



**Auditor of State  
Betty Montgomery**



VILLAGE OF BERLIN HEIGHTS  
ERIE COUNTY

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**Auditor of State  
Betty Montgomery**

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 a February 2, 2005 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 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 black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

April 26, 2005

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**Auditor of State  
Betty Montgomery**

**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, 2004 and 2003. 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. 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 this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 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, 2004, or their changes in financial position for the year 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, 2004 and 2003, 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 year ended December 31, 2004. 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 April 26, 2005, 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.



**Betty Montgomery**  
Auditor of State

April 26, 2005

**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, 2004**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$ 128,677		\$ 128,677
Intergovernmental Receipts	72,388	\$ 35,278	107,666
Fines, Licenses, and Permits	4,366	218	4,584
Earnings on Investments	3,385	118	3,503
Miscellaneous	8,609		8,609
	<u>217,425</u>	<u>35,614</u>	<u>253,039</u>
Total Cash Receipts			
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	133,560		133,560
Public Health Services	11,410		11,410
Leisure Time Activities	4,619		4,619
Community Environment	7,249		7,249
Basic Utility Services	2,569		2,569
Transportation	54,382	24,445	78,827
General Government	81,285		81,285
	<u>295,074</u>	<u>24,445</u>	<u>319,519</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	(77,649)	11,169	(66,480)
Fund Cash Balances, January 1	<u>307,541</u>	<u>92,474</u>	<u>400,015</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$ 229,892</u></b>	<b><u>\$ 103,643</u></b>	<b><u>\$ 333,535</u></b>
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**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$ 127,870			\$ 127,870
Intergovernmental Receipts	85,271	\$ 30,631	\$ 170,494	286,396
Fines, Licenses, and Permits	6,324	25		6,349
Earnings on Investments	3,670	127		3,797
Miscellaneous	21,427			21,427
	<u>244,562</u>	<u>30,783</u>	<u>170,494</u>	<u>445,839</u>
Total Cash Receipts				
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	119,308			119,308
Public Health Services	10,536			10,536
Leisure Time Activities	3,367			3,367
Community Environment	2,803			2,803
Basic Utility Services	1,703			1,703
Transportation	155,406	24,185		179,591
General Government	72,905			72,905
Capital Outlay			170,494	170,494
	<u>366,028</u>	<u>24,185</u>	<u>170,494</u>	<u>560,707</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(121,466)</u>	<u>6,598</u>		<u>(114,868)</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Sale of Fixed Assets	84,400			84,400
Transfers-In	491			491
Transfers-Out		(491)		(491)
	<u>84,891</u>	<u>(491)</u>		<u>84,400</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(36,575)	6,107		(30,468)
Fund Cash Balances, January 1	<u>344,116</u>	<u>86,367</u>		<u>430,483</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$ 307,541</u></b>	<b><u>\$ 92,474</u></b>		<b><u>\$ 400,015</u></b>
Reserves for Encumbrances, December 31	<u>\$ 3,334</u>	<u>\$ 132</u>		<u>\$ 3,466</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, 2004 AND 2003**

**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 governs the Village. The Village provides general government services, park operations (leisure time activities), and police services.

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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports 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.

**2. Special Revenue Fund**

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

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF BERLIN HEIGHTS  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

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

**3. Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project funds:

Ohio Public Works Commission Grant Fund – This fund is used to account for Issue II monies received and expended for road projects within the Village.

**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. 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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2004 and 2003 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.

**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.

**VILLAGE OF BERLIN HEIGHTS  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**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:

	2004	2003
Demand deposits	\$ 104,014	\$ 123,451
STAR Ohio	229,521	276,564
Total deposits and investments	\$ 333,535	\$ 400,015

**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, 2004 and 2003 follows:

**2004 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 209,133	\$ 217,425	\$ 8,292
Special Revenue	26,035	35,614	9,579
Total	\$ 235,168	\$ 253,039	\$ 17,871

**2004 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 520,008	\$ 295,730	\$ 224,278
Special Revenue	118,641	24,459	94,182
Total	\$ 638,649	\$ 320,189	\$ 318,460

**2003 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 301,150	\$ 329,453	\$ 28,303
Special Revenue	27,800	30,783	2,983
Capital Projects		170,494	170,494
Total	\$ 328,950	\$ 530,730	\$ 201,780

**VILLAGE OF BERLIN HEIGHTS  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 544,451	\$ 369,362	\$ 175,089
Special Revenue	117,167	24,808	92,359
Capital Projects	156,920	170,494	(13,574)
Total	\$ 818,538	\$ 564,664	\$ 253,874

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**5. RETIREMENT SYSTEMS**

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant [and 24 percent of fire participant] wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

**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 § 2744.081 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.

**VILLAGE OF BERLIN HEIGHTS  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

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, 2003 and 2002 (the latest information available):

	2003	2002 (Restated)
Assets	\$ 1,811,340	\$ 1,852,060
Liabilities	<u>(3,653,152)</u>	<u>(3,858,213)</u>
Retained deficit	<u>\$ (1,841,812)</u>	<u>\$ (2,006,153)</u>

**7. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. Grantors 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.

**8. RELATED PARTY TRANSACTIONS**

A Village council member is a member of a group of four individuals which acquired land from the Village during the year ending December 31, 2003. The group paid \$84,000 for this acquisition.

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**Auditor of State  
Betty Montgomery**

**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 (the Village) as of and for the years ended December 31, 2003, and 2004, and have issued our report thereon dated April 26, 2005, 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 also noted that 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated April 26, 2005, we reported other matters involving internal control over financial reporting.

### **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*. In a separate letter to the Village's management dated April 26, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

April 26, 2005



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
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800-282-0370  
Facsimile 614-466-4490

**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  
JUNE 7, 2005**