



**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**REGULAR AUDIT**

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



**Auditor of State  
Betty Montgomery**



VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY

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**Auditor of State  
Betty Montgomery**

Village of Marblehead  
Ottawa County  
513 West Main Street, P.O. Box 306  
Lakeside-Marblehead, Ohio 43440-0306

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005, interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

**Betty Montgomery**  
Auditor of State

October 26, 2006

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Marblehead  
Ottawa County  
513 West Main Street, P.O. Box 306  
Lakeside-Marblehead, Ohio 43440-0306

To the Village Council:

We have audited the accompanying financial statements of the Village of Marblehead, Ottawa County, (the Village) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004.

While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Betty Montgomery**  
Auditor of State

October 26, 2006

**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, 2005**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$351,141				\$351,141
Special Assessments			\$15,754		15,754
Intergovernmental Receipts	93,348	\$73,017		\$66,175	232,540
Charges for Services	24,187	133,000			157,187
Fines, Licenses, and Permits	7,194	13,550			20,744
Earnings on Investments	1,250	292			1,542
Miscellaneous	45,696	32,720		25	78,441
<b>Total Cash Receipts</b>	<u>522,816</u>	<u>252,579</u>	<u>15,754</u>	<u>66,200</u>	<u>857,349</u>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	241,942	136,268			378,210
Public Health Services	9,621				9,621
Leisure Time Activities	2,654				2,654
Community Environment		6,291			6,291
Transportation		87,330			87,330
General Government	155,227		150		155,377
Debt Service:					
Principal Payments			13,000		13,000
Interest Payments			3,023		3,023
Capital Outlay		272,045		258,923	530,968
<b>Total Cash Disbursements</b>	<u>409,444</u>	<u>501,934</u>	<u>16,173</u>	<u>258,923</u>	<u>1,186,474</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>113,372</u>	<u>(249,355)</u>	<u>(419)</u>	<u>(192,723)</u>	<u>(329,125)</u>
<b>Other Financing Receipts and (Disbursements):</b>					
Sale of Bonds or Notes		242,045		235,700	477,745
Sale of Fixed Asset	5,521				5,521
Transfers-In		28,000			28,000
Transfers-Out	(28,093)				(28,093)
Other Financing Uses	(12)				(12)
<b>Total Other Financing Receipts/(Disbursements)</b>	<u>(22,584)</u>	<u>270,045</u>		<u>235,700</u>	<u>483,161</u>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	90,788	20,690	(419)	42,977	154,036
<b>Fund Cash Balances, January 1</b>	<u>357,360</u>	<u>244,400</u>	<u>35,947</u>	<u>2,003</u>	<u>639,710</u>
<b>Fund Cash Balances, December 31</b>	<u><u>\$448,148</u></u>	<u><u>\$265,090</u></u>	<u><u>\$35,528</u></u>	<u><u>\$44,980</u></u>	<u><u>\$793,746</u></u>
Reserves for Encumbrances, December 31		<u><u>\$873</u></u>		<u><u>\$105,126</u></u>	<u><u>\$105,999</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, 2005**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$464,430	\$1,000	\$465,430
<b>Operating Cash Disbursements:</b>			
Personal Services	138,008		138,008
Fringe Benefits	83,401		83,401
Contractual Services	85,883		85,883
Supplies and Materials	114,219		114,219
Miscellaneous		750	750
Capital Outlay	47,414		47,414
Total Operating Cash Disbursements	468,925	750	469,675
Operating Income/(Loss)	(4,495)	250	(4,245)
<b>Non-Operating Cash Receipts:</b>			
Special Assessments	26,815		26,815
Earnings on Investment	23		23
Total Non-Operating Cash Receipts	26,838		26,838
<b>Non-Operating Cash Disbursements:</b>			
Debt Service Redemption of Principal	32,098		32,098
Interest and Other Fiscal Charges	31,331		31,331
Total Non-Operating Cash Disbursements	63,429		63,429
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(41,086)	250	(40,836)
Transfers-In	22,487		22,487
Advances-In	20,000		20,000
Transfers-Out	(22,394)		(22,394)
Advances-Out	(20,000)		(20,000)
Net Receipts Over/(Under) Disbursements	(40,993)	250	(40,743)
Fund Cash Balances, January 1	158,292	2,400	160,692
<b>Fund Cash Balances, December 31</b>	<b><u>\$117,299</u></b>	<b><u>\$2,650</u></b>	<b><u>\$119,949</u></b>
Reserve for Encumbrances, December 31	<u>\$1,059</u>		<u>\$1,059</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, 2004**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$321,169				\$321,169
Special Assessments			\$16,744		16,744
Intergovernmental Receipts	96,507	\$71,820			168,327
Charges for Services	25,000	152,000			177,000
Fines, Licenses, and Permits	6,776	15,009			21,785
Earnings on Investments	1,011	149			1,160
Miscellaneous	54,916	2,888		\$1,665	59,469
<b>Total Cash Receipts</b>	<b>505,379</b>	<b>241,866</b>	<b>16,744</b>	<b>1,665</b>	<b>765,654</b>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	198,033	118,838			316,871
Public Health Services	7,685				7,685
Leisure Time Activities	2,262				2,262
Community Environment		6,125			6,125
Basic Utility Services		28,138			28,138
Transportation	70	80,755			80,825
General Government	154,988		165		155,153
Debt Service:					
Principal Payments	14,793		13,000		27,793
Interest Payments			4,030		4,030
Financing and Other Debt-Service Related					0
Capital Outlay		6,099		2,041	8,140
<b>Total Cash Disbursements</b>	<b>377,831</b>	<b>239,955</b>	<b>17,195</b>	<b>2,041</b>	<b>637,022</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>127,548</b>	<b>1,911</b>	<b>(451)</b>	<b>(376)</b>	<b>128,632</b>
<b>Other Financing Receipts and (Disbursements):</b>					
Sale of Fixed Assets	17,017				17,017
Transfers-In		46,000			46,000
Transfers-Out	(46,158)				(46,158)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(29,141)</b>	<b>46,000</b>			<b>16,859</b>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	98,407	47,911	(451)	(376)	145,491
Fund Cash Balances, January 1	258,953	196,489	36,398	2,379	494,219
<b>Fund Cash Balances, December 31</b>	<b>\$357,360</b>	<b>\$244,400</b>	<b>\$35,947</b>	<b>\$2,003</b>	<b>\$639,710</b>
Reserves for Encumbrances, December 31	\$19,447	\$447			\$19,894

*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, 2004**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$457,867	\$791	\$458,658
<b>Operating Cash Disbursements:</b>			
Personal Services	134,642		134,642
Fringe Benefits	86,042		86,042
Contractual Services	70,911		70,911
Supplies and Materials	56,491		56,491
Miscellaneous	0	800	800
Capital Outlay	8,126		8,126
Total Operating Cash Disbursements	356,212	800	357,012
Operating Income/(Loss)	101,655	(9)	101,646
<b>Non-Operating Cash Receipts:</b>			
Other Non-Operating Receipts	28		28
<b>Non-Operating Cash Disbursements:</b>			
Debt Service Redemption of Principal	25,634		25,634
Interest and Other Fiscal Charges	27,449		27,449
Total Non-Operating Cash Disbursements	53,083		53,083
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	48,600	(9)	48,591
Transfers-In	11,335		11,335
Transfers-Out	(11,177)		(11,177)
Net Receipts Over/(Under) Disbursements	48,758	(9)	48,749
Fund Cash Balances, January 1	109,534	2,409	111,943
<b>Fund Cash Balances, December 31</b>	<b>\$158,292</b>	<b>\$2,400</b>	<b>\$160,692</b>
Reserve for Encumbrances, December 31	\$10,042		\$10,042

*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, 2005 AND 2004**

**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 government services, including water utilities, park operations (leisure time activities), and police services (security of persons and property).

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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit at cost. STAR Ohio is recorded at share values the mutual fund reports.

**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 reports all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

These funds 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, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

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.

Fire Engine and Equipment Fund –This fund accounts for the fire and emergency medical service major equipment purchases. The primary source of revenue arises from loan proceeds.

**3. Debt Service Fund**

These funds account for resources the Village accumulates to pay bond and note debt. The Village had one debt service fund in which special assessment revenue was collected to repay special assessment projects.

**4. Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise funds). The Village had the following significant capital project funds:

Island View Bond Fund - This fund receives proceeds of notes for the purpose of improving Harsh Road and installing a six inch waterline.

Issue II Fund - This fund receives proceeds from Ohio Public Works Commission for engineering services for the waterline project.

**5. Enterprise Funds**

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

**6. Fiduciary Funds (Trust and Agency Funds)**

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund 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 one agency fund which is used to account for utility customer deposits.

**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**E. Budgetary Process**

The Ohio Revised Code requires that each fund except 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. Village 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 2005 and 2004 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2005	2004
Cash on Hand	\$400	\$400
Demand Deposits	900,563	752,292
Certificates of deposit	12,000	47,000
Total deposits	912,963	799,692
STAR Ohio	732	710
Total deposits and investments	\$913,695	\$800,402

**Deposits:** Deposits are 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, 2005, and December 31, 2004, follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$504,974	\$528,337	\$23,363
Special Revenue	251,789	522,624	270,835
Debt Service	16,744	15,754	(990)
Capital Projects	412,364	301,900	(110,464)
Enterprise	480,845	513,755	32,910
Fiduciary	800	1,000	200
Total	\$1,667,516	\$1,883,370	\$215,854

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$772,274	\$437,549	\$334,725
Special Revenue	495,465	502,807	(7,342)
Debt Service	16,351	16,173	178
Capital Projects	3,669	364,049	(360,380)
Enterprise	608,386	555,807	52,579
Fiduciary	3,200	750	2,450
Total	\$1,899,345	\$1,877,135	\$22,210

**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY – (Continued)**

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$550,284	\$522,396	(\$27,888)
Special Revenue	265,826	287,866	22,040
Debt Service	27,000	16,744	(10,256)
Capital Projects	4,020	1,665	(2,355)
Enterprise	380,056	469,230	89,174
Fiduciary	1,050	791	(259)
Total	\$1,228,236	\$1,298,692	\$70,456

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$574,579	\$443,436	\$131,143
Special Revenue	377,186	240,402	136,784
Debt Service	27,906	17,195	10,711
Capital Projects	4,034	2,041	1,993
Enterprise	463,452	430,514	32,938
Fiduciary	1,050	800	250
Total	\$1,448,207	\$1,134,388	\$313,819

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Fire Engine and Equipment fund by \$272,045, Island View Bond Fund by \$192,748, Issue II Grant Fund by \$171,301, and Waterline Extension Fund by \$13,037 for the year ended December 31, 2005.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**5. DEBT**

Debt outstanding at December 31, 2005, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$134,991	7.36%
Special Assessment Water Main Bond	26,000	7.75%
General Obligation Bond	415,000	0%
Bond Anticipation Note	235,700	3.30%
Fire Truck Loan	242,045	5.25%
Total	<u>\$1,053,736</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.

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.

Bond anticipation note was issued in anticipation of bonds for the purpose of improving Harsh Road and installing a six inch waterline. The notes were issued in 2005 and are due August 3, 2006.

The fire truck loan relates to the purchase of a fire truck. It consists of a \$242,045 loan being paid over a five year period.

The Village's taxing authority collateralizes General Obligation Bonds.

**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY – (Continued)**

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	Special Assessment Bonds	General Obligation Bonds	General Obligation Notes	Fire Truck Loan
2006	\$22,924	\$15,015	\$40,165	\$243,457	\$62,352
2007	22,924	14,008	39,095		58,716
2008	22,924		43,425		56,160
2009	22,923		42,318		53,563
2010	22,924		41,250		50,986
2011 - 2015	68,770		210,800		
2016 - 2019			169,250		
Total	<u>\$183,389</u>	<u>\$29,023</u>	<u>\$586,303</u>	<u>\$243,457</u>	<u>\$281,777</u>

**6. RETIREMENT SYSTEMS**

The Village's law enforcement officers and certified firefighters belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant and 24 percent of fire participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**7. RISK MANAGEMENT**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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 coverage 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.

**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**7. RISK MANAGEMENT – (Continued)**

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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 township.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004.

**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**7. RISK MANAGEMENT – (Continued)**

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately \$58,070.

**8. RELATED PARTY TRANSACTIONS**

A Village council member is owner of a store from which the Village acquired various hardware supplies during the year. The Village paid \$1,650 in 2004 and \$2,318 in 2005 for these items.

**9. SUBSEQUENT EVENTS**

On August 2, 2006, the Village issued a general obligation bond for \$265,000 at a variable interest rate from 4.1 to 5.25% interest for 20 years. The bond was to finance the Island View waterline project.

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Marblehead  
Ottawa County  
513 West Main Street, P.O. Box 306  
Lakeside-Marblehead, Ohio 43440-0306

To the Village Council:

We have audited the financial statements of the Village of Marblehead, Ottawa County (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated October 26, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated October 26, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompany schedule of findings as items 2005-001 and 2005-002. In a separate letter to the Village's management dated October 26, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and Village Council. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

October 26, 2006

**VILLAGE OF MARBLEHEAD  
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004**

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

**FINDING NUMBER 2005-001**

**Finding for Recovery**

Village of Marblehead Ordinance Numbers 1-2003 (1/9/2003) and 13-2004 (6/10/2004) established employee compensation. The Village of Marblehead Employee Handbook Section VII. Holiday Pay states in part that if it is necessary for an employee to work on a holiday, he shall be paid twice his regular rate of pay. Phillip Howell, police officer patrolman level two, should have received \$10.98 per hour or \$21.96 per hour for holiday pay. Due to an incorrect rate used for holiday pay for 12.5 hours, Mr. Howell was overpaid \$196.20. Mr. Howell's one year anniversary was on February 26, 2004, when he should have received a 25 cent an hour raise. Due to an error, this raise was not given to Mr. Howell. The result is an underpayment of \$66.69. The net of the errors in his compensation resulted in an overpayment of \$129.51.

In accordance with the foregoing facts and pursuant to O.R.C. §117.26, a finding for recovery for public money illegally expended is hereby issued against Phillip Howell, employee, and Elizabeth Voisard, former Fiscal Officer, and the Auto-Owners (Mutual) Insurance Company of Lansing Michigan, her bonding company, jointly and severally in the amount of \$129.51 and in favor of the Village of Marblehead's General Fund.

**Official's Response:**

The employee and official's acknowledge that a human error was made. Management is working with the employee to pay it back over several pay periods through a payroll deduction.

**FINDING NUMBER 2005-002**

**Noncompliance Citation**

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. Our testing of budgetary compliance at December 31, 2005 identified the following instances in which expenditures exceeded appropriations in the following funds at the legal level of control:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Fire Engine and Equipment Fund	40,000	312,045	(272,045)
Island View Bond Fund		192,748	(192,748)
Issue II Grant Fund		171,301	(171,301)
Waterline Extension	28,254	41,291	(13,037)

Management was advised that the failure to have adequate appropriations in place at the time of the expenditures are being made could result in expenditures to exceed available resources, further resulting in deficit spending practices.

**FINDING NUMBER 2005-002  
(Continued)**

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**Official's Response:**

We did not receive a response from officials to this finding.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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 30, 2006**