receipts and expenditures, therefore are excluded from the budgeted amounts above.

5. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police & Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are state operated, cost sharing, multiple employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are prescribed by the Ohio Revised Code. Members of OP&F contributed 10.0% of their gross pay, while the Village contributed 19.5%. OPERS members contributed 8.5% in 2005 and 9.0% in 2006 of their gross pay while the Village contributed an amount equal to 13.55% in 2005 and 13.70% in 2006 of covered payroll. The Village paid all required contributions through 2006.

6. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan ("the Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 515 Ohio governments in 2006.

Pursuant to Section 2744 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs.

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

6. RISK MANAGEMENT- (Continued)

The Plan pays judgments, settlements, and other expenses resulting from covered claims that exceed the Member's deductible.

Although its exposure is concentrated to a single geographical area, such exposure is reduced by the practice of reinsuring no less than 90% of coverage provided, with the exception of its paid loss ratio cap on old casualty reinsurance layers.

Effective September 1, 2002, the Plan began retaining 5% of the premium and losses on the first \$500,000 casualty treaty and 5% of the first \$1,000,000 property treaty. Effective November 1, 2005, the Plan began retaining 15% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty.

In 2002, the Plan elected to participate in a loss corridor deductible in its first \$500,000 of casualty reinsurance to control reinsurance costs. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. If the Plan's paid loss ratio reaches 55%, the Plan would pay all the losses incurred related to this treaty up to the next 10% of premiums earned. Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded. Effective September 1, 2003, the corridor is for losses paid between 62% and 67% of premiums earned. Effective November, 2004, the corridor is for losses paid between 65% and 70% of premiums earned.

The Plan's audited financial statements (audited by other accountants) conform to generally accepted accounting principles, and reported the following assets, liabilities and Member's Equity at December 31:

	<u>2006</u>	<u>2005</u>
Assets	\$ 9,620,148	\$ 8,219,430
Liabilities	<u>3,329,620</u>	<u>2,748,639</u>
Member's Equity	<u>\$ 6,290,528</u>	<u>\$ 5,470,791</u>

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

All employees of the Village are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Also, the Village did not reduce its insurance coverages significantly during the year.

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

7. DEBT

Debt outstanding at December 31, 2006 is as follows:

<u>Description:</u>	Principal	Interest Rate
Street Improvement Bond Anticipation Notes	\$870,000	3.97-5.40%
Capital Lease	<u>36,018</u>	6.60%
Total	<u>\$906,018</u>	

In 2003, the Village issued bond anticipation notes to Fifth Third Bank for the construction and improvement of Village streets. The notes were for a term of one year and are being refinanced annually.

During calendar year 2006, the Village entered into a three year capital lease for the purchase of two police cruisers. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease activity is not included in the accompanying financial statements.

Principal and interest requirements for debt outstanding at December 31, 2006 is as follows:

<u>Year Ended</u>	<u>Bond Anticipation Notes</u>	<u>Capital Lease</u>	<u>Total</u>
2007	\$913,405	\$19,811	\$933,216
2008	-	19,811	19,811
Total	<u>\$913,405</u>	<u>\$39,622</u>	<u>\$953,027</u>

8. INCOME TAX

The Village levies an income tax of 1.75 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.

**VILLAGE OF FAIRFAX
HAMILTON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

9. INTERFUND TRANSFERS/ADVANCES

Unrestricted receipts collected in the general fund are transferred to finance various programs accounted for in other funds in accordance with budgetary authorizations. Also, a FEMA grant was received in Special Revenue Fund and transferred to the General Fund to reimburse it for disbursements made. All requirements of the Ohio Revised Code and FEMA grant requirements were followed.

All advances were made in accordance with the provisions of the Ohio Revised Code.

10. CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

11. COMPLIANCE

Contrary to Ohio Revised Code (ORC) sections 5705.36(A)(3) and (A)(4), the Village did not request an amended certificate of estimated resources once it knew its actual receipts would fall below estimated receipts and they budgeted for the deficiency. Also, contrary to ORC section 5705.41(B), the Village had budgetary expenditures exceeding appropriations.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Fairfax
Hamilton County
5903 Hawthorne Avenue
Cincinnati, Ohio 45227

To Village Council:

We have audited the financial statements of the Village of Fairfax, Hamilton County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated May 31, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 accounting practices the Auditor of State prescribes such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 2006-Fairfax-01 through 03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-Fairfax-01 through 03.

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 noted certain matters that we have reported to management of the Village in a separate letter dated May 31, 2007.

This report is intended solely for the information and use of the audit committee, management, and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris and Associates, Inc.

May 31, 2007

VILLAGE OF FAIRFAX
HAMILTON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

Finding Number: 2006-Fairfax-01

Non-Compliance and Material Weakness

Proper Posting of Receipts and Disbursements

Ohio Administrative Code Section 117-2-02(A) states that all public offices maintain 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 the Ohio Administrative Code section 117-2-03.

Principal and interest payments on Village debt were incorrectly classified as to the type of program or activity. These expenditures were classified as either capital outlay or transportation expenditures during 2006 and 2005. The proper classification of these payments should have been debt service expenditures. These expenditures have been reclassified in the financial statements to reflect the proper presentation.

Failure to adopt and consistently follow a uniform chart of accounts increases the possibility that the Village will not be able to identify, assemble, analyze, classify, record and report its transactions correctly or to document compliance with finance-related legal and contractual requirements. The fiscal officer should review the chart of accounts suggested in Ohio Administrative Code and the Village Officer's Handbook. All transactions should be properly coded and classified accounting to the adopted chart of accounts to help ensure financial activity of the Village is accurately reported.

Management Response:

Management will strive to improve its accuracy in the posting of its financial information.

Finding Number: 2006-Fairfax-02

Non-Compliance and Material Weakness

Amended Certificates Not Obtained

Ohio Rev. Code Section 5705.36(A)(3) requires obtaining an increased amended certificate if the legislative authority intends to appropriate and expend excess revenue. Ohio Rev. Code Section 5705.36(A)(4) requires a reduced amended certificate of estimated resources to be requested whenever the fiscal officer determines that revenue collected will be less than the amount in the official certificate of estimated resources and the deficiency will reduce available resources below the current level of appropriation. Also, this section requires an increased amended certificate if the fiscal officer intends to expend excess resources. Contrary to this requirement, an amended certificate of estimated resources was not obtained for the following funds:

VILLAGE OF FAIRFAX
HAMILTON COUNTY
SCHEDULE OF FINDINGS - Continued
DECEMBER 31, 2006 AND 2005

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

Finding Number: 2006-Fairfax-02 - Continued

<u>Fund</u>	<u>2006</u>		<u>Appropriations</u>
	<u>Estimated Resources</u>	<u>Revenue Variance</u>	
Special-Gateway Grant	\$50,000	\$(49,500)	\$50,000
Capital-Big Duck Creek	\$191,000	\$(126,000)	\$191,000
Capital-Red Bank	\$213,000	\$881,750	\$223,000
Capital-Block Grant	\$91,605	\$(71,182)	\$91,605
Capital-Clean Ohio	\$46,000	\$(21,000)	\$46,000
Capital-Fair Lane	\$200,000	\$(200,000)	\$200,000
Capital-Red Bank Phase II	\$4,210,000	\$(3,704,162)	\$4,210,000
Capital-Block Grant II	\$100,000	\$(50,000)	\$100,000

<u>Fund</u>	<u>2005</u>		<u>Appropriations</u>
	<u>Estimated Resources</u>	<u>Revenue Variance</u>	
Special-Murray Rd Side.	\$6,000	\$(5,000)	\$6,000
Special-Hazard Mitigation	\$324,571	\$(68,280)	\$324,196
Special-Ford Development	\$65,000	\$(17,499)	\$65,000
Special-Gateway Grant	\$50,000	\$(49,500)	\$50,000
Capital-Big Duck	\$196,000	\$(126,000)	\$196,000
Capital-Red Bank	\$1,897,241	\$880,407	\$1,873,199
Capital-Block Grant	\$154,686*	\$(84,207)	\$154,686
Capital-Clean Ohio	\$46,000*	\$(71,000)	\$46,000

*Includes negative carryover balances due to unpaid advances.

We noted that in each case, actual expenditures did not exceed the amount of available resources.

We recommend that management request a reduced amended certificate of estimated resources when they determine that receipts will be below their official certificate of estimated resources and the deficit reduces their estimated resources below the current level of appropriations. We further recommend that they request an increased amended certificate of estimated resources when they determine that the budgeted receipts will be more than the official certificate of estimated resources and they intend to appropriate and expend the excess revenue.

Management Response:

Management will regularly compare budgetary information and obtain the proper certificates when necessary.

VILLAGE OF FAIRFAX
HAMILTON COUNTY
SCHEDULE OF FINDINGS - Continued
DECEMBER 31, 2006 AND 2005

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

Finding Number: 2006-Fairfax-03

Non-Compliance and Material Weakness

Expenditures Exceeded Appropriations

Ohio Revised Code Section 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been appropriated as provided in such chapter. Furthermore, Ohio Administrative Code 117-2-02 states that all local public offices should integrate the budgetary accounts, at the legal level of control which is the object level for all funds. The following funds had total expenditures plus encumbrances expended money in excess of appropriations at the fund level:

<u>2006</u>			
<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Capital Projects-Red Bank	\$223,000	\$1,090,901	\$(867,901)

<u>2005</u>			
<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Capital Projects-Red Bank	\$1,873,199	\$2,823,871	\$(950,672)

This condition was the result of unrecorded note rollovers not being budgeted. The cash basis activity was adjusted in the financial statements to present the correct activity, whereas this activity was not properly budgeted.

Since these funds were over appropriated at the fund level, the legal level of control violations were not disclosed.

We recommend Council and the Fiscal Officer compare expenditures to appropriations periodically. If additional appropriations are needed, then the Council and the Clerk-Treasurer should take the necessary steps to adopt supplemental appropriations, if possible to prevent expenditures from exceeding appropriations. Also, we recommend that note rollovers be properly recorded in the financial statements and appropriately budgeted.

Management Response:

Management will regularly compare budgetary information and request amended appropriations when necessary.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report, for the two years ended December 31, 2004, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

VILLAGE OF FAIRFAX

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
NOVEMBER 8, 2007