

VILLAGE OF MIDDLEFIELD

AUDIT REPORT

For the Year Ended December 31, 2003

Charles E. Harris and Associates, Inc.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

Members of Village Council
Village of Middlefield
14860 N. State Avenue
Middlefield, Ohio 44062

We have reviewed the *Report of Independent Accountants* of the Village of Middlefield, Geauga County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2003 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Middlefield is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 23, 2005

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VILLAGE OF MIDDLEFIELD
Audit Report
For the year ended December 31, 2003

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Charles E. Harris & Associates, Inc.
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REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Mayor and Members
of Village Council
Village of Middlefield
Middlefield, Ohio

We have audited the accompanying financial statements of the Village of Middlefield (the Village), as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides 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 cash balances and reserves for encumbrances of the Village as of December 31, 2003 and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 8, 2005 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Charles E. Harris & Associates, Inc.
April 8, 2005

**VILLAGE OF MIDDLEFIELD
 GEAUGA COUNTY, OHIO
 COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND
 CASH BALANCES - ALL FUND TYPES
 As of December 31, 2003**

	<u>2003 Balance</u>
Cash and Investments	\$ <u>5,884,525</u>
Total	\$ <u><u>5,884,525</u></u>

CASH BALANCES BY FUND CLASS

Governmental Fund Types:

General Fund	\$ 156,828
Special Revenue	2,134,499
Debt Service Fund	1,358,014
Capital Projects Fund	<u>693,358</u>
	4,342,699

Fiduciary Fund Type:

Expendable Trust Fund	86,889
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Proprietary Funds:

Enterprise fund	<u>1,454,937</u>
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Total	\$ <u><u>5,884,525</u></u>
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See accompanying Notes to the Financial Statements.

VILLAGE OF MIDDLEFIELD
GEAUGA COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types and Similar Fiduciary Funds
For the Year Ended December 31, 2003

	Government Fund Types				Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust Fund	
Receipts:						
Charges for Services	\$ 54,459	\$ 49,868	\$ -	\$ -	\$ -	\$ 104,327
Taxes	372,900	2,569,045	-	-	-	2,941,945
Intergovernmental	143,145	80,905	-	355,740	-	579,790
Licenses, Permits, and Fees	49,849	-	-	-	-	49,849
Earnings on Investments	86,688	8,652	18,064	-	19	113,423
Other Revenue	14,704	95,389	-	60,093	-	170,186
Total Receipts	721,745	2,803,859	18,064	415,833	19	3,959,520
Disbursements:						
Current:						
General Government	274,132	484,789	-	-	-	758,921
Public Safety	824,272	103,837	-	-	1,909	930,018
Health	-	232,613	-	-	-	232,613
Leisure Time Activities	46,897	119,214	-	-	-	166,111
Community Environment	69,091	86,164	-	-	-	155,255
Basic Utility Services	21,751	-	-	51,077	-	72,828
Transportation	15,030	223,666	-	64,401	11,609	314,706
Capital Outlay	-	2,609,165	-	265,342	-	2,874,507
Redemption of Principal	-	-	2,809,950	28,842	-	2,838,792
Interest and other Fiscal Charges	-	-	60,050	-	-	60,050
Total Disbursements	1,251,173	3,859,448	2,870,000	409,662	13,518	8,403,801
Total Receipts Over/(Under)						
Disbursements	(529,428)	(1,055,589)	(2,851,936)	6,171	(13,499)	(4,444,281)
Other Financing Sources/(Uses):						
Proceeds of Loan	-	-	1,400,000	-	-	1,400,000
Transfers-In	600,000	228,167	-	108,659	16,500	953,326
Transfers-Out	(49,895)	(890,000)	-	-	-	(939,895)
Total Other Financing Sources/(Uses)	550,105	(661,833)	1,400,000	108,659	16,500	1,413,431
Excess of Receipts & Other Financing Sources Over/						
(Under) Disbursements & Other Financing Uses	20,677	(1,717,422)	(1,451,936)	114,830	3,001	(3,030,850)
Fund Cash Balance, January 1	136,151	3,851,921	2,809,950	578,528	83,888	7,460,438
Fund Cash Balance, December 31	\$ 156,828	\$ 2,134,499	\$ 1,358,014	\$ 693,358	\$ 86,889	\$ 4,429,588
Reserve for Encumbrances, December 31	\$ -	\$ 977,034	-	-	-	\$ 977,034

See accompanying Notes to the Financial Statements.

**VILLAGE OF MIDDLEFIELD
 GEAUGA COUNTY, OHIO
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN FUND CASH BALANCES
 Proprietary Fund Types
 For the Year Ended December 31, 2003**

		<u>Enterprise Fund</u>
Operating Receipts:		
Charges for Services	\$	677,484
Miscellaneous		53,682
		<hr/>
Total Operating Receipts		731,166
 Operating Disbursements:		
Personal Service		345,026
Travel Transportation		333
Contractual Services		258,877
Supplies & Materials		109,151
Capital Outlay		156,584
		<hr/>
Total Operating Disbursements		869,971
 Operating Income/ (Loss)		(138,805)
 Non-Operating Receipts/Disbursements		
Miscellaneous - Debt Service		(16,480)
		<hr/>
Total Non-Operating Receipts/(Disbursements)		(16,480)
 Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers		(155,285)
 Transfers-In		100,022
Transfers-Out		(113,453)
		<hr/>
Net Receipts Over/(Under) Disbursements		(168,716)
 Fund Balance, January 1		1,623,653
		<hr/>
Fund Balance, December 31	\$	1,454,937
		<hr/> <hr/>
Reserve for Encumbrances, December 31	\$	3,032
		<hr/> <hr/>

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Middlefield is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government. Elected officials include six council members, a clerk/treasurer, and a mayor. The Village provides various services including police protection, public recreation, and general administrative 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 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.

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

D. FUND ACCOUNTING

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

1. General Fund

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

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2003

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

D. **FUND ACCOUNTING** - (continued)

2. **Special Revenue Funds**

To account for the proceeds of specific revenue sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes). The Village had the following significant special revenue fund:

Income Tax Fund – This fund is used to account for the revenue raised by the Village Income Tax.

3. **Debt Service Fund**

This fund is used to account for the accumulation of resources for, and the payment of, general long term and special assessment debt principal and interest.

4. **Capital Projects 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 fund:

Utilities Capital Improvement Fund - This fund is used to record the impact of new construction on the utilities. The expenditures are used for utility infrastructure.

5. **Enterprise Funds**

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprise – where the intent of the governing body is that the costs of providing goods or services to the general public on continuing basis be financed or recovered primarily through user charges; or, where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose. The Village had the following significant Enterprise Funds:

Water Fund – This fund is used to record user charges for the costs of providing water services to Village residents and businesses.

Sewer Fund – This fund is used to record user charges for the costs of providing sanitary sewer services to Village residents and businesses.

6. **Fiduciary Funds**

Funds for which the Village is acting in an agency capacity are classified as agency funds. Expendable Trust Funds are those in which principal and income may be expended in the course of their designated operations.

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2003

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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered 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 2003 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, 2003 was as follows:

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2003

2. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

	2003
Demand Deposit	\$ 181,565
Certificates of Deposit	2,123,920
STAR Ohio	3,579,040
 Total deposits and investments	 \$ 5,884,525

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation; (2) collateralized by the financial institution's public entity deposit pool.

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 year ending December 31, 2003 is as follows:

2003 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,294,062	\$ 1,321,745	\$ 27,683
Special Revenue	2,928,487	3,032,026	103,539
Debt Service	12,000	1,418,064	1,406,064
Capital Projects	545,000	524,492	(20,508)
Enterprise	771,126	831,188	60,062
Expendable Trust	10,040	16,519	6,479
 Total	 \$ 5,560,715	 \$ 7,144,034	 \$ 1,583,319

2003 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,418,628	\$ 1,301,068	\$ 117,560
Special Revenue	6,735,067	5,726,482	1,008,585
Debt Service	2,800,000	2,870,000	(70,000)
Capital Projects	891,893	409,662	482,231
Enterprise	1,741,965	1,002,936	739,029
Expendable Trust	21,639	13,518	8,121
 Total	 \$ 13,609,192	 \$ 11,323,666	 \$ 2,285,526

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2003

4. PROPERTY TAX

Real property becomes 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 on the property owners, who must file a list of such property to the County by each April 30.

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

5. LOCAL INCOME TAX

This locally levied tax of one percent (1%) is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village of Middlefield and to earnings of non-residents (except certain transients) earned in the village. It also applies to net income of business organizations conducted within the Village of Middlefield. Tax receipts are credited to the Income Tax Special Revenue Fund and amounted to \$2,409,511 in 2003.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rates</u>
MW Bypass Bond Anticipation Note 03	\$ 1,400,000	2%
Ohio Public Works Commission Loans	<u>271,938</u>	0%
Total	<u>\$ 1,671,938</u>	

The Ohio Public Works Commission Loans were used for improvements to the Village's water treatment and sewer treatment systems. The loans will be paid from user charges.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2003

6. DEBT (continued)

Year Ending Dec. 31:	O.P.W.C Loans	MW Bypass Bond Anticipation Note 03
2004	\$ 45,322	\$ 1,428,000
2005	45,322	-
2006	37,080	-
2007	28,842	-
2008	28,842	-
2009-2013	86,530	-
Total	\$ 271,938	\$ 1,428,000

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OP&F and OPERS 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 2003, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants gross salaries in 2003. The Village has paid all contributions required through December 31, 2003.

8. RISK MANAGEMENT

The Village of Middlefield has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Public Officials Liability
- Law Enforcement Liability

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

All employees of the Village are covered by a blanket bond, while certain individuals in policy making roles are covered by a separate, higher limit bond coverage.

The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2003

9. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed, by the grantor cannot be determined at this time although the Village expects such amounts, if any, to be material.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Village of Middlefield
Middlefield, Ohio

We have audited the financial statements of the Village of Middlefield as and for the year ended December 31, 2003, and have issued our report thereon dated April 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Village in a separate letter dated April 8, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated April 8, 2005.

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

Charles E. Harris & Associates, Inc.
April 8, 2005

STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS

The prior audit report, for the period ending December 31, 2002, did not include material citations or recommendations.



**Auditor of State
Betty Montgomery**

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800-282-0370
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VILLAGE OF MIDDLEFIELD

GEAUGA 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
SEPTEMBER 6, 2005**