



Dave Yost • Auditor of State

VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Berlin Heights, Erie County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis permitted is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2014 and 2013, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Berlin Heights, Erie County, Ohio as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 26, 2015

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$112,138	\$3,740	\$115,878
Intergovernmental	44,063	33,923	77,986
Fines, Licenses and Permits	10,298		10,298
Earnings on Investments	105	79	184
Miscellaneous	23,293		23,293
<i>Total Cash Receipts</i>	<u>189,897</u>	<u>37,742</u>	<u>227,639</u>
Cash Disbursements			
Current:			
Security of Persons and Property	144,279		144,279
Public Health Services	11,340		11,340
Leisure Time Activities	3,735		3,735
Community Environment	1,765		1,765
Basic Utility Services	541		541
Transportation	4,018	32,612	36,630
General Government	70,208		70,208
<i>Total Cash Disbursements</i>	<u>235,886</u>	<u>32,612</u>	<u>268,498</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(45,989)</u>	<u>5,130</u>	<u>(40,859)</u>
Other Financing Disbursements			
Other Financing Uses	(63)		(63)
<i>Net Change in Fund Cash Balances</i>	(46,052)	5,130	(40,922)
<i>Fund Cash Balances, January 1</i>	<u>95,569</u>	<u>88,018</u>	<u>183,587</u>
Fund Cash Balances, December 31			
Restricted		93,148	93,148
Unassigned	49,517		49,517
<i>Fund Cash Balances, December 31</i>	<u>\$49,517</u>	<u>\$93,148</u>	<u>\$142,665</u>

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

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$109,590	\$3,818	\$113,408
Intergovernmental	45,807	33,813	79,620
Fines, Licenses and Permits	8,852		8,852
Earnings on Investments	140	46	186
Miscellaneous	3,485		3,485
<i>Total Cash Receipts</i>	<u>167,874</u>	<u>37,677</u>	<u>205,551</u>
Cash Disbursements			
Current:			
Security of Persons and Property	125,282		125,282
Public Health Services	10,125		10,125
Leisure Time Activities	4,297		4,297
Community Environment	774		774
Basic Utility Services	820		820
Transportation	11,628	39,622	51,250
General Government	62,398		62,398
<i>Total Cash Disbursements</i>	<u>215,324</u>	<u>39,622</u>	<u>254,946</u>
<i>Net Change in Fund Cash Balances</i>	(47,450)	(1,945)	(49,395)
<i>Fund Cash Balances, January 1</i>	<u>143,019</u>	<u>89,963</u>	<u>232,982</u>
Fund Cash Balances, December 31			
Restricted		88,018	88,018
Assigned	95,569		95,569
<i>Fund Cash Balances, December 31</i>	<u>\$95,569</u>	<u>\$88,018</u>	<u>\$183,587</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, 2014 AND 2013**

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, Ohio (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, park operations, street and highway maintenance and repair, and police services. The Village contracts with North Central EMS to provide emergency medical services.

The Village participates in the Ohio Municipal Joint Self-Insurance Pool, which is a public entity risk pool that provides property and casualty insurance for its members. Note 6 to the financial statements provide additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted to expenditure for specified 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, 2014 AND 2013
(Continued)

Permissive Motor Vehicle License Tax Fund – This fund receives motor vehicle license tax money for planning, constructing, improving, maintaining, and repairing Village streets.

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

D. Budgetary Process

The Ohio Revised Code requires each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

E. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors,

VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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.

2. EQUITY IN POOLED DEPOSITS

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

	2014	2013
Demand deposits	<u>\$142,665</u>	<u>\$183,587</u>

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$167,454	\$189,897	\$22,443
Special Revenue	17,347	37,742	20,395
Total	\$184,801	\$227,639	\$42,838

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$261,623	\$235,949	\$25,674
Special Revenue	105,340	32,612	72,728
Total	\$366,963	\$268,561	\$98,402

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$172,834	\$167,874	(\$4,960)
Special Revenue	25,806	37,677	11,871
Total	\$198,640	\$205,551	\$6,911

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$315,853	\$215,324	\$100,529
Special Revenue	115,769	39,622	76,147
Total	\$431,622	\$254,946	\$176,676

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village

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

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

5. RETIREMENT SYSTEMS

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other 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 these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2014, OP&F participants contributed 10.75% of their wages through June 30, 2014, while participants contributed 11.5% beginning July 1, 2014. For 2013, OP&F participants contributed 10% of their wages through June 30, 2013, while participants contributed 10.75% beginning July 1, 2013. For 2014 and 2013, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2014 and 2013, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2014.

6. RISK MANAGEMENT

Risk Pool Membership

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

The Pool changed its fiscal year end to March 31, effective in 2011, in order to align its financial reporting and budgeting with the renewal terms of its excess reinsurance policies.

The Pool cedes portions of its gross contribution written to a reinsurer under excess reinsurance agreements in order to limit its losses. Treaty basis excess-of-loss contracts in force protect the Pool against losses over the retention level; at March 31, 2013, retention levels are \$100,000 and \$175,000 for property and casualty coverages, respectively.

The Pool remains liable to the extent the reinsuring companies are unable to meet their contractual obligations under reinsurance agreements.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained surplus at March 31, 2013 and 2012 (the latest information available):

	<u>2013</u>	<u>2012</u>
Assets	\$ 833,561	\$ 1,097,683
Liabilities	<u>(782,525)</u>	<u>(791,222)</u>
Accumulated Surplus	\$ <u>51,036</u>	\$ <u>306,461</u>

**VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

7. MISCELLANEOUS RECEIPTS

In 2014, General Fund Miscellaneous receipts consist largely of donations and proceeds from an insurance claim.



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INDEPENDENT AUDITOR'S 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 in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Berlin Heights, Erie County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated May 26, 2015 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

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

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

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, opining on compliance with those provisions was not an objective of our audit 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*.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

May 26, 2015

VILLAGE OF BERLIN HEIGHTS
ERIE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013

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

FINDING NUMBER 2014-001

Material Weakness - Financial Reporting

We identified the following error requiring adjustment to the financial statements for the year ended December 31, 2014:

- Permissive motor vehicle license tax receipts in the amount of \$3,740 were improperly classified as intergovernmental receipts in the Special Revenue fund type.

We identified the following error requiring adjustment to the financial statements for the year ended December 31, 2013:

- Permissive motor vehicle license tax receipts in the amount of \$3,818 were improperly classified as intergovernmental receipts in the Special Revenue fund type.

Additionally, immaterial differences not requiring adjustment to the financial statements or notes to the financial statements were noted in the classification of certain receipts, the classification of fund balance, and the posting of authorized budget information to the accounting system in amounts ranging from \$459 to \$2,560.

These errors were not identified and corrected prior to the audit due to deficiencies in the Village's internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Fiscal Officer and the Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer, to identify and correct errors and omissions and ensure proper entry of authorized budget amounts. Also, the Fiscal Officer can refer to the Ohio Village Officer's Handbook at the following web site address for guidance on the recording of transactions:

<https://ohioauditor.gov/publications/15OhioVillageOfficersHandbook.pdf>

Officials' Response:

The Fiscal Officer will ensure proper classification and recording of financial activity in the future.

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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 23, 2015