



**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1999-1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF MARBLEHEAD
OTTAWA COUNTY

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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, Ottawa County, Ohio, (the Village) as of and for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 combined fund cash balances and reserves for encumbrances of the Village as of December 31, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As described in Note 9, the Village changed the fund type classification for an internal service fund and an enterprise bond retirement fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2000, 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 audit.

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.

Jim Petro
Auditor of State

October 30, 2000.

**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, 1999**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$134,502				\$134,502
Special Assessments			\$21,026		21,026
Intergovernmental Receipts	80,450	\$51,481			131,931
Charges for Services	6,437	115,893			122,330
Fines, Licenses, and Permits	6,441	775			7,216
Earnings on Investments	12,118	489			12,607
Miscellaneous	49,506	15,000		\$675	65,181
	<u>289,454</u>	<u>183,638</u>	<u>21,026</u>	<u>675</u>	<u>494,793</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
Security of Persons and Property	83,990	194,165			278,155
Public Health Services	11,519				11,519
Leisure Time Activities	13,846				13,846
Basic Utility Services		304			304
Transportation		69,098			69,098
General Government	100,649			75	100,724
Debt Service			37,600		37,600
	<u>210,004</u>	<u>263,567</u>	<u>37,600</u>	<u>75</u>	<u>511,246</u>
Total Cash Disbursements					
Total Receipts Over/(Under) Disbursements	<u>79,450</u>	<u>(79,929)</u>	<u>(16,574)</u>	<u>600</u>	<u>(16,453)</u>
Other Financing Receipts:					
Sale of Bonds or Notes	<u>15,520</u>				<u>15,520</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	94,970	(79,929)	(16,574)	600	(933)
Fund Cash Balances, January 1	<u>70,546</u>	<u>15,380</u>	<u>43,472</u>	<u>1,088</u>	<u>130,486</u>
Fund Cash Balances, December 31	<u>\$165,516</u>	<u>(\$64,549)</u>	<u>\$26,898</u>	<u>\$1,688</u>	<u>\$129,553</u>
Reserves for Encumbrances, December 31	<u>\$3,377</u>	<u>\$3,390</u>			<u>\$6,767</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, 1999**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$333,318	\$1,050	\$334,368
Miscellaneous	1,149		1,149
Total Operating Cash Receipts	<u>334,467</u>	<u>1,050</u>	<u>335,517</u>
Operating Cash Disbursements:			
Personal Services	162,320		162,320
Travel and Transportation	29		29
Contractual Services	58,753	900	59,653
Supplies and Materials	32,642		32,642
Capital Outlay	100,775		100,775
Total Operating Cash Disbursements	<u>354,519</u>	<u>900</u>	<u>355,419</u>
Operating Income/(Loss)	<u>(20,052)</u>	<u>150</u>	<u>(19,902)</u>
Non-Operating Cash Disbursements:			
Debt Service	<u>62,394</u>		<u>62,394</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(82,446)	150	(82,296)
Transfers-In	22,981		22,981
Transfers-Out	<u>(22,981)</u>		<u>(22,981)</u>
Net Receipts Over/(Under) Disbursements	(82,446)	150	(82,296)
Fund Cash Balances, January 1	<u>325,306</u>	<u>2,978</u>	<u>328,284</u>
Fund Cash Balances, December 31	<u>\$242,860</u>	<u>\$3,128</u>	<u>\$245,988</u>
Reserve for Encumbrances, December 31	<u>\$6,126</u>		<u>\$6,126</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, 1998**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$122,967				\$122,967
Special Assessments			\$46,028		46,028
Intergovernmental Receipts	45,081	\$91,372			136,453
Charges for Services	205	122,750			122,955
Fines, Licenses, and Permits	5,548	535			6,083
Earnings on Investments	25,034	393			25,427
Miscellaneous	80,000	96		\$747	80,843
Total Cash Receipts	<u>278,835</u>	<u>215,146</u>	<u>46,028</u>	<u>747</u>	<u>540,756</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	70,261	196,076			266,337
Public Health Services	11,880				11,880
Leisure Time Activities	7,629	66,363			73,992
Basic Utility Services		2,294			2,294
Transportation		51,648			51,648
General Government	98,843			4,538	103,381
Debt Service			5,058		5,058
Total Cash Disbursements	<u>188,613</u>	<u>316,381</u>	<u>5,058</u>	<u>4,538</u>	<u>514,590</u>
Total Receipts Over/(Under) Disbursements	<u>90,222</u>	<u>(101,235)</u>	<u>40,970</u>	<u>(3,791)</u>	<u>26,166</u>
Other Financing Receipts/(Disbursements):					
Transfers-In		45,240			45,240
Transfers-Out	(45,240)				(45,240)
Total Other Financing Receipts/(Disbursements)	<u>(45,240)</u>	<u>45,240</u>			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	44,982	(55,995)	40,970	(3,791)	26,166
Fund Cash Balances January 1	<u>25,564</u>	<u>71,375</u>	<u>2,502</u>	<u>4,879</u>	<u>104,320</u>
Fund Cash Balances, December 31	<u>\$70,546</u>	<u>\$15,380</u>	<u>\$43,472</u>	<u>\$1,088</u>	<u>\$130,486</u>
Reserves for Encumbrances, December 31	<u>\$3,791</u>	<u>\$3,154</u>			<u>\$6,945</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, 1998**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$396,177	\$1,750	\$397,927
Miscellaneous	2,297		2,297
Total Operating Cash Receipts	<u>398,474</u>	<u>1,750</u>	<u>400,224</u>
Operating Cash Disbursements:			
Personal Services	154,494		154,494
Contractual Services	95,132	4,472	99,604
Supplies and Materials	70,365		70,365
Capital Outlay	345,333		345,333
Total Operating Cash Disbursements	<u>665,324</u>	<u>4,472</u>	<u>669,796</u>
Operating Loss	<u>(266,850)</u>	<u>(2,722)</u>	<u>(269,572)</u>
Non-Operating Cash Receipts:			
Proceeds from Notes and Bonds	525,000		525,000
Non-Operating Cash Disbursements:			
Debt Service	<u>664,099</u>		<u>664,099</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(405,949)	(2,722)	(408,671)
Transfers-In	23,651		23,651
Transfers-Out	<u>(23,651)</u>		<u>(23,651)</u>
Net Receipts Over/(Under) Disbursements	(405,949)	(2,722)	(408,671)
Fund Cash Balances, January 1	<u>731,255</u>	<u>5,700</u>	<u>736,955</u>
Fund Cash Balances, December 31	<u>\$325,306</u>	<u>\$2,978</u>	<u>\$328,284</u>
Reserve for Encumbrances, December 31	<u>\$9,135</u>		<u>\$9,135</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, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Marblehead, Ottawa County, (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 general governmental services, including water utilities, park operations (leisure time activities), and police and fire protection 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

Certificates of deposit are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

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 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:

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

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

Issue I Fund - This fund receives state grant money for various projects.

COPS Grant Fund - This fund receives federal grant money for additional police personnel.

Fire Department Fund - This fund accounts for the fire and emergency medical service operations. The primary source of revenues 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 project funds:

Equipment Replacement Fund - The fund receives monies from various sources which is used for the cost of major equipment replacement.

Park Improvements for Youth Fund - The fund receives monies from various sources which is used for park improvement expenses.

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 Funds:

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

Waterline Extension Fund - This fund received loan proceeds from the Ohio Water Development Authority to finance a utility plant expansion. This loan will be repaid from a utility surcharge, also accounted for in this fund.

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.

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

The Village had no expendable nor 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 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 1999 and 1998 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. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

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:

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

	<u>1999</u>	<u>1998</u>
Demand deposits	\$193,079	\$136,189
Certificates of deposit	62,000	72,000
Total deposits	255,079	208,189
STAR Ohio	120,462	250,581
Total deposits and investments	\$375,541	\$458,770

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.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 1999 and 1998 follows:

1999 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$190,600	\$304,974	\$114,374
Special Revenue	179,570	183,638	4,068
Debt Service		21,026	21,026
Capital Projects	5,000	675	(4,325)
Enterprise	302,924	357,448	54,524
Fiduciary	2,900	1,050	(1,850)
Total	\$680,994	\$868,811	\$187,817

1999 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$257,827	\$213,381	\$44,446
Special Revenue	310,256	266,957	43,299
Debt Service	48,316	37,600	10,716
Capital Projects	5,397	75	5,322
Enterprise	799,551	446,020	353,531
Fiduciary	5,878	900	4,978
Total	\$1,427,225	\$964,933	\$462,292

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

1998 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$190,600	\$278,835	\$88,235
Special Revenue	294,731	260,386	(34,345)
Debt Service	27,050	46,028	18,978
Capital Projects	5,000	747	(4,253)
Enterprise	302,924	947,125	644,201
Fiduciary	2,900	1,750	(1,150)
Total	<u>\$823,205</u>	<u>\$1,534,871</u>	<u>\$711,666</u>

1998 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$215,083	\$237,644	(\$22,561)
Special Revenue	363,042	319,535	43,507
Debt Service	21,688	5,058	16,630
Capital Projects	9,879	4,538	5,341
Enterprise	1,006,797	1,362,209	(355,412)
Fiduciary	8,600	4,472	4,128
Total	<u>\$1,625,089</u>	<u>\$1,933,456</u>	<u>(\$308,367)</u>

The Village Clerk did not properly certify expenditures as required by the Ohio Revised Code.

4. ACCOUNTABILITY AND COMPLIANCE

A. The following funds had expenditures and encumbrances in excess of appropriations:

1999- Fund Type / Fund	Appropriation Authority	Budgetary Expenditures	Variance
<u>Special Revenue Funds:</u>			
Street Maintenance and Repair	\$46,898	\$69,372	(\$22,474)
Fire Engine and Equipment		20,000	(20,000)
<u>Enterprise Fund:</u>			
OWDA Debt Service	22,924	34,444	(11,520)

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

1998 Fund Type/Fund	Appropriation Authority	Disbursements	Variance
General Fund	\$215,083	\$237,644	(\$22,561)
<u>Special Revenue Funds:</u>			
Street Maintenance and Repair	49,476	52,621	(3,145)
Issue I	58,500	66,363	(7,863)
OLEBG Overtime	5,021	5,567	(546)
<u>Enterprise Fund:</u>			
Water Line Extension	610,072	1,004,491	(394,419)
Water District 7	10,000	15,306	(5,306)

B. The following funds had deficit fund balances in violation of the Ohio Revised Code:

<u>1999 - Fund Type / Fund</u>	<u>Deficit</u>
<u>Special Revenue Funds:</u>	
Street Maintenance	\$34,426
Cops Grant	95,049
Fire Engine and Equipment	10,000
<u>Enterprise Fund:</u>	
Water District 7	4,579

<u>1998 - Fund Type / Fund</u>	<u>Deficit</u>
<u>Special Revenue Funds:</u>	
OLEBG Overtime	\$544
Cops Grant	25,084
<u>Enterprise Fund:</u>	
Water District 7	4,579

5. 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 payment, 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.

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

6. DEBT

Debt outstanding at December 31, 1999 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$191,977	7.36%
Special Assessment Bonds	101,000	7.75%
General Obligation Bonds	525,000	4.35 & 5.00
General Obligation Notes	11,505	6.00%
Total	<u>\$829,482</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 \$258,696. The loan will be repaid in semiannual installments of \$11,462, including interest, over twenty-five year period. The first semi-annual installment was made January 1, 1989.

The special assessment bonds relate to a water line extension project. The bonds were issued in 1988, in the amount of \$245,485, and will be paid 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. 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. Both notes were issued in 1999.

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

Year ending December 31:	OWDA Loan	Special Assessment Bonds	General Obligation Bonds	General Obligation Notes
2000	\$22,924	\$19,828	\$39,950	\$5,664
2001	22,924	18,897	39,298	5,664
2002	22,924	17,968	43,645	944
2003	22,924	18,037	42,775	
2004	22,924	17,030	41,905	
Subsequent	194,854	45,045	627,757	
Total	<u>\$309,474</u>	<u>\$136,805</u>	<u>\$835,330</u>	<u>\$12,272</u>

7. RETIREMENT SYSTEMS

The Village's law enforcement officers and firefighters belong to the Police and Firemen's Disability and Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

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 1999 and 1998, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1999.

8. RISK MANAGEMENT

The Village is a member of the Ohio Municipal League Joint Self Insurance Pool (the Pool). The Pool assumes the risk of loss up to the limits of the Village's policy. The Pool may assess supplemental premiums. The following risks are covered by the Pool:

- General liability and casualty
- Public officials' liability
- Vehicles

The Village also provides health insurance coverage to full-time employees through a private carrier.

9. CHANGE IN ACCOUNTING PRINCIPLE

As of January 1, 1998, the Village changed the fund type classification for two funds. The Village previously had an internal service fund to account for funds received from another government for a fire service contract that they feel is more appropriately classified as two special revenue funds. One fund is for fire department operations and one fund is for vehicles and equipment. Also, a special assessment bond retirement fund was reclassified from enterprise to debt service because the enterprise fund does not manage the collection of the special assessments.

These changes required that adjustments be made to the December 31, 1997, fund cash balances as previously reported to reflect the prior year's effect of adopting this change.

<u>Fund Changed: (From) / To</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Internal Service</u>
Fire Department	\$29,641			(\$29,641)
Fire Engine and Equipment	10,000			(10,000)
Special Assessment Bond Ret.		\$2,502	(\$2,502)	
Total Fund Type Adjustments	39,641	2,502	(2,502)	(39,641)
 <u>Previously Stated Balances:</u>				
December 31, 1997	<u>31,734</u>	<u> </u>	<u>733,757</u>	<u>39,641</u>
 <u>Restated Balances:</u>				
January 1, 1998	<u>\$71,375</u>	<u>\$2,502</u>	<u>\$731,255</u>	<u> </u>



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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, Ottawa County, Ohio, (the Village) as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated October 30, 2000, in which we noted that the Village changed the fund type classification for an internal service fund and an enterprise bond retirement fund. We conducted our audits in accordance with generally accepted auditing standards 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 audits 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 1999-30162-001 through 1999-30162-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 30, 2000.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 a 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 1999-30162-004.

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 October 30, 2000.

This report is intended 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.

Jim Petro
Auditor of State

October 30, 2000

**VILLAGE OF MARBLEHEAD
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1999-30162-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that no orders or contracts involving the expenditure of money is to be made unless there is attached thereto a certificate of the fiscal officer certifying 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. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirement:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within thirty days from the receipt of such certificate, if such certificate is otherwise valid.

- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Village Council.

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

We recommend that 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.

FINDING NUMBER 1999-30162-002

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. As of December 31, 1999 and 1998, the following funds had expenditures plus encumbrances in excess of appropriations:

**FINDING NUMBER 1999-30162-002
 (Continued)**

<u>1999- Fund Type / Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
<u>Special Revenue Funds:</u>			
Street Maintenance and Repair	\$46,898	\$69,372	(\$22,474)
Fire Engine and Equipment		20,000	(20,000)
<u>Enterprise Fund:</u>			
OWDA Debt Service	22,924	34,444	(11,520)

<u>1998 - Fund Type/Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	\$215,083	\$237,644	(\$22,561)
<u>Special Revenue Funds:</u>			
Street Maintenance and Repair	49,476	52,621	(3,145)
Issue I	58,500	66,363	(7,863)
OLEBG Overtime	5,021	5,567	(546)
<u>Enterprise Fund:</u>			
Water Line Extension	610,072	1,004,491	(394,419)
Water District 7	10,000	15,306	(5,306)

The failure to limit spending to only those amounts approved by the Village Council could allow expenditures to exceed available resources and thus create deficit fund balances. The Village should monitor the budget to ensure that all expenditures (and encumbrances) are within appropriations.

FINDING NUMBER 1999-30162-003

Noncompliance Citation

Ohio Revised Code § 5705.10 states that money paid into any fund shall be used only for the purpose for which such fund is established. As of December 31, 1999 and 1998, the following funds had deficit balances:

<u>1999 - Fund Type / Fund</u>	<u>Deficit</u>
<u>Special Revenue Funds:</u>	
Street Maintenance	\$34,426
Cops Grant	95,049
Fire Engine and Equipment	10,000
<u>Enterprise Fund:</u>	
Water District 7	4,579

FINDING NUMBER 1999-30162-003
(Continued)

<u>1998 - Fund Type / Fund</u>	<u>Deficit</u>
<u>Special Revenue Funds:</u>	
OLEBG Overtime	\$544
Cops Grant	25,084
<u>Enterprise Fund:</u>	
Water District 7	4,579

Deficit balances indicate that money from other funds have been used to pay the obligations of such funds. Management was informed that advances can be made to the funds to cover expenditures until the actual monies are received.

FINDING NUMBER 1999-30162-004

Reportable Condition

Monitoring Operations - the Village had three different individuals that occupied the position of clerk during our audit period. During some intervals, the records were extremely unorganized, some were not located and copies had to be obtained from other sources. Some agency and withholding reports were not filed on time or were inaccurate. In addition, the Village Council hired the Local Government Services Division of the Auditor of State's Office to reconstruct and reconcile the financial records for 1998 and 1999 due to the poor condition of records which made the completion of the annual reports difficult.

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. Examples of monitoring controls over the finance function could include, but not necessarily limited to:

- 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 supporting documents
- Verify that payroll reports are being submitted on a timely basis to the various agencies. The reports should be traced to supporting payroll records.
- Verify that grant records are kept up -to-date and are accurate. This would include verifying timely and accurate filling of reports with grantor agencies.
- Verify that records for construction projects are kept up-to-date and are accurate.
- Encourage clerks to review and become familiar with the Auditor of State Village Handbook. The handbook includes a calendar of various reports indicating required filing dates.



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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
NOVEMBER 16, 2000**