

***VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2009 & 2008

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



Dave Yost • Auditor of State

Members of Council
Village of Port Jefferson
100 Spring Street
P.O. Box 189
Port Jefferson, Ohio 45360

We have reviewed the *Report of Independent Accountants* of the Village of Port Jefferson, Shelby County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2008 through December 31, 2009. 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 Port Jefferson is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 10, 2011

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**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2009 & 2008**

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Port Jefferson
Shelby County
100 Spring Street
P.O. Box 189
Port Jefferson, Ohio 45360

To Village Council:

We have audited the accompanying financial statements of the Village of Port Jefferson, Shelby County, Ohio (the Village), as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Sewer receipts reported in the Village's Enterprise Fund are processed by a service organization that is independent of the Village. This service organization did not provide us with evidence regarding the design or proper operation of its internal control system. As a result, we were unable to perform procedures to satisfy ourselves as to the processing of the sewer receipts in the amount of \$66,746 during 2009, and \$74,574 during 2008, which represent 100% of the receipts reported in the Enterprise Fund Type line item "Charges for Services" in the Statement of Receipts, Disbursements, and Changes in Fund Cash Balances- Proprietary Fund Type and Similar Fiduciary Fund Type.

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, 2009 and 2008. Instead of the combined funds the accompanying financial statements present for 2009 and 2008, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2009 and 2008. 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 matters discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008, 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, 2009 and 2008, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding sewer receipts, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Port Jefferson, Shelby County, as of December 31, 2009 and 2008, 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, 2009 and 2008. 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 November 30, 2010, 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.

November 30, 2010

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2009

	<u>Governmental Fund Types</u>			<u>Totals- (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Receipts:				
Property Taxes	\$ 7,162	\$ -	\$ -	\$ 7,162
Intergovernmental	23,606	18,577	34,902	77,085
Special Assessments	-	6,130	-	6,130
Charges for Services	8,983	625	-	9,608
Fines, Licenses and Permits	16,864	-	-	16,864
Other	4,394	-	-	4,394
Total Receipts	61,009	25,332	34,902	121,243
Disbursements:				
Security of Persons & Property	33,085	550	-	33,635
Public Health Services	1,085	-	-	1,085
Community Environment	128	-	-	128
Basic Utility Services	1,742	7,666	-	9,408
Transportation	-	18,426	-	18,426
General Government	25,953	-	-	25,953
Capital Outlay	-	1,125	34,902	36,027
Total Disbursements	61,993	27,767	34,902	124,662
Total Receipts Over/(Under) Disbursements	(984)	(2,435)	-	(3,419)
Fund Cash Balance, January 1, 2009	19,141	12,298	-	31,439
Fund Cash Balance, December 31, 2009	\$ 18,157	\$ 9,863	\$ -	\$ 28,020

See Accompanying Notes to the Financial Statements.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES -PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND TYPE
For the Year Ended December 31, 2009

	<u>Proprietary Fund Type Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Totals- (Memorandum Only)</u>
Receipts:			
Charges for Services	\$ 66,746	\$ -	\$ 66,746
Total Receipts	<u>66,746</u>	<u>-</u>	<u>66,746</u>
Disbursements:			
Contractual Services	13,374	-	13,374
Total Disbursements	<u>13,374</u>	<u>-</u>	<u>13,374</u>
Excess of Receipts Over/(Under) Disbursements	53,372	-	53,372
Non-Operating Receipts:			
Fines and Forfeitures	-	26,910	26,910
Total Non-Operating Receipts	<u>-</u>	<u>26,910</u>	<u>26,910</u>
Non-Operating Disbursements:			
Debt Service:			
Principal Retirement	(11,833)	-	(11,833)
Interest and Fiscal Charges	(40,751)	-	(40,751)
Distribution of Fines and Forfeitures	-	(17,311)	(17,311)
Total Nonoperating Disbursements	<u>(52,584)</u>	<u>(17,311)</u>	<u>(69,895)</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	788	9,599	10,387
Fund Cash Balance, January 1, 2009	<u>46,607</u>	<u>4,863</u>	<u>51,470</u>
Fund Cash Balance, December 31, 2009	<u>\$ 47,395</u>	<u>\$ 14,462</u>	<u>\$ 61,857</u>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2008**

	<u>Governmental Fund Types</u>		<u>Totals- (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Receipts:			
Property Taxes	\$ 7,968	\$ -	\$ 7,968
Intergovernmental	25,456	15,827	41,283
Special Assessments	-	6,792	6,792
Charges for Services	5,313	-	5,313
Fines, Licenses and Permits	24,214	999	25,213
Interest	3,683	1,228	4,911
Other	3,363	1,821	5,184
Total Receipts	69,997	26,667	96,664
Disbursements:			
Security of Persons & Property	33,981	1,702	35,683
Public Health Services	682	-	682
Community Environment	128	-	128
Basic Utility Services	1,690	6,261	7,951
Transportation	-	17,804	
General Government	27,034	-	27,034
Total Disbursements	63,515	25,767	71,478
Total Receipts Over/(Under) Disbursements	6,482	900	7,382
Fund Cash Balance, January 1, 2008	12,659	11,398	24,057
Fund Cash Balance, December 31, 2008	\$ 19,141	\$ 12,298	\$ 31,439

See Accompanying Notes to the Financial Statements.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES -PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND TYPE
For the Year Ended December 31, 2008

	<u>Proprietary Fund Type Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Totals- (Memorandum Only)</u>
Receipts:			
Charges for Services	\$ 74,574	\$ -	\$ 74,574
Total Receipts	<u>74,574</u>	<u>-</u>	<u>74,574</u>
Disbursements:			
Contractual Services	16,325	-	16,325
Total Disbursements	<u>16,325</u>	<u>-</u>	<u>16,325</u>
Excess of Receipts Over/(Under) Disbursements	<u>58,249</u>	<u>-</u>	<u>58,249</u>
Non-Operating Receipts:			
Fines and Forfeitures	-	32,974	32,974
Total Non-Operating Receipts	<u>-</u>	<u>32,974</u>	<u>32,974</u>
Non-Operating Disbursements:			
Capital Outlay	(24,906)	-	(24,906)
Debt Service:			
Principal Retirement	(11,134)	-	(11,134)
Interest and Fiscal Charges	(41,307)	-	(41,307)
Distribution of Fines and Forfeitures	-	(28,148)	(28,148)
Total Nonoperating Disbursements	<u>(77,347)</u>	<u>(28,148)</u>	<u>(105,495)</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	<u>(19,098)</u>	<u>4,826</u>	<u>(14,272)</u>
Fund Cash Balance, January 1, 2008	<u>65,705</u>	<u>37</u>	<u>65,742</u>
Fund Cash Balance, December 31, 2008	<u>\$ 46,607</u>	<u>\$ 4,863</u>	<u>\$ 51,470</u>

See Accompanying Notes to the Financial Statements.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Port Jefferson, (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 is directed by a publicly-elected, six-member Council. The Village provides sewer utility, police, and general governmental 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

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

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

C. CASH AND INVESTMENTS

Investments are reported as assets. 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 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 Fund is 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.

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

D. FUND ACCOUNTING – (continued)

Special Revenue Funds: To account for the proceeds of specific revenue sources (other than trusts or capital projects) that are legally restricted to disbursements for specified purposes. The Village has 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.

Street Light Fund – This fund receives the proceeds of special assessments to property owners to provide street lighting.

Capital Project Funds: These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village has the following significant Capital Projects Fund:

Wall Street Improvement Fund – This fund receives Ohio Public Works Commission money to resurface a Village road.

Proprietary Fund Types:

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

Sanitary Sewer Fund – This fund receives charges for services from residents to cover the costs of providing this utility.

Sewer Replacement Reserve Fund – This fund receives a portion of the charges for services from residents to accumulate funds for future uses.

Fiduciary Fund Type:

Agency Funds: This fund is to account for operations where the Village is acting in an agency capacity. The Village has the following significant Agency Fund:

Mayor's Court – This fund is used to record the collection and distribution of fines and court costs resulting from the operation of the Mayor's Court.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. BUDGETARY PROCESS

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. She 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/Treasurer.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount 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/Treasurer 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 decreases in revenue are identified by the Clerk/Treasurer. The amounts reported in Note 4 reflect the amounts in the final amended certificates issued during 2008 and 2009.

Budgeted receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2008 and 2009. 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.

The legal level of budgetary control is at the object level in all funds. Any budgetary modifications at this level may only be made by ordinance of the Village Council.

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. Unencumbered appropriations lapse at year-end.

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

3. Encumbrances – (continued)

The Village did not encumber funds as required by Ohio Law.

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. Unpaid Vacation and Sick Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave are not reflected as liabilities on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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>2009</u>	<u>2008</u>
Demand deposits	<u>\$ 89,877</u>	<u>\$ 82,909</u>

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.

3. PROPERTY TAXES

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.

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.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

3. PROPERTY TAXES – (continued)

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

2009 Budgeted vs Actual Receipts			
Fund Types	Budgeted Receipts	Actual Receipts	Variance
General	\$ 43,429	\$ 61,009	\$ 17,580
Special Revenue	22,750	25,332	2,582
Capital Projects	34,902	34,902	-
Enterprise	44,000	66,746	22,746
Total	\$ 145,081	\$ 187,989	\$ 42,908

2009 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Types	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 62,569	\$ 61,993	\$ 576
Special Revenue	34,013	27,767	6,246
Capital Projects	34,902	34,902	-
Enterprise	90,607	65,958	24,649
Total	\$ 222,091	\$ 190,620	\$ 31,471

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

4. BUDGETARY ACTIVITY – (continued)

2008 Budgeted vs Actual Receipts			
Fund Types	Budgeted Receipts	Actual Receipts	Variance
General	\$ 53,875	\$ 69,997	\$ 16,122
Special Revenue	25,545	26,667	1,122
Enterprise	44,000	74,574	30,574
Total	\$ 123,420	\$ 171,238	\$ 47,818

2008 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Types	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 66,532	\$ 63,515	\$ 3,017
Special Revenue	36,943	25,767	11,176
Enterprise	109,440	93,672	15,768
Total	\$ 212,915	\$ 182,954	\$ 29,961

5. DEBT

Debt outstanding at December 31, 2009 was as follows:

Debt	Balance 12/31/2009	Interest Rate
OWDA	\$ 28,438	6.39%
Mortgage Revenue Bonds	807,800	4.75%
	\$ 836,238	

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

5. DEBT – (continued)

The Ohio Water Development Authority (OWDA) loan relates to sewer project. The loan will be repaid in semiannual installments of \$1,765, including interest, over 20 years. The loan is collateralized by sewer receipts.

The Sanitary Sewer System Mortgage Revenue Bonds relate to the construction of the sanitary sewer construction. The loans will be repaid in approximate annual installments of \$49,000, including interest, over 40 years. The bonds are collateralized by sewer receipts.

The Village has not established the system improvement mortgage revenue bond fund and the operation and maintenance fund as required by the mortgage revenue bond covenant.

As required by the mortgage revenue bond covenant, the Village has established and funded a debt service reserve fund, included as an enterprise fund. The balance in the fund at December 31, 2009 is \$15,865.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009 are as follows:

<u>Year Ending December 31:</u>	<u>OWDA Loan</u>	<u>Mortgage Revenue Bonds</u>
2010	\$ 3,530	\$ 48,871
2011	3,530	48,972
2012	3,530	48,945
2013	3,530	48,994
2014	3,530	49,014
2015-2019	17,650	244,790
2020-2024	14,120	244,719
2025-2029	-	244,846
2030-2034	-	244,771
2031-2040	-	244,795
2041-2042	-	146,925
Total	<u>\$ 49,420</u>	<u>\$1,615,642</u>

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

6. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

RISK POOL MEMBERSHIP

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 700 Ohio governments.

Pursuant to Section 2744.081 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. 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 Pool’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>2009</u>	<u>2008</u>
Assets	\$11,176,186	\$10,471,114
Liabilities	<u>4,852,485</u>	<u>5,286,781</u>
Member’s Equity	<u>\$ 6,323,701</u>	<u>\$ 5,184,333</u>

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

There have been no significant reductions in insurance coverage from the prior fiscal years and settled claims have not exceeded this commercial coverage in any of the last three years. The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

7. RETIREMENT SYSTEM

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a state operated, 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 prescribed by the Ohio Revised Code. OPERS members contributed 10.0% of their gross pay while the Village contributed an amount equal to 14.00% of covered payroll for both years. The Village paid all required contributions through 2009.

8. LEGAL COMPLIANCE

The Village did not properly certify the availability of funds for 100 percent of non-payroll disbursements contrary to Section 5705.41 (D) of the Ohio Revised Code.

9. CONTINGENT LIABILITIES

Management believes there are no pending claims or lawsuits.

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

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

Village of Port Jefferson
Shelby County
100 Spring Street
P.O. Box 189
Port Jefferson, Ohio 45360

To Village Council:

We have audited the financial statements of the Village of Port Jefferson, Shelby County, Ohio (the Village) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated November 30, 2010, 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 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 audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified deficiencies in internal control over financial reporting, that we consider material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-PORT-02, 03 and 04 as described in the accompanying schedule of findings to be material weaknesses.

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 grants agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2009-PORT-01, 03, 04, and 05.

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 also noted certain matters that we have reported to management of the Village in a separate letter dated November 30, 2010.

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

Charles E. Harris and Associates, Inc.

November 30, 2010

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

Finding Number: 2009-PORT-01 - Noncompliance Citation

Ohio Revised Code Section 5705.41 (D), requires in part, that no subdivision or taxing unit shall make any contract or order any expenditure unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement state above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance.

Amounts of less that \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditure by the Village.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predicible operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
SCHEDULE OF FINDINGS – (CONTINUED)
DECEMBER 31, 2009 AND 2008

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

Finding Number: 2009-PORT-01 – Noncompliance Citation- (continued)

The Village did not properly certify the availability of funds for 100% of expenditures tested for 2009 or 2008. Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances.

To improve controls over disbursements and to help reduce the possibility of the Village's fund exceeding budgetary spending limitations, we recommend the Clerk certify the availability of funds prior to the commitment for the expenditure of Village money. The Village should consider the use of blanket purchase orders and "Then and Now" certificates to assist in complying with the above requirement.

Management's Response

We did not receive a management response.

Finding Number: 2009-PORT-02 – Material Weakness

Sewer Receipts from the City of Sidney

The Village does not own or operate a sewer system. Village residents are required to connect to the City of Sidney's sewer system through an extension and pump station which was paid for by the Village through government loans. The enterprise fund of the Village is primarily a debt repayment fund except for occasional repairs to the pump station which are performed by the City of Sidney and reimbursed by the Village. The Village has delegated sewer system billing and collection to the City of Sidney. Although the Village receives reports from the City of Sidney documenting the residents billed and the amounts collected, the failure of the City of Sidney to obtain a report on the effectiveness of their sewer billing and collection processing internal control policies and procedures limits the Village's ability to reasonably determine that sewer system billings and collections have been completely and accurately processed in accordance with the rates in effect.

We recommend the Village implement procedures to reasonably assure the completeness and accuracy of the sewer billing and collection services performed by the City of Sidney. Statement of Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on the processing of transactions by service organizations. A type 1 or type 2 report as prescribed by SAS No. 70, as amended, should provide the Village with an appropriate level of assurance that sewer system billings and collections are being processed in conformance with the rates in effect.

Management Response

We did not receive a management response.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
SCHEDULE OF FINDINGS – (CONTINUED)
DECEMBER 31, 2009 AND 2008

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

Finding Number: 2009-PORT-03 - Noncompliance Citation and Material Weakness

Village of Port Jefferson Ordinance #04-2002 states, the clerk-treasurer of the Village is directed to create the following funds into which the bond proceeds and the revenues and income from the sewer system shall be deposited, the funds shall be established and maintained as long as any bond remains unpaid:

Sewer System Revenue Fund. The gross income and revenues from the system shall be set aside into a separate fund and monies so deposited therein shall be expended and used only in the manner and order as follows:

1. Operation and Maintenance Fund. There shall be transferred each month from the sewer system revenue fund a sufficient portion of the income and revenues to the operation and maintenance fund, to pay the reasonable and necessary current expenses of operation and maintaining the system for the ensuing month.
2. System Improvement Mortgage Revenue Bond Fund. After the transfer required in (1) above, there shall be transferred each month from the sewer system revenue fund before any other expenditures or transfers therefrom, a sum equal to at least one-twelfth (1/12) (or such larger amount as is necessary) of the sum of the amount of interest due on the next ensuing interest payment date plus the amount necessary to provide for payment of the next ensuing principal maturity. If for any reason there is a failure to make such monthly deposit, then an amount equal to the deficiency shall be set aside and out of the net revenues of the system in the ensuing month or months, which amount shall be in addition to the regular monthly deposit required during such succeeding month or months.
3. Reserve Fund. Out of the balance of income and revenue of the system after the transfers required in (1) and (2) above, have been made there shall be set aside and deposited in the reserve fund, the sum of \$409 each month, commencing May 1, 2002, until there is accumulated in such fund the sum of \$49,055 (the minimum reserve) after which no further deposits need to be made into such fund except to replace withdrawals.

The Village is currently maintaining two funds, a revenue fund which pays the sewer debt and routine maintenance costs and a maintenance reserve fund for non-routine expenditures. We recommend the Village either follow the ordinance as approved, or amend the ordinance to the current practices being followed.

Management Response

We did not receive a management response.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY, OHIO
SCHEDULE OF FINDINGS – (CONTINUED)
DECEMBER 31, 2009 AND 2008

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

Finding Number: 2009-PORT-04 - Noncompliance Citation 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 with finance-related legal and contractual requirements and prepare financial statements.

Contrary to this requirement, Enterprise fund disbursements were not classified at all. Debt payments, capital outlays, maintenance and operating disbursements were reported as “Total Operating Cash Disbursements”.

Also, the Mayor’s court activity is not reflected on the Village books, thus understating the Village’s financial statements. The Mayor’s Court activity should be presented on the books as an Agency fund type to reflect the total financial activity of the Village. The financial statements have been adjusted to reflect the proper activity.

We recommend that the Village consider implementing the UAN system provided by the Auditor of State’s office and input the Mayor’s Court activity into the system on a monthly basis.

Management Response:

We did not receive a substantive response from management to the above finding.

Finding Number: 2009-PORT-05 - Noncompliance Citation

Mayor’s Court Receipts Not Promptly Remitted

Ohio Revised Code Section 733.40 requires Mayor Court receipts to be remitted to the Village by the first Monday of the month following collection and other ORC sections require remittances to the State by the 20th of the month following collection. However, the Mayor’s Court of the Village was over one year delinquent in making remittances to the State and several months in arrears in the remittances to the Village. The funds were accumulating in the Mayor’s Court checking account, a non-interest bearing account.

We recommend the Mayor make monthly remittances as required by the Ohio Revised Code.

Management Response

We did not receive a management response.

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 and 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid:
2007-01	ORC Section 5705.41 (D) - Failure to certify	No	Not Corrected, repeated as Item 2009-PORT-01
2007-02	Failure to obtain SAS 70 Report	No	Not Corrected, repeated as Item 2009-PORT-02
2007-03	ORC Section 5705.41 (B) Expenditures exceeded Appropriations	Yes	
2007-04	Failure to establish Funds	No	Not Corrected, repeated as Item 2009-PORT-03

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Dave Yost • Auditor of State

VILLAGE OF PORT JEFFERSON

SHELBY 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
FEBRUARY 22, 2011