

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

***AUDIT REPORT***

***FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004***

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





# Mary Taylor, CPA

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, 2004 through December 31, 2005. 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's Office (AOS). 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 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. 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 AOS 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

February 26, 2007

**This Page is Intentionally Left Blank.**

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

**TABLE OF CONTENTS**

<u>Title</u>	<u>Page</u>
<b>Report of Independent Accountants</b>	<b>1-2</b>
<b>Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2005</b>	<b>3</b>
<b>Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Funds For the Year Ended December 31, 2005</b>	<b>4</b>
<b>Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2004</b>	<b>5</b>
<b>Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Funds For the Year Ended December 31, 2004</b>	<b>6</b>
<b>Notes to the Financial Statements</b>	<b>7-14</b>
<b>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></b>	<b>15-16</b>
<b>Schedule of Findings</b>	<b>17-21</b>
<b>Schedule of Prior Audit Findings</b>	<b>22</b>

**This Page is Intentionally Left Blank.**

**Rockefeller Building**  
**614 West Superior Avenue #1242**  
**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 Port Jefferson  
P.O. Box 189  
100 Spring Street  
Port Jefferson, Ohio 45360

To Village Council:

We have audited the accompanying financial statements of the Village of Port Jefferson, Shelby County (the Village), as of and for the years ended December 31, 2005 and 2004. 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, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 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 the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 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, 2005 and 2004, or its changes in financial position and 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 of the Village as of December 31, 2005 and 2004, and its 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, 2005 and 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 November 13, 2006, 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 do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal controls 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 audit.

***Charles E. Harris & Associates, Inc.***

November 13, 2006

**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, 2005**

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$ 7,131	-	-	\$ 7,131
Intergovernmental	24,236	\$ 14,037	\$ 31,006	69,279
Special Assessments	-	5,396	-	5,396
Charges for Services	8,110	-	-	8,110
Fines Licenses & Permits	7,538	345	-	7,883
Earnings on Investments	177	52	-	229
Miscellaneous	4,430	6,830	-	11,260
<b>Total Cash Receipts</b>	<b>51,622</b>	<b>26,660</b>	<b>31,006</b>	<b>109,288</b>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons & Property	22,583	23,345	-	45,928
Public Health Services	663	-	-	663
Community Environment	128	-	-	128
Basic Utility Services	817	1,084	-	1,901
General Government	28,283	-	-	28,283
Capital Outlay	-	-	31,006	31,006
<b>Total Cash Disbursements</b>	<b>52,474</b>	<b>24,429</b>	<b>31,006</b>	<b>107,909</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(852)</b>	<b>2,231</b>	<b>-</b>	<b>1,379</b>
<b>Fund Cash Balance, January 1</b>	<b>10,866</b>	<b>12,084</b>	<b>-</b>	<b>22,950</b>
<b>Fund Cash Balance, December 31</b>	<b>\$ 10,014</b>	<b>\$ 14,315</b>	<b>\$ -</b>	<b>\$ 24,329</b>

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 PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Proprietary Fund Types Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Total - Memorandum Only</u>
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 65,828	-	\$ 65,828
Fines and Fees	-	\$ 7,644	7,644
<b>Total Operating Cash Receipts</b>	<u>65,828</u>	<u>7,644</u>	<u>73,472</u>
<b>Operating Cash Disbursements:</b>			
Contractual Services	4,671	-	4,671
Distribution of Fines	-	7,337	7,337
<b>Total Operating Cash Disbursements</b>	<u>4,671</u>	<u>7,337</u>	<u>12,008</u>
<b>Operating Income/(Loss)</b>	61,157	307	61,464
<b>Non-Operating Cash Disbursements:</b>			
Principal Retirement	(13,565)	-	(13,565)
Interest	(44,015)	-	(44,015)
<b>Total Non-Operating Cash Disbursements</b>	<u>(57,580)</u>	<u>-</u>	<u>(57,580)</u>
<b>Net Receipts Over Disbursements</b>	3,577	307	3,884
<b>Fund Cash Balance, January 1</b>	<u>61,892</u>	<u>358</u>	<u>62,250</u>
<b>Fund Cash Balance, December 31</b>	<u>\$ 65,469</u>	<u>\$ 665</u>	<u>\$ 66,134</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, 2004**

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$ 8,818	-	-	\$ 8,818
Intergovernmental	25,420	\$ 12,859	\$ 5,615	43,894
Special Assessments	-	5,213	-	5,213
Charges for Services	13,737	-	-	13,737
Fines Licenses & Permits	11,943	462	-	12,405
Earnings on Investments	104	31	-	135
Miscellaneous	-	6,689	-	6,689
<b>Total Cash Receipts</b>	<b>60,022</b>	<b>25,254</b>	<b>5,615</b>	<b>90,891</b>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons & Property	27,089	-	-	27,089
Public Health Services	634	-	-	634
Community Environment	128	-	-	128
Basic Utility Services	1,235	5,213	-	6,448
Transportation	-	12,690	-	12,690
General Government	24,024	-	-	24,024
Capital Outlay	-	-	5,997	5,997
<b>Total Cash Disbursements</b>	<b>53,110</b>	<b>17,903</b>	<b>5,997</b>	<b>77,010</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>6,912</b>	<b>7,351</b>	<b>(382)</b>	<b>13,881</b>
<b>Fund Cash Balance, January 1</b>	<b>3,954</b>	<b>4,733</b>	<b>382</b>	<b>9,069</b>
<b>Fund Cash Balance, December 31</b>	<b>\$ 10,866</b>	<b>\$ 12,084</b>	<b>\$ -</b>	<b>\$ 22,950</b>

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 PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Proprietary Fund Types Enterprise</u>	<u>Fiduciary Fund Type Agency</u>	<u>Total - Memorandum Only</u>
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 66,526	-	\$ 66,526
Fines and Fees	-	\$ 13,525	13,525
Miscellaneous	5,103	-	5,103
<b>Total Operating Cash Receipts</b>	<u>71,629</u>	<u>13,525</u>	<u>85,154</u>
<b>Operating Cash Disbursements:</b>			
Contractual Services	8,879	-	8,879
Supplies and Materials	5,417	-	5,417
Distribution of Fines	-	13,859	13,859
<b>Total Operating Cash Disbursements</b>	<u>14,296</u>	<u>13,859</u>	<u>28,155</u>
<b>Operating Income/(Loss)</b>	57,333	(334)	56,999
<b>Non-Operating Cash Disbursements:</b>			
Principal Retirement	(2,649)	-	(2,649)
Interest	(43,209)	-	(43,209)
<b>Total Non-Operating Cash Disbursements</b>	<u>(45,858)</u>	<u>-</u>	<u>(45,858)</u>
<b>Net Receipts Over Disbursements</b>	11,475	(334)	11,141
<b>Fund Cash Balance, January 1</b>	<u>50,417</u>	<u>692</u>	<u>51,109</u>
<b>Fund Cash Balance, December 31</b>	<u>\$ 61,892</u>	<u>\$ 358</u>	<u>\$ 62,250</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, 2005 and 2004**

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, 2005 and 2004**

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 Funds:

Ohio Water Development Authority (OWDA) Sewer Project Fund – This fund receives the proceeds of an OWDA loan and grants. The proceeds are being used to construct a sewer system.

Ohio Public Works (OPWC) Fund – This fund receives proceeds of Issue II grant funding. The proceeds are being used to construct a street project.

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, 2005 and 2004**

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 of stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

On or about January 1, the Clerk/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 2004 and 2005.

Budgeted receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2004 and 2005. 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, 2005 and 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

3. Encumbrances – (continued)

Encumbered appropriations are carried forward to the succeeding year without being re-appropriated. In Note 4, encumbrances are added to budgetary expenditures and compared to current year appropriations plus prior year carry-over appropriations.

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>2005</u>	<u>2004</u>
Demand deposits	\$ 90,463	\$ 85,200

*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, 2005 and 2004**

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, 2005 and 2004 follows:

2005 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Types	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 52,874	\$ 52,474	\$ 400
Special Revenue	32,176	24,429	7,747
Capital Projects	-	31,006	(31,006)
Enterprise	106,492	62,251	44,241
Total	\$ 191,542	\$ 170,160	\$ 21,382

2004 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Types	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 55,333	\$ 53,110	\$ 2,223
Special Revenue	22,675	17,903	4,772
Capital Projects	5,615	5,997	(382)
Enterprise	96,460	60,154	36,306
Total	\$ 180,083	\$ 137,164	\$ 42,919

2005 Budgeted vs Actual Receipts			
Fund Types	Budgeted Receipts	Actual Receipts	Variance
General	\$ 42,008	\$ 51,622	\$ 9,614
Special Revenue	17,912	26,660	8,748
Capital Projects	5,200	31,006	25,806
Enterprise	44,600	65,828	21,228
Total	\$ 109,720	\$ 175,116	\$ 65,396

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

4. BUDGETARY ACTIVITY – (continued)

2004 Budgeted vs Actual Receipts			
Fund Types	Budgeted Receipts	Actual Receipts	Variance
General	\$ 51,850	\$ 60,022	\$ 8,172
Special Revenue	19,137	25,254	6,117
Capital Projects	5,615	5,615	-
Enterprise	44,000	71,629	27,629
Total	\$ 120,602	\$ 162,520	\$ 41,918

5. DEBT

Debt balances for the year ended December 31, 2005 was as follows:

Debt	Balance 12/31/2005	Interest Rate
OWDA Planning Loan	\$ 33,829	6.39%
Mortgage Revenue Bonds	845,600	4.75%
General Purpose Loan	4,211	7.75%
	\$ 883,640	

The Ohio Water Development Authority (OWDA) loan relates to sewer planning project planning. The loan will be repaid in semiannual installments of \$2,273, including interest, over 20 years. The loan is collateralized by water and 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 General Purpose Loan was issued December 15, 2003 for \$8,993 to pay for Village improvements. The loan will be repaid in one payment of \$5,192 in 2006.

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, 2005 is \$21,145.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

5. DEBT – (continued)

<u>Year Ending December 31:</u>	<u>OWDA Planning Loan</u>	<u>Mortgage Revenue Bonds</u>	<u>General Purpose Loan</u>
2006	\$ 3,529	\$ 48,966	\$ 5,192
2007	3,529	48,948	-
2008	3,529	48,911	-
2009	3,529	248,835	-
2010	3,529	248,819	-
2011-2015	17,647	248,818	-
2016-2020	17,647	244,737	-
2021-2025	3,529	244,829	-
2026-2030	-	244,817	-
2031-2040	-	183,818	-
Interest	<u>(22,639)</u>	<u>(965,898)</u>	<u>(981)</u>
Total	<u>\$ 33,829</u>	<u>\$ 845,600</u>	<u>\$ 4,211</u>

6. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and Omissions

Settled claims have not exceeded this commercial coverage in any of the last three years. There have been no significant reductions in insurance coverage from last year.

7. RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) is a state operated, cost sharing, multiple employer public employee retirement system. OPERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. OPERS also provides survivor and disability benefits to vested employees.

Contributions rates are prescribed by the Ohio Revised Code. The Village's OPERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% for 2005 of participant's gross salaries. The Village has paid all contributions required through December 31, 2005.

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY, OHIO  
Notes to the Financial Statements  
For the Years Ended December 31, 2005 and 2004**

8. LEGAL COMPLIANCE

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

In 2005 and 2004, the Village had expenditures exceeding appropriations contrary to Section 5705.41 (B) of the Ohio Revised Code.

In 2005 and 2004, the Village had appropriations exceeding estimated resources contrary to Section 5705.39 of the Ohio Revised Code.

9. CONTINGENT LIABILITIES

Management believes there are no pending claims or lawsuits.

Rockefeller Building  
614 W Superior Ave Ste1242  
Cleveland OH 44113-1306  
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 Port Jefferson  
P.O. Box 189  
100 Spring Street  
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 and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 13, 2006, wherein we noted the Village follows 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-01 and 2005-02.

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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we consider the above reportable conditions to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated November 13, 2006.

## 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 several instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2005-01 and 2005-03 through 2005-05.

This report is intended for the information and use of management and 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.***

November 13, 2006

VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY, OHIO  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004

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

Finding Number: 2005-01 – Noncompliance Citation and Material Weakness

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 than \$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 predictable 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, 2005 AND 2004

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

Finding Number: 2005-01 – Noncompliance Citation and Material Weakness- (continued)

The Village did not properly certify the availability of funds for 100% of expenditures tested for neither 2004 or 2005. 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.

The Village plans on using purchase orders in the future.

Finding Number: 2005-02 – Material Weakness

Sewer Receipts from the City of Sidney

The Village has delegated sewer system billing and collection, which is a significant accounting function of the sewer enterprise fund, 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 Village residents sewer billing and collection services performed by the City of Sidney. Statement of Auditing Standards (SAS) No. 70 as amended by SAS No. 88, prescribes standards for reporting on the processing of transactions by service organizations. An unqualified "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, 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.

The Village plans on obtaining SAS No. 70 from the City of Sidney for assurance about billing and collection processes performed on behalf of the Village.

VILLAGE OF PORT JEFFERSON  
 SHELBY COUNTY, OHIO  
 SCHEDULE OF FINDINGS – (CONTINUED)  
 DECEMBER 31, 2005 AND 2004

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

Finding Number: 2005-03 – Noncompliance Citation

Ohio Revised Code Section 5705.39 states, in part, that "... The total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission..." This section also provides that no appropriation measure shall become effective until the City obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources. Contrary to this requirement, the following funds had total appropriations in excess of estimated resources plus carryover balances:

Fund	2005		
	Estimated Resources	Appropriations	Variance
Special Revenue - Street Lighting	\$ -	\$ 5,200	\$ (5,200)

Fund	2004		
	Estimated Resources	Appropriations	Variance
Proprietary - Sanitary Sewer	\$ 94,417	\$ 96,460	\$ (2,043)

Management agrees and will monitor estimated resources compared to appropriations.

VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY, OHIO  
SCHEDULE OF FINDINGS – (CONTINUED)  
DECEMBER 31, 2005 AND 2004

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

Finding Number: 2005-04 – Noncompliance Citation

Ohio Revised Code Section 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been appropriated as provided in such chapter. Furthermore, Ohio Administrative Code 117-2-02 states that all local public offices should integrate the budgetary accounts, at the legal level of control which is the object level for all funds. In 2005 and 2004, the following funds had total expenditures plus encumbrances expended money in excess of appropriations:

2005			
Fund	Appropriations	Expenditures Plus Encumbrances	Variance
Capital Projects - CDBG	\$ -	\$ 31,006	\$ (31,006)

2004			
Fund	Appropriations	Expenditures Plus Encumbrances	Variance
Capital Projects - CDBG	\$ 5,615	\$ 5,997	\$ (382)

The legal level of control citations were not disclosed since the Village is cited at the fund level.

We recommend the Village monitor appropriations and expenditures plus encumbrances regularly and amend appropriations as necessary to avoid overspending.

Management agrees and will monitor expenditures compared to appropriations.

VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY, OHIO  
SCHEDULE OF FINDINGS – (CONTINUED)  
DECEMBER 31, 2005 AND 2004

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

Finding Number: 2005-05 - Noncompliance Citation

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 running all sewer system transactions through the sewer revenue fund and did not establish the Operation and Maintenance Fund and the System Improvement Mortgage Revenue Bond fund as required by Ordinance #04-2002. The Village should either follow the ordinance as approved, or amend the ordinance to the current practices being followed.

The Village plans on creating the necessary funds for depositing bond proceeds and income from the sewer system.

VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 and 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid: Explain: Per ADAM 2001-10- Disclose the current year finding in this schedule
2003-001	ORC Section 5705.41 (D) - Failure to certify	No	Not Corrected, repeated as Item 2005-01
2003-002	Failure to establish funds	No	Not Corrected, repeated as Item 2005-05
2003-003	ORC Section 5705.41 (B) Failure to appropriate for expenditures	No	Not Corrected, repeated as Item 2005-04
2003-004	ORC Section 5705.39 Appropriations exceed total estimated resources	No	Not Corrected, repeated as Item 2005-03
2003-005	Commingling of federal receipts and expenditures	Yes	Corrected, Finding no longer valid
2003-006	Failure to pay invoices in a timely manner	Yes	Corrected, procedures enacted to ensure timely payment of invoices
2003-007	Failure to obtain SAS 70 report	No	Not Corrected, repeated as Item 2005-02



**Mary Taylor, CPA**  
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**  
**MARCH 8, 2007**