

***VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY***

**AUDIT REPORT**

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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





# Mary Taylor, CPA

Auditor of State

Members of Council  
Village of North Fairfield  
3 East Main Street  
North Fairfield, Ohio 44855

We have reviewed the *Report of Independent Accountants* of the Village of North Fairfield, Huron County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2007. 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 North Fairfield is responsible for compliance with these laws and regulations.

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

Mary Taylor, CPA  
Auditor of State

August 1, 2008

**This Page is Intentionally Left Blank.**

**VILLAGE OF NORTH FAIRFIELD**  
**HURON COUNTY, OHIO**  
**Audit Report**  
**For the Years Ended December 31, 2007 and 2006**

**TABLE OF CONTENTS**

<b><u>TITLE</u></b>	<b><u>PAGE</u></b>
Report of Independent Accountants	1-2
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – Proprietary Fund Types - For the Year Ended December 31, 2007	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006	5
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - Proprietary Fund Types - For the Year Ended December 31, 2006	6
Notes to the Financial Statements	7-13
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i>	14-15
Schedule of Findings	16
Status of Prior Years' Citations and Recommendations	17

Rockefeller Building  
614 W Superior Ave Ste1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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

---

## **REPORT OF INDEPENDENT ACCOUNTANTS**

Village of North Fairfield  
Huron County  
3 East Main Street  
North Fairfield, Ohio 44855-9522

To the Village Council:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2007 and 2006. While the Village does not follow GAAP, generally accepted auditing standards require 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 its 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, 2007 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position or cash flows 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 North Fairfield, Huron County as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2007 and 2006. 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 12, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

***Charles E. Harris & Associates, Inc.***  
June 12, 2008

**VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO  
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
For the Year Ended December 31, 2007**

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 24,250	-	\$ 24,250
Intergovernmental	51,631	\$ 28,808	80,439
Charges for Services	21,397	-	21,397
Fines, Licenses, and Permits	2,724	-	2,724
Earnings on Investments	6,050	1,958	8,008
<b>Total Cash Receipts</b>	<b>106,052</b>	<b>30,766</b>	<b>136,818</b>
<b>Cash Disbursements:</b>			
Security of Persons and Property	6,237	-	6,237
Leisure Time Activities	10,153	-	10,153
Community Environment	2,502	-	2,502
Basic Utility Services	21,333	-	21,333
Transportation	-	8,941	8,941
General Government	67,463	17,786	85,249
<b>Total Cash Disbursements</b>	<b>107,688</b>	<b>26,727</b>	<b>134,415</b>
<b>Cash Receipts Over/(Under) Cash Disbursements</b>	<b>(1,636)</b>	<b>4,039</b>	<b>2,403</b>
<b>Other Financing Sources/(Uses):</b>			
Other Financing Sources	2,822	-	2,822
Other Financing Uses	(59)	-	(59)
<b>Total Other Financing Sources/(Uses)</b>	<b>2,763</b>	<b>-</b>	<b>2,763</b>
<b>Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses</b>	<b>1,127</b>	<b>4,039</b>	<b>5,166</b>
<b>Fund Balance, January 1, 2007</b>	<b>92,558</b>	<b>42,879</b>	<b>135,437</b>
<b>Fund Balance, December 31, 2007</b>	<b>\$ 93,685</b>	<b>\$ 46,918</b>	<b>\$ 140,603</b>

See accompanying Notes to the Financial Statements.



**VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO  
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES  
IN FUND CASH BALANCES - PROPRIETARY FUND TYPES  
For the Year Ended December 31, 2007**

	<b>Proprietary Fund Type Enterprise</b>
<b>Cash Receipts:</b>	
<b>Charges for Services</b>	<b>\$ 28,450</b>
<b>Total Cash Receipts</b>	<b>28,450</b>
<b>Cash Disbursements:</b>	
Personal Services	17,835
Fringe Benefits	262
Contractual Services	4,083
Materials and Supplies	12,152
<b>Total Cash Disbursements</b>	<b>34,332</b>
<b>Cash Receipts Over/(Under) Cash Disbursements</b>	<b>(5,882)</b>
<b>Non-Operating Receipts/Disbursements</b>	
Miscellaneous receipts	997
<b>Debt Service:</b>	
Principal	(300)
<b>Total Non-Operating Disbursements</b>	<b>697</b>
<b>Net Cash Receipts Over/(Under) Cash Disbursements</b>	<b>(5,185)</b>
<b>Fund Balance, January 1, 2007</b>	<b>39,227</b>
<b>Fund Balance, December 31, 2007</b>	<b>\$ 34,042</b>

See accompanying Notes to the Financial Statements.

**VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO  
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>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 21,225	-	\$ 21,225
Intergovernmental	54,731	\$ 28,436	83,167
Charges for Services	20,638	-	20,638
Fines, Licenses, and Permits	2,701	-	2,701
Earnings on Investments	6,704	2,146	8,850
<b>Total Cash Receipts</b>	<b>105,999</b>	<b>30,582</b>	<b>136,581</b>
<b>Cash Disbursements:</b>			
Security of Persons and Property	4,776	-	4,776
Public Health Services	330	-	330
Leisure Time Activities	10,763	-	10,763
Community Environment	3,499	-	3,499
Basic Utility Services	20,409	-	20,409
Transportation	-	10,620	10,620
General Government	72,469	19,815	92,284
<b>Total Cash Disbursements</b>	<b>112,246</b>	<b>30,435</b>	<b>142,681</b>
<b>Cash Receipts Over/(Under) Cash Disbursements</b>	<b>(6,247)</b>	<b>147</b>	<b>(6,100)</b>
<b>Other Financing Sources/(Uses):</b>			
Other Financing Sources	4,747	-	4,747
<b>Total Other Financing Sources/(Uses)</b>	<b>4,747</b>	<b>-</b>	<b>4,747</b>
<b>Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses</b>	<b>(1,500)</b>	<b>147</b>	<b>(1,353)</b>
<b>Fund Balance, January 1, 2006</b>	<b>94,058</b>	<b>42,732</b>	<b>136,790</b>
<b>Fund Balance, December 31, 2006</b>	<b>\$ 92,558</b>	<b>\$ 42,879</b>	<b>\$ 135,437</b>
<b>Reserve for Encumbrances, December 31</b>	<b>\$ 46</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying Notes to the Financial Statements.

**VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO  
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES  
IN FUND CASH BALANCES - PROPRIETARY FUND TYPES  
For the Year Ended December 31, 2006**

	<b>Proprietary Fund Type Enterprise</b>
<b>Cash Receipts:</b>	
<b>Charges for Services</b>	<b>\$ 26,823</b>
<b>Total Cash Receipts</b>	<b>26,823</b>
<b>Cash Disbursements:</b>	
<b>Personal Services</b>	17,337
<b>Fringe Benefits</b>	264
<b>Contractual Services</b>	3,689
<b>Materials and Supplies</b>	6,300
<b>Total Cash Disbursements</b>	<b>27,590</b>
<b>Cash Receipts Over/(Under) Cash Disbursements</b>	<b>(767)</b>
<b>Non-Operating Disbursements</b>	
<b>Debt Service:</b>	
<b>Principal</b>	<b>(300)</b>
<b>Total Non-Operating Disbursements</b>	<b>(300)</b>
<b>Net Cash Receipts Over/(Under) Cash Disbursements</b>	<b>(1,067)</b>
<b>Fund Balance, January 1, 2006</b>	<b>40,294</b>
<b>Fund Balance, December 31, 2006</b>	<b>\$ 39,227</b>

See accompanying Notes to the Financial Statements.

VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO

Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **DESCRIPTION OF THE ENTITY**

The Village of North Fairfield, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected, six-member Council. The Village provides water utilities and trash removal services. The Village contracts with Fairfield Township to provide fire protection services. Also, the Village contracts with the Huron County Sheriff's Department for police protection.

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

B. **BASIS OF ACCOUNTING**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of 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.)

These statements include adequate disclosure of material matters, as prescribed by the Auditor of State.

C. **INVESTMENTS AND INACTIVE FUNDS**

The Village maintains cash in an interest-bearing checking account. It has investments in a money market savings account.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains and losses at the time of the 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 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:

VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO

Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

D. FUND ACCOUNTING - (continued)

1. General Fund

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

2. Special Revenue Funds

To account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The Village had the following significant Special Revenue Fund:

*Street Construction, Maintenance and Repair Fund* – This fund receives gasoline and motor vehicle tax money for construction, maintenance and repairing of Village streets.

3. Enterprise Funds

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

*Water Fund*- This fund receives charges for services from residents to cover the cost of providing the utility.

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. 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 balances as of January 1. The County Budget Commission must also approve estimated resources.

VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO

Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. BUDGETARY PROCESS – (continued)

3. Encumbrances

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

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as 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 INVESTMENTS

The Village maintains a cash and investments 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>2007</u>	<u>2006</u>
<b>Business checking</b>	<b>\$ 5,459</b>	<b>\$ 4,757</b>
<b>Sweep money market savings</b>	<b>169,186</b>	<b>169,907</b>
<b>Total</b>	<b><u>\$ 174,645</u></b>	<b><u>\$ 174,664</u></b>

*Deposits:* Deposits are either (1) insured by the Federal Depository 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 NORTH FAIRFIELD  
HURON COUNTY, OHIO

Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

3. BUDGETARY ACTIVITY

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

<b>2007 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$ 114,402	\$ 108,874	\$ (5,528)
Special Revenue	28,380	30,766	2,386
Enterprise	28,300	29,447	1,147
<b>Total</b>	<b>\$ 171,082</b>	<b>\$ 169,087</b>	<b>\$ (1,995)</b>

<b>2007 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$ 206,914	\$ 107,747	\$ 99,167
Special Revenue	71,259	26,727	44,532
Enterprise	67,527	34,632	32,895
<b>Total</b>	<b>\$ 345,700</b>	<b>\$ 169,106</b>	<b>\$ 176,594</b>

<b>2006 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$ 107,162	\$ 110,746	\$ 3,584
Special Revenue	26,990	30,582	3,592
Enterprise	28,400	26,823	(1,577)
<b>Total</b>	<b>\$ 162,552</b>	<b>\$ 168,151</b>	<b>\$ 5,599</b>

<b>2006 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$ 201,220	\$ 112,292	\$ 88,928
Special Revenue	69,722	30,435	39,287
Enterprise	68,693	27,890	40,803
<b>Total</b>	<b>\$ 339,635</b>	<b>\$ 170,617</b>	<b>\$ 169,018</b>

VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO

Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

4. PROPERTY TAX

Real property becomes a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State and are reflected in the accompanying financial statements as Intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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 on the property owners, who must file a list of such property to the County by each April 30.

The County Auditor 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 full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2006, OPERS members contributed 9% of their salaries. The Village contributed an amount equal to 13.7% of participants' gross salaries. In 2007, OPERS member employees contributed 9.5% while the Village contributed 13.85%. The Village has paid all contributions required through December 31, 2007.

6. DEBT

The Village had a \$900 interest-free Ohio Water Development Authority (OWDA) loan outstanding at December 31, 2007. The loan is being used to assist with the costs of a feasibility study for a new wastewater treatment system. The loan was obtained in April 1999. The Village plans to repay the loan from the water fund.

Amortization of the above debt is scheduled as follows:

<u>Year Ending December 31</u>	<u>OWDA Loan</u>
2008	\$ 300
2009	300
2010	300
<b>Total</b>	<b>\$ 900</b>



VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO

Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

7. RISK MANAGEMENT

**Risk Pool Membership**

The Village belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Insurance

For occurrences prior to January 1, 2006, PEP retains casualty risk up to \$250,000 per claim, including automobile loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000, from General Reinsurance Corporation.

For occurrences on or after January 1, 2006, PEP retains casualty risk up to \$350,000 per claim, including automobile loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$350,000, up to \$2,650,000 per claim and \$10,000,000 in aggregate per year. Governments can elect additional coverage, from \$3,000,000 to \$13,000,000, from General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to an annual aggregate of \$10,000,000.

Property Insurance

Through 2004, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pay losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600,000,000 per occurrence. APEEP reinsures members for a specific loss exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600,000,000 per occurrence limit. The aggregate loss limit for 2006 and 2005 were \$1,901,127 and \$1,712,113, respectively.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Members may withdraw in each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of their anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus subsequent year's premium. Also, upon withdrawal, payments of all property and casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO

Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

7. RISK MANAGEMENT – (continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2006 (the latest information available):

<u>Casualty Insurance</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$30,547,049
Liabilities	(15,875,741)	(16,989,918)
Retained Earnings	\$15,122,127	\$13,557,131
<u>Property Insurance</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$3,652,970
Liabilities	(863,163)	(544,771)
Retained Earnings	\$4,262,163	\$3,108,199

The casualty coverage assets and retained earnings above include approximately \$14.4 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006. PEP will collect these amounts in the future annual premium billings when PEP's related liabilities are due for payment.

Settled claims have not exceeded this commercial coverage in any of the last three years. There have been significant reductions in insurance coverage from last year.

8. CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

Management believes there are no material pending claims or lawsuits.

9. LEGAL COMPLIANCE

The Village did not amend its estimated resources even as its actual receipts were below the projected receipt, contrary to ORC 5705.36.

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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

---

**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 North Fairfield  
Huron County  
3 East Main Street  
North Fairfield, Ohio 44855

To the Members of Council:

We have audited the financial statements of the Village of North Fairfield, Huron County, Ohio (Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated June 12, 2008, wherein we noted the Village followed accounting practices prescribed or permitted by the Auditor of State of Ohio. 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 *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 have 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 its applicable accounting basis 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 deficiency described in the accompanying schedule of findings, item 2007-VNF-001 to be a significant deficiency 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 deficiency described above to be a material weakness.

#### 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 2007-VNF-001 and 002.

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 June 12, 2008.

This report is intended 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 & Associates, Inc.***  
June 12, 2008

VILLAGE OF NORTH FAIRFIELD  
HURON COUNTY, OHIO  
SCHEDULE OF FINDINGS  
December 31, 2006 & 2005

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

**FINDING NUMBER 2007-VNF-01 – Noncompliance and Material Weakness**

Ohio Admin. Code Section 117-2-02(A) provides that all local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance and finance-related legal and contractual requirements and prepare financial statements.

The UAN system provides suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

During 2006 and 2007, the Village recorded its permissive sales tax distribution from the state as Property and Local Taxes and Municipal cent gas tax per gallon as Municipal Income Tax. All these transactions were reclassified as Intergovernmental Revenue.

We recommend the Village follow the UAN Handbook to properly classify its transactions.

The Clerks agrees and will make the changes in the future.

**FINDING NUMBER 2007-VNF-02 – Noncompliance**

**Estimated Receipts Over Actual Receipts**

Ohio Revised Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

The Village had estimated receipts greater than actual receipts in several funds to an extent by which the shortage of actual compared to estimated receipts could reduce the total estimated resources to an amount lower than the appropriations. The funds whose estimated receipts were greater than actual receipts were:

2006: Enterprise Fund - Water (\$1,577)

2007: General Fund (\$5,528)

We recommend the Village request a reduced amended certificate of estimated resources when it is known the actual receipts will be less than the estimated receipts and the deficiency will reduce estimated resources below the amount of appropriations.

The Clerk agrees and will monitor estimated versus actual receipts closer in the future.

**STATUS OF PRIOR YEARS' CITATIONS AND RECOMMENDATIONS**

The prior audit report, for the years ending December 31, 2005 and 2004, reported no material citations or recommendations.



Mary Taylor, CPA  
Auditor of State

VILLAGE OF NORTH FAIRFIELD

HURON 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  
AUGUST 14, 2008