



Mary Taylor, CPA
Auditor of State

VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY

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Mary Taylor, CPA

Auditor of State

Village of Berlin Heights
Erie County
8 West Main Street, P.O. Box 30
Berlin Heights, Ohio 44814-0030

To the Village Council:

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

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

Mary Taylor, CPA
Auditor of State

June 19, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Berlin Heights
Erie County
8 West Main Street, P.O. Box 30
Berlin Heights, Ohio 44814-0030

To the Village Council:

We have audited the accompanying financial statements of the Village of Berlin Heights, Erie County, (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 audits.

We conducted our audits 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 audits 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(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audits provide a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 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 Berlin Heights, Erie County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audits.



Mary Taylor, CPA
Auditor of State

June 19, 2007

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$134,887		\$134,887
Intergovernmental Receipts	95,937	\$41,900	137,837
Fines, Licenses, and Permits	6,569	25	6,594
Earnings on Investments	10,537	201	10,738
Miscellaneous	28,402		28,402
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	276,332	42,126	318,458
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Security of Persons and Property	105,848		105,848
Public Health Services	11,160		11,160
Leisure Time Activities	12,465		12,465
Community Environment	5,878		5,878
Basic Utility Services	4,192		4,192
Transportation	8,659	23,919	32,578
General Government	73,365		73,365
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	221,567	23,919	245,486
	<hr/>	<hr/>	<hr/>
Total Receipts Over Disbursements	54,765	18,207	72,972
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	224,702	125,176	349,878
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$279,467	\$143,383	\$422,850
	<hr/>	<hr/>	<hr/>
Reserves for Encumbrances, December 31	\$26		\$26
	<hr/>	<hr/>	<hr/>

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

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$131,796		\$131,796
Intergovernmental Receipts	81,115	\$36,284	117,399
Fines, Licenses, and Permits	6,972	175	7,147
Earnings on Investments	6,508	168	6,676
Miscellaneous	20,681		20,681
	<u>247,072</u>	<u>36,627</u>	<u>283,699</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	131,051		131,051
Public Health Services	11,160		11,160
Leisure Time Activities	3,704		3,704
Community Environment	1,070		1,070
Basic Utility Services	2,216		2,216
Transportation	11,703	15,094	26,797
General Government	91,358		91,358
	<u>252,262</u>	<u>15,094</u>	<u>267,356</u>
Total Receipts Over/(Under) Disbursements	<u>(5,190)</u>	<u>21,533</u>	<u>16,343</u>
Fund Cash Balances, January 1	<u>229,892</u>	<u>103,643</u>	<u>333,535</u>
Fund Cash Balances, December 31	<u>\$224,702</u>	<u>\$125,176</u>	<u>\$349,878</u>
Reserves for Encumbrances, December 31	<u>\$656</u>	<u>\$14</u>	<u>\$670</u>

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

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 Berlin Heights, Erie County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, park operations (leisure time activities), street and highway (transportation) services, and police services. The Village contracts with North Central EMS to provide dispatch and emergency medical services.

The Village participates in a public entity risk pool. Note 6 to the financial statements provide additional information for this entity. This organization is:

Public Entity Risk Pool:

Ohio Municipal Joint Self-Insurance Pool (the "Pool"). The Pool provides property and casualty insurance for its members.

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

B. Accounting Basis

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

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

C. Cash and Investments

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

The investment in STAR Ohio is valued at amounts reported by the State Treasurer.

D. Fund Accounting

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

1. General Fund

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

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

2. Special Revenue Funds

These funds account for proceeds from specific sources 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.

State Highway Fund - This fund receives gasoline tax and motor vehicle tax money for maintaining and repairing State highways.

Permissive Tax Fund - This fund receives motor vehicle registration tax money for maintaining and repairing Village streets.

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, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2006 and 2005 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 BERLIN HEIGHTS
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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 CASH AND INVESTMENTS

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

	2006	2005
Demand deposits	\$212,244	\$149,283
STAR Ohio	210,606	200,595
Total deposits and investments	\$422,850	\$349,878

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$205,146	\$276,332	\$71,186
Special Revenue	30,214	42,126	11,912
Total	\$235,360	\$318,458	\$83,098

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$430,504	\$221,593	\$208,911
Special Revenue	155,405	23,919	131,486
Total	\$585,909	\$245,512	\$340,397

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$188,252	\$247,072	\$58,820
Special Revenue	29,800	36,627	6,827
Total	\$218,052	\$283,699	\$65,647

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$418,799	\$252,918	\$165,881
Special Revenue	133,457	15,108	118,349
Total	\$552,256	\$268,026	\$284,230

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. RETIREMENT SYSTEM

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Pool pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes certain premiums to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer be unable to meet its reinsurance obligations.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2005 and 2004 (the latest information available):

	<u>2005</u>	<u>2004</u>
Assets	\$ 2,241,661	\$2,309,178
Liabilities	<u>(3,457,720)</u>	<u>(3,343,299)</u>
Accumulated deficit	<u>(\$1,216,059)</u>	<u>(\$1,034,121)</u>

7. CONTINGENT LIABILITIES

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Berlin Heights
Erie County
8 West Main Street, P.O. Box 30
Berlin Heights, Ohio 44814-0030

To the Village Council:

We have audited the financial statements of the Village of Berlin Heights, Erie County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 19, 2007, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. 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(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audits 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 audits, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

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

Our consideration of 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 material weaknesses. However, we believe finding number 2006-001 is also a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated June 19, 2007.

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 audits and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated June 19, 2007.

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

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



Mary Taylor, CPA
Auditor of State

June 19, 2007

VILLAGE OF BERLIN HEIGHTS
ERIE 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 2006-001

Material Weakness

Financial Reporting

We found errors requiring adjustment to the financial statements and the notes to the financial statements. In 2006 and 2005 estimated receipts as approved by the Erie County Budget Commission and appropriations as approved by the Village Council were not accurately posted to the Village's accounting system. We adjusted the 2006 budgetary note by decreasing estimated receipts in the General Fund by \$52,034. We adjusted the 2005 budgetary note by increasing estimated receipts in the General Fund by \$188,252, the Street Construction and Maintenance Fund by \$23,900, the State Highway Fund by \$1,900, and the Permissive Tax Fund by \$4,000. We noted a 2005 gasoline tax payment of \$1,261 was posted to the General Fund instead of the Street Fund. We also noted a 2006 payment for court fines of \$341 remitted to the Village from the Erie County Court was posted to the Permissive Tax Fund rather than the General Fund.

Sound financial reporting is the responsibility of the Clerk-Treasurer and Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the Village's financial statements and notes to the statements are complete and accurate, the Village Council should adopt policies and procedures, including a final review of the statements and notes by the Clerk-Treasurer and Council, to identify and correct errors and omissions. Also, the Clerk-Treasurer can refer to the UAN accounting manual at the following web site address for guidance on the posting of transactions: http://uanlink.auditor.state.oh.us/pdf/uan_win_software/AccountingManual.pdf.

Client's Response:

Client agreed to post adjustments to the funds and budgetary statement as disclosed above. The adjustments to the fund were posted on June 12, 2007 and the Clerk-Treasurer agreed to monitor the posting of budget information and revenues more closely.



Mary Taylor, CPA
Auditor of State

VILLAGE OF BERLIN HEIGHTS

ERIE 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
JULY 12, 2007**