



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF MARBLEHEAD
OTTAWA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2001	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Fund Types - For the Year Ended December 31, 2001	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2000	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Fund Types - For the Year Ended December 31, 2000	6
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17
Schedule of Prior Audit Findings	19

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Marblehead
Ottawa County
513 West Main Street
Lakeside-Marblehead, Ohio 43440-2251

To the Village Council:

We have audited the accompanying financial statements of the Village of Marblehead (the Village) as of and for the years ended December 31, 2001 and 2000. 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 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Village as of December 31, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

This report is intended solely for the information and use of the audit committee, management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

July 10, 2002

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$279,941				\$279,941
Special Assessments			\$18,397		18,397
Intergovernmental Receipts	128,476	\$156,038			284,514
Charges for Services	6,548	121,250			127,798
Fines, Licenses, and Permits	2,138	9,070			11,208
Earnings on Investments	3,148	523			3,671
Miscellaneous	48,408	2,998			51,406
	<u>468,659</u>	<u>289,879</u>	<u>18,397</u>		<u>776,935</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	111,713	171,305			283,018
Public Health Services	6,209				6,209
Leisure Time Activities	7,369				7,369
Community Environment		3,362			3,362
Basic Utility Services		10,043			10,043
Transportation		78,684			78,684
General Government	92,445		181		92,626
Debt Service:					
Principal Payments	5,431	19,966	12,000		37,397
Interest Payments	233	2,300	6,898		9,431
	<u>223,400</u>	<u>285,660</u>	<u>19,079</u>		<u>528,139</u>
Total Receipts Over/(Under) Disbursements	<u>245,259</u>	<u>4,219</u>	<u>(682)</u>		<u>248,796</u>
Other Financing Receipts and (Disbursements):					
Transfers-In		113,266			113,266
Advances-In	125,020	30,000			155,020
Transfers-Out	(84,805)	(31,133)			(115,938)
Advances-Out	(100,000)	(105,020)			(205,020)
	<u>(59,785)</u>	<u>7,113</u>			<u>(52,672)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	185,474	11,332	(682)		196,124
Fund Cash Balances, January 1	7,789	121,895	38,301	\$1,738	169,723
Fund Cash Balances, December 31	<u>\$193,263</u>	<u>\$133,227</u>	<u>\$37,619</u>	<u>\$1,738</u>	<u>\$365,847</u>

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

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$277,030	\$1,000	\$278,030
Miscellaneous	613		613
	<u>277,643</u>	<u>1,000</u>	<u>278,643</u>
Operating Cash Disbursements:			
Personal Services	135,859		135,859
Fringe Benefits	48,983		48,983
Contractual Services	36,377		36,377
Supplies and Materials	44,689		44,689
Miscellaneous		950	950
	<u>265,908</u>	<u>950</u>	<u>266,858</u>
Total Operating Cash Receipts			
	<u>277,643</u>	<u>1,000</u>	<u>278,643</u>
Operating Cash Disbursements:			
Personal Services	135,859		135,859
Fringe Benefits	48,983		48,983
Contractual Services	36,377		36,377
Supplies and Materials	44,689		44,689
Miscellaneous		950	950
	<u>265,908</u>	<u>950</u>	<u>266,858</u>
Total Operating Cash Disbursements			
	<u>265,908</u>	<u>950</u>	<u>266,858</u>
Operating Income	<u>11,735</u>	<u>50</u>	<u>11,785</u>
Non-Operating Cash Receipts:			
Earnings on Investments	6,686		6,686
Special Assessments	28,659		28,659
	<u>35,345</u>		<u>35,345</u>
Total Non-Operating Cash Receipts			
	<u>35,345</u>		<u>35,345</u>
Non-Operating Cash Disbursements:			
Debt Service	62,221		62,221
	<u>62,221</u>		<u>62,221</u>
Total Non-Operating Cash Disbursements			
	<u>62,221</u>		<u>62,221</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(15,141)	50	(15,091)
Transfers-In	37,057		37,057
Advances-In	70,000		70,000
Transfers-Out	(34,385)		(34,385)
Advances-Out	(20,000)		(20,000)
	<u>37,531</u>	<u>50</u>	<u>37,581</u>
Net Receipts Over Disbursements			
	<u>37,531</u>	<u>50</u>	<u>37,581</u>
Fund Cash Balances, January 1	121,153	2,778	123,931
	<u>121,153</u>	<u>2,778</u>	<u>123,931</u>
Fund Cash Balances, December 31	<u>\$158,684</u>	<u>\$2,828</u>	<u>\$161,512</u>

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

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$141,803				\$141,803
Special Assessments			\$31,429		31,429
Intergovernmental Receipts	89,691	\$46,091			135,782
Charges for Services	3,464	126,775			130,239
Fines, Licenses, and Permits	5,230	11,025			16,255
Earnings on Investments	5,263	530		\$50	5,843
Miscellaneous	42,088	6,322			48,410
Total Cash Receipts	<u>287,539</u>	<u>190,743</u>	<u>31,429</u>	<u>50</u>	<u>509,761</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	104,796	159,426			264,222
Public Health Services	14,239				14,239
Leisure Time Activities	13,014				13,014
Community Environment		3,526			3,526
Basic Utility Services		22,120			22,120
Transportation	452	55,912			56,364
General Government	106,648		198		106,846
Debt Service:					
Principal Payments	5,115	18,908	12,000		36,023
Interest Payments	549	3,358	7,828		11,735
Capital Outlay		11,500			11,500
Total Cash Disbursements	<u>244,813</u>	<u>274,750</u>	<u>20,026</u>		<u>539,589</u>
Total Receipts Over/(Under) Disbursements	<u>42,726</u>	<u>(84,007)</u>	<u>11,403</u>	<u>50</u>	<u>(29,828)</u>
Other Financing Receipts and (Disbursements):					
Transfers-In	20,000	107,266			127,266
Advances-In	183,901	278,223			462,124
Transfers-Out	(96,133)	(11,133)			(107,266)
Advances-Out	(308,221)	(103,903)			(412,124)
Total Other Financing Receipts/(Disbursements)	<u>(200,453)</u>	<u>270,453</u>			<u>70,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(157,727)	186,446	11,403	50	40,172
Fund Cash Balances, January 1	165,516	(64,551)	26,898	1,688	129,551
Fund Cash Balances, December 31	<u><u>\$7,789</u></u>	<u><u>\$121,895</u></u>	<u><u>\$38,301</u></u>	<u><u>\$1,738</u></u>	<u><u>\$169,723</u></u>

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

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$241,152	\$800	\$241,952
Miscellaneous	1,932		1,932
	<u>243,084</u>	<u>800</u>	<u>243,884</u>
Total Operating Cash Receipts			
Operating Cash Disbursements:			
Personal Services	130,287		130,287
Fringe Benefits	41,725		41,725
Contractual Services	35,181		35,181
Supplies and Materials	39,965		39,965
Miscellaneous		1,150	1,150
Capital Outlay	1,760		1,760
	<u>248,918</u>	<u>1,150</u>	<u>250,068</u>
Total Operating Cash Disbursements			
Operating Loss	<u>(5,834)</u>	<u>(350)</u>	<u>(6,184)</u>
Non-Operating Cash Receipts:			
Earnings on Investment	6,111		6,111
Special Assessments	10,888		10,888
	<u>16,999</u>		<u>16,999</u>
Total Non-Operating Cash Receipts			
Non-Operating Cash Disbursements:			
Debt Service	62,874		62,874
	<u>62,874</u>		<u>62,874</u>
Total Non-Operating Cash Disbursements			
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(51,709)	(350)	(52,059)
Transfers-In	73,652		73,652
Advances-In	30,000		30,000
Transfers-Out	(93,652)		(93,652)
Advances-Out	(80,000)		(80,000)
Net Disbursements Over Receipts	(121,709)	(350)	(122,059)
Fund Cash Balances, January 1	<u>242,862</u>	<u>3,128</u>	<u>245,990</u>
Fund Cash Balances, December 31	<u>\$121,153</u>	<u>\$2,778</u>	<u>\$123,931</u>

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

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Marblehead (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water utilities, park operations, police protection, and fire and emergency medical 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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed 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.

Certificates of deposit are valued at cost. STAR Ohio investments are recorded at share values reported by the mutual fund.

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

2. Special Revenue Fund

These funds are used to 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 MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

Fire Department Fund – This fund accounts for the fire and emergency medical service operations. The primary source of revenue arises from contracts with other subdivisions for providing these services.

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had one debt service fund in which special assessment revenue was collected to repay a special assessment project.

4. 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 had the following significant capital projects fund:

Park Improvements for Youth Fund – This fund receives monies from various sources which are used for park improvements.

5. Enterprise Funds

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

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

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had no expendable or nonexpendable trust fund. The Village does have one agency fund that is used to account for utility customer deposits.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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 Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts). 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 canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2001	2000
Cash on Hand	\$400	\$400
Demand deposits	336,466	103,470
Certificates of deposit	57,000	57,000
Savings account		4,602
Total deposits	393,866	165,472
STAR Ohio	133,493	128,182
Total deposits and investments	\$527,359	\$293,654

Deposits: Deposits are either 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.

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$445,330	\$468,659	\$23,329
Special Revenue	461,770	403,145	(58,625)
Debt Service	21,500	18,397	(3,103)
Enterprise	289,000	350,045	61,045
Fiduciary	800	1,000	200
Total	<u>\$1,218,400</u>	<u>\$1,241,246</u>	<u>\$22,846</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$556,439	\$308,205	\$248,234
Special Revenue	410,345	316,793	93,552
Debt Service	18,898	19,079	(181)
Capital Projects	1,739		1,739
Enterprise	480,078	362,514	117,564
Fiduciary	3,578	950	2,628
Total	<u>\$1,471,077</u>	<u>\$1,007,541</u>	<u>\$463,536</u>

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$213,729	\$307,539	\$93,810
Special Revenue	406,481	298,009	(108,472)
Debt Service	20,200	31,429	11,229
Capital Projects	5,000	50	(4,950)
Enterprise	357,332	333,735	(23,597)
Fiduciary	1,500	800	(700)
Total	<u>\$1,004,242</u>	<u>\$971,562</u>	<u>(\$32,680)</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$378,118	\$340,946	\$37,172
Special Revenue	340,437	285,883	54,554
Debt Service	47,196	20,026	27,170
Capital Projects	6,687		6,687
Enterprise	591,398	405,444	185,954
Fiduciary	4,627	1,150	3,477
Total	<u>\$1,368,463</u>	<u>\$1,053,449</u>	<u>\$315,014</u>

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

4. PROPERTY TAX

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

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

Tangible personal property tax is assessed by the property owners, who must file a list of such 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 behalf of the Village.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. The local income tax was imposed for the year 2001. It was not imposed for the year 2000.

Employers within the Village withhold income tax on employee compensation and remit the tax either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$173,741	7.36%
General Obligation Bonds	495,000	4.35%
General Obligation Notes	22,026	6.00%
Special Assessment Water Main Bonds	<u>77,000</u>	7.75%
Total	<u><u>\$767,767</u></u>	

The Ohio Water Development Authority (OWDA) loan relates to a water plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA loan total was \$241,301. The loan will be repaid in semiannual installments of \$11,462, including interest, over twenty-five year period. The first semiannual installment was made January 1, 1989. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

The Special Assessment bonds relate to a water line extension project. The bonds were issued in 1988, in the amount of \$185,000, and will be repaid over a twenty-year period. They are being repaid from special assessments.

The general obligation bonds relate to a water line extension project. The bonds were issued in 1998, in the amount of \$525,000, and will be repaid over a twenty-year period.

General obligation notes relate to the purchase of two police cruisers and an ambulance. They consist of a \$9,010 note being paid in thirty-six monthly payments of \$274 and a \$6,510 note being paid in thirty-six monthly payments of \$198. They also consist of a \$59,957 note being paid in two payments of \$22,256, and the third payment consisting of the remaining balance. All notes were issued in 1999.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OWDA Loan	General Obligation Bonds	General Obligation Notes	Special Assessment Bonds
2002	\$22,924	\$43,645	\$23,205	\$17,968
2003	22,924	42,775		18,038
2004	22,924	41,905		17,030
2005	22,924	41,035		16,023
2006	22,924	40,165		15,015
2007-2011	114,618	206,308		14,008
2012-2016	34,385	213,500		
2017-2020		126,750		
Total	<u>\$263,623</u>	<u>\$756,083</u>	<u>\$23,205</u>	<u>\$98,082</u>

The Village was in violation of an OWDA debt covenant. Any insurance policy on project facilities should be so written or endorsed as to make losses, if any, payable to OWDA and the legislative authority as their interests may appear. It also states that OWDA shall be made an additional insured under public liability insurance regarding project facilities. The Village's insurance policies do not make losses payable to OWDA for project facilities or make OWDA an additional insured under public liability policies regarding project facilities. The OWDA could declare the Village in default for not complying with these requirements and subject the Village to fines and penalties.

7. RETIREMENT SYSTEMS

The Village's law enforcement officers and certified firefighters belong to the Ohio Police and Fire Pension Funds (OP&F). Other employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 and 2000, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

contribution rate to 8.13%, effective July 1, 2000 through December 31, 2000. The Village has paid all contributions required through December 31, 2001.

Effective July 1, 1991, all employees not otherwise covered by the Public Employees Retirement System have an option to choose Social Security. Several employees of the Village have elected Social Security. The Council's liability is 6.2 percent of wages paid.

8. RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-occurrence limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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

Financial Position

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

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$19,358,458	\$17,112,129
Liabilities	<u>(8,827,588)</u>	<u>(7,715,035)</u>
Retained earnings	<u>\$10,530,870</u>	<u>\$9,397,094</u>

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

Property Coverage	2001	2000
Assets	\$1,890,323	\$1,575,614
Liabilities	<u>(469,100)</u>	<u>(281,561)</u>
Retained earnings	<u>\$1,421,223</u>	<u>\$1,294,053</u>

9. SUBSEQUENT EVENTS

On February 14, 2002, Ordinance No. 1-2002, was passed revoking the Village income tax.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Marblehead
Ottawa County
513 West Main Street
Lakeside-Marblehead, Ohio 43440-2251

To the Village Council:

We have audited the accompanying financial statements of the Village of Marblehead (the Village) as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated July 10, 2002. 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.

Compliance

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 and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-30162-001 and 2001-30162-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 10, 2002.

Internal Control 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 assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. 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. A reportable condition is described in the accompanying schedule of findings as item 2001-30162-003.

A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. 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 July 10, 2002.

This report is intended solely for the information and use of the audit committee, management and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

July 10, 2002

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-30162-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

- A. Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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 taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

- B. Amounts of less than \$100 for counties, or less than \$1,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority 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 expenditures by the taxing authority.

None of the expenditures we tested were properly certified and the exceptions discussed above were not used.

We recommend the Village Clerk certify all purchase orders before an obligation is incurred. If this is not possible, the Clerk should use the "then and now" certificate and the Village Council should pass the necessary resolution for those disbursements over \$1,000. Failure to do this could result in incurred obligations exceeding appropriations and available resources. Also, year end encumbrances will be understated and amounts reported to the County Auditor for the subsequent year's appropriations will be overstated. We also reported this matter in the audit of the 1999 and 1998 financial statements.

FINDING NUMBER 2001-30162-002

Noncompliance Citation

Ohio Water Development Authority's (OWDA) Cooperative Agreement for Construction, Maintenance and Operation of State Water Project §§ 5.4 and 5.6 state that any insurance policy on project facilities shall be so written or endorsed as to make losses, if any, payable to the OWDA and the legislative authority as their interests may appear. It also states that OWDA shall be made an additional insured under public liability insurance regarding project facilities.

FINDING NUMBER 2001-30162-002
(Continued)

OWDA was not named as an additional insured for the sewer treatment plant or related liability insurance.

We recommend that the insurance policy be amended to include OWDA as an additional insured. Failure to amend the insurance policy could result in OWDA declaring the act an event of default and subject to fines and penalties. The Village should also contact the OWDA and request that any penalties for this violation be waived in writing. On June 14, 2002, the Village obtained a corrected certificate of coverage from the Public Entities Pool of Ohio.

FINDING NUMBER 2001-30162-003

Reportable Condition

Monitoring Operations – During the audit, the Village hired the Local Government Services Division (LGS) of the Auditor of State's Office to reconstruct and reconcile the records for 2000 and up to date for 2001. LGS reconciled the Village's records through June 30, 2001. The Village clerk did not perform any reconciliations through the end of 2001. The Clerk was anticipating that LGS would return and assist with conversion to the UAN computer system and at that time would help/prepare the reconciliations up to date.

For an entity the size of the Village of Marblehead, it is usually not cost effective to employ all the basic accounting controls necessary to provide the Village Council with a reasonable assurance that all related procedures are functioning properly. An alternative approach is to have members of the Council, the Finance Committee, and/or the Audit Committee be more active in monitoring the daily activities of employees to insure that employees are performing their duties accurately and on a timely basis.

We recommend that appropriate personnel review the monthly financial statements and monthly bank reconciliations and verify that they are reconciled properly. This would include tracing the financial statements to the supporting receipt ledgers, disbursement ledger and fund ledger. The bank reconciling items should be traced to bank statements, outstanding check lists, and other original supporting documents. We also reported this matter in the audit of the 1999 and 1998 financial statements.

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEAR ENDED DECMEBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-30162-001	Ohio Revised Code § 5705.41(D), failure to certify funds	No	Not corrected. Reissued in this report as item 2001-30162-001.
1999-30162-002	Ohio Revised Code § 5705.41, expenditures exceeded appropriations	Partially corrected	Partially corrected. We reported this citation in the management letter.
1999-30162-003	Ohio Revised Code § 5705.10, deficit fund balances	Yes	
1999-30162-004	Reportable Condition Monitoring Operations	No	Partially Corrected. Problems still with not reconciling monthly and no outside review by someone independent of Clerk. Reissued in this report as item 2001-30162-003.



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VILLAGE OF MARBLEHEAD

OTTAWA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 15, 2002**