



**Auditor of State
Betty Montgomery**

VILLAGE OF MARSHALLVILLE
WAYNE COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Marshallville
Wayne County
7 North Main Street, P. O. Box 169
Marshallville, Ohio 44645

To the Village Council:

We have audited the accompanying financial statements of the Village of Marshallville, Wayne County, Ohio, (the Village) as of and for the years ended December 31, 2002 and 2001. 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.

The accompanying financial statements present receipts and disbursements by fund type totals only. Ohio Administrative Code Section 117-2-02(A) requires governments to classify receipt and disbursement transactions.

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, except for the omission of receipt and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2002 and 2001, and its combined unclassified cash receipts and unclassified cash disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2004 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.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 21, 2004

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Funds:	Balance 1/1/2002	Receipts	Disbursements	Balance 12/31/2002
General Fund	\$165,236	\$210,074	\$157,767	\$217,543
Special Revenue Funds:				
Income Tax	152,554	47,139	100,392	99,301
Street Construction, Maintenance and Repair	73,463	36,673	8,765	101,371
State Highway Improvement	31,935	3,313	0	35,248
Fire	32,141	21,005	6,174	46,972
Court Computer	10,539	2,255	9,314	3,480
Ambulance	8,187	5,267	422	13,032
Fire Equipment	29,765	0	23,137	6,628
Fire Levy	1,880	3,375	296	4,959
Total Special Revenue Funds	340,464	119,027	148,500	310,991
Capital Projects Fund	(34,316)	172,829	212,945	(74,432)
Enterprise Funds:				
Water	16,691	125,219	132,079	9,831
Sewer	19,917	75,563	81,686	13,794
Electric	183,394	532,222	504,439	211,177
Water Tap	15,838	3,000	0	18,838
Sewer Tap	24,712	3,000	0	27,712
Utility Deposits	18,497	4,655	3,454	19,698
Debt Service	18,918	27,070	27,750	18,238
Debt Service Reserve	30,000	0	0	30,000
Water Maintenance	33,294	21,865	44,553	10,606
Sewer Maintenance	141,765	19,260	4,614	156,411
Total Enterprise Funds	503,026	811,854	798,575	516,305
Expendable Trust Fund:				
Klusch	0	160,000	24,981	135,019
Agency Fund:				
Mayor's Court	0	19,823	19,823	0
Total All Funds	\$974,410	\$1,493,607	\$1,362,591	\$1,105,426

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

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

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

Funds:	Balance 1/1/2001	Receipts	Disbursements	Balance 12/31/2001
General Fund	\$24,741	\$244,583	\$104,088	\$165,236
Special Revenue Funds:				
Income Tax	263,740	47,690	158,876	152,554
Street Construction, Maintenance and Repair	69,966	34,838	31,341	73,463
State Highway Improvement	29,439	2,996	500	31,935
Fire	18,284	32,016	18,159	32,141
Court Computer	9,271	4,510	3,242	10,539
Ambulance	12,655	1,727	6,195	8,187
Fire Equipment	29,765	0	0	29,765
Fire Levy	2,500	3,463	4,083	1,880
Total Special Revenue Funds	435,620	127,240	222,396	340,464
Capital Projects Fund	13,234	120,750	168,300	(34,316)
Enterprise Funds:				
Water	31,068	512,652	527,029	16,691
Sewer	38,813	69,162	88,058	19,917
Electric	199,835	495,257	511,698	183,394
Water Tap	15,348	490	0	15,838
Sewer Tap	24,842	500	630	24,712
Utility Deposits	18,664	3,950	4,117	18,497
Debt Service	25,889	26,203	33,174	18,918
Debt Service Reserve	30,000	0	0	30,000
Water Maintenance	34,600	21,705	23,011	33,294
Sewer Maintenance	124,210	20,321	2,766	141,765
Total Enterprise Funds	543,269	1,150,240	1,190,483	503,026
Agency Fund:				
Mayor's Court	0	41,595	41,595	0
Total All Funds	\$1,016,864	\$1,684,408	\$1,726,862	\$974,410

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

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Marshallville, Wayne County, Ohio, (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 electric, water and sewer utilities; park operations (leisure time activities); and fire, police and ambulance 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).

The Village did not classify its receipts or disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-2-02(A), which requires classifying receipts and disbursements.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund 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 Funds

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 has the following significant Special Revenue Fund:

Income Tax Fund - This fund is used to record the collection of self assessed taxes, the cost of collecting such taxes and the distribution to various other funds in accordance with Village ordinances.

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Projects Fund

This fund is 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 has the following Capital Projects Fund:

Capital Improvement Fund - This fund receives Issue II monies for the payment of capital improvements for the Village.

4. 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 has the following significant Enterprise Funds:

Electric Fund - This fund receives charges for services from residents to cover the cost of providing electric service.

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

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing sewer service.

5. Fiduciary Fund (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Klusch Fund – This fund received money from the John and Roene A. Klusch Trust to be used for specific improvement projects within the Village.

Mayor's Court Fund - This fund receives fine monies and distributes them to the General and Court Computerization Special Revenue Funds along with payments to the State for their share of the fines.

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 level of control and appropriations may not exceed estimated resources. The Village Council must annually approve the appropriation measure and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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. The Village did not use the encumbrance method of accounting.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH

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

	<u>2002</u>	<u>2001</u>
Demand deposits	\$940,216	\$812,790
Certificates of deposit	<u>165,210</u>	<u>161,620</u>
Total deposits	<u>\$1,105,426</u>	<u>\$974,410</u>

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH (Continued)

Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$116,000	\$210,074	\$94,074
Special Revenue	126,200	119,027	(7,173)
Capital Projects	7,500	172,829	165,329
Enterprise	743,200	811,854	68,654
Expendable Trust	0	160,000	160,000
Total	\$992,900	\$1,473,784	\$480,884

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$106,370	\$157,767	(\$51,397)
Special Revenue	120,015	148,500	(28,485)
Capital Projects	0	212,945	(212,945)
Enterprise	804,065	798,575	5,490
Expendable Trust	0	24,981	(24,981)
Total	\$1,030,450	\$1,342,768	(\$312,318)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$123,640	\$244,583	\$120,943
Special Revenue	116,300	127,240	10,940
Capital Projects	15,000	120,750	105,750
Enterprise	838,100	1,150,240	312,140
Total	\$1,093,040	\$1,642,813	\$549,773

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$101,140	\$104,088	(\$2,948)
Special Revenue	123,225	222,396	(99,171)
Capital Projects	0	168,300	(168,300)
Enterprise	802,800	1,190,483	(387,683)
Total	\$1,027,165	\$1,685,267	(\$658,102)

4. NONCOMPLIANCE

Contrary to Ohio Rev. Code Section 733.28, Ohio Admin. Codes 117-2-02(A) and 117-9-01, the Village Clerk-Treasurer did not maintain the books of the Village nor exhibit accurate statements of all monies received and expended.

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for certain expenditures during 2002 and 2001.

Contrary to Ohio Rev. Code Section 5705.09, an Issue II fund was not established to account for these funds.

Contrary to Ohio Rev. Code Section 5705.41(B), expenditures exceeded appropriations at December 31, 2002 in the general fund, income tax fund, fire equipment fund, mayor's court computer fund, capital improvement fund, electric fund, water fund, meter deposit fund, water maintenance fund, and Klusch fund. In addition, expenditures exceeded appropriations at December 31, 2001 in the general fund, income tax fund, fire levy fund, fire fund, ambulance fund, mayor's court computer fund, capital improvement fund, electric fund, sewer fund, water fund, meter deposit fund, and water maintenance fund.

Contrary to Ohio Rev. Code Section 5705.10, Capital Projects Fund had negative year-end fund balances for 2002 and 2001 and various receipts and expenditures were posted to the incorrect funds.

Contrary to Ohio Rev. Code Section 135.21 and Ohio Constitution, Article XII, Section 5a, interest income was improperly allocated to funds other than the funds required by law.

Contrary to various debt covenant requirements, the Village did not receive adequate revenues to meet the requirements of debt service and operation and maintenance expenses; the Village did not provide the lenders with annual reports of the operation and income of the utility together with an annual report of the accounts and operations of the utility; the Village did not establish a surplus revenue fund for the water utility; the Village did not deposit the remaining balance of the water utility each year into the surplus revenue fund since this fund was never established; the Village did not establish a separate bank account for the water utility; and the Village did not obtain a fidelity bond on the Clerk-Treasurer in an amount not less than \$60,000.

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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. 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.

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.

6. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

7. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan 2792	\$15,000	0.00%
Ohio Water Development Authority Loan 2791	7,500	0.00%
Ohio Water Development Authority Loan 3225	67,953	3.88%
Ohio Water Development Authority Loan 3405	82,189	2.00%
Ohio Public Works Commission CP002	128,853	0.00%
Ohio Public Works Commission CP17C	90,419	0.00%
Ohio Public Works Commission CP20D	134,608	0.00%
Waterworks System Mortgage Revenue Bonds 1982	345,000	5.00%
Waterworks System Mortgage Revenue Bonds 1986	54,700	5.00%
Waterworks System Mortgage Revenue Bonds 1986	<u>23,500</u>	7.125%
Total	<u><u>\$949,722</u></u>	

The Ohio Water Development Authority (OWDA) loans relate to water and sewage system improvement projects. Two loans (#2792 and #2791) were issued in 1996 for a total of \$75,000. The loans are being repaid in annual installments of \$7,500, without interest, over 10 years. One loan (#3225) was issued in 1999 for a total of \$72,994, to be repaid in semiannual installments of \$2,640, with 3.88% interest, over 20 years. One loan (#3405) was issued in 2001 for a total of \$87,750, to be repaid in semiannual installments of \$2,732, with 2.00% interest, over 20 years. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. Contrary to this requirement, sufficient rates were not set during 2002 and 2001. See finding number 2002-010. Expenses exceeded revenues by \$26,548 and \$15,193 at December 31, 2002 and 2001, respectively.

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

7. DEBT (Continued)

The Ohio Public Works Commission (OPWC) loans relate to a Sanitary Sewer Separation Project (#CP002) and Phases I and II of a Waterline Replacement Project (#CP17C and #CP20D). Loan #CP002 was issued in 1998 in the amount of \$166,262. The loan is being repaid in semiannual installments of \$4,157, without interest, over 20 years. Loan #CP17C was issued in 2000 in the amount of \$103,336. The loan is being repaid in semiannual installments of \$2,583, without interest, over 20 years. Loan #CP20D was issued in 2000 in the amount of \$145,522. The loan is being repaid in semiannual installments of \$3,638, without interest, over 20 years. These loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements. Contrary to this requirement, sufficient rates were not set during 2002 and 2001. See finding number 2002-010. Expenses exceeded revenues by \$26,548 and \$15,193 at December 31, 2002 and 2001, respectively.

The Waterworks System Mortgage Revenue Bonds relate to various water improvement projects. The 1982 issue was for the amount of \$466,400 for the construction of a new water plant. The 1986 issues were for the total amount of \$94,600 for improvements to the water plant. These Mortgage Revenue Bonds are being repaid in varying annual installments, including interest, over 40 years. These bonds are collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover the Mortgage Revenue Bond debt service requirements. Contrary to this requirement, sufficient rates were not set during 2002 and 2001. See finding number 2002-011. Expenses exceeded revenues by \$26,548 and \$15,193 at December 31, 2002 and 2001, respectively. As required by the mortgage revenue bond covenants, the Village has established and funded a debt service reserve fund, included as an enterprise fund. The balance in the fund at December 31, 2002 was \$30,000.

These covenant violations permit GMAC to (a) declare the entire principal amount outstanding and accrued interest immediately due and payable, (b) take possession of funds pledged and pay such expenses as required to cure the cause of default, (c) take possession of the facility, repair, maintain, and operate or rent it.

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

	OWDA Loans	OPWC Loans	Mortgage Revenue Bonds
Year ending December 31:			
2003	\$18,126	\$20,756	\$33,260
2004	18,126	20,756	33,771
2005	18,126	20,755	33,328
2006	10,626	20,756	33,672
2007	10,625	20,757	34,067
2008-2012	53,129	103,780	168,125
2013-2017	53,129	103,781	168,942
2018-2022	34,550	42,540	170,126
2023-2027			24,189
Total	<u>\$216,437</u>	<u>\$353,881</u>	<u>\$699,480</u>

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

8. RETIREMENT SYSTEM

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides 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 2002 and 2001, OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

9. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Village also provides health, vision and dental insurance to full-time employees through a private carrier.

10. RELATED PARTY TRANSACTIONS

The Board of Public Affairs (BPA) President is a supervisor for a company that contracted with Village Council to provide construction service for the Park Street Project in the amount of \$225,000. In 2002, the company received \$56,057 in payments from the Village.

The former BPA Clerk is the wife of the BPA President. She received \$13,668 and \$9,964 in total wages during 2002 and 2001, respectively, from the Village.

A cousin of the BPA President was employed by the Village to provide technical support over the operations of the Village water treatment plant and waste water plant, conduct lab testing and prepare monthly state reports. He received \$4,788 in total wages during 2001 from the Village.

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

10. RELATED PARTY TRANSACTIONS (Continued)

In October 2001, an uncle of the BPA President was employed by the Village to perform the duties of Utility Superintendent, Street Superintendent and Zoning Inspector. He received \$28,500 and \$6,266 in total wages during 2002 and 2001, respectively, from the Village.

In 2001, the Village entered into a contract with the brother of the Council President to provide maintenance and mowing services at the Village Park. He received \$4,365 in total wages from the Village during 2001.

In 2002, the Village entered into a contract with the father-in-law of a Council Member to provide maintenance services at the Village Park. He received \$1,500 in total wages from the Village during 2002.

In 2002, the husband of the Village Clerk-Treasurer and son of a Council Member was hired to set up and maintain the Village's web site. He received \$480 in total wages from the Village during 2002.

11. CONTRACTUAL COMMITMENTS

In November 2001, the Village contracted with Wenger Excavating in the amount of \$225,000 for the Park Street Project. As of December 31, 2002, the Village has made payments totaling \$56,057, leaving a balance of \$168,943.

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**Auditor of State
Betty Montgomery**

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

Village of Marshallville
Wayne County
7 North Main Street, P.O. Box 169
Marshallville, Ohio 44645

To the Village Council:

We have audited the accompanying financial statements of the Village of Marshallville, Wayne County, Ohio, (the Village) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated April 21, 2004, which was qualified since the Village did not classify receipts and disbursements in its financial statements. 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.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2002-001 through 2002-011.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated April 21, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-012 through 2002-014.

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, of the reportable conditions described above we consider items 2002-012 and 2002-013 to be material weaknesses.

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 April 21, 2004.

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.



Betty Montgomery
Auditor of State

April 21, 2004

VILLAGE OF MARSHALLVILLE
WAYNE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001

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

Material Noncompliance

FINDING NUMBER 2002-001

Ohio Rev. Code Section 733.28 requires the Village Clerk-Treasurer to maintain the books of the Village and exhibit accurate statements of all monies received and expended, of all the property owned by the Village and income derived therefrom, and of all taxes and assessments.

Ohio Admin. Code Section 117-2-02(A) requires all local public offices governments to enable the public office to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per Ohio Admin. Code Section 117-2-02(D), accounting records should include:

- Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
- Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

Ohio Admin. Code Section 117-9-01 provides that villages must maintain financial records on a fund basis. This code provides suggested account classifications. Village receipts may be classified by fund and source (taxes or charges for services, for example) and disbursements may be classified by fund and program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

In 2002, the Village's fiscal officer did not maintain a receipt ledger, appropriation ledger or cash journal. The Village did not classify receipt and disbursement transactions. The Village was therefore unable to monitor compliance with its appropriation resolution. The Village was also unable to classify receipts by source or disbursements by purpose for its 2002 annual report (which was never filed), contrary to Ohio Rev. Code Section 117.38 (see Finding 8). Although the Village maintained a receipt and appropriation ledger for 2001 and a cash journal through September 2001, numerous inaccuracies were noted including the following larger errors:

Receipts

- The Clerk-Treasurer recorded a \$62,500 Nature Grant as Income Tax revenue, thus, overstating Income Tax revenues and understating intergovernmental revenues.
- The Clerk-Treasurer recorded inheritance tax of \$16,933 to the local taxes line instead of state shared taxes.

Material Noncompliance (Continued)

FINDING NUMBER 2002-001 (Continued)

Expenditures

- The Clerk-Treasurer recorded Ohio Public Works Commission (OPWC) expenditures totaling \$111,136 for park improvements in the General Fund instead of the Capital Projects Fund
- The Clerk-Treasurer recorded Ohio Water Development Authority (OWDA) expenditures totaling \$87,131 for waterline improvements in the General Fund instead of the Water Fund.
- The Board of Public Affairs Clerk made an OWDA loan payment to another government entity in the amount of \$4,563. This money was later returned, however, it was recorded as revenue instead of a reduction of expenditure.

Ohio Public Works Commission

- The Clerk-Treasurer failed to record OPWC revenues and expenditures paid directly to the contractor in the amount of \$317,076 (\$171,554 in grants and \$145,522 in loans), thus, understating both revenues and expenditures in the Capital Projects Fund.

Furthermore, the financial activities of the Village and the Board of Public Affairs (BPA) are maintained separately throughout the year. The activity of the BPA is not accounted for on the Village's records until the end of the year when preparing their Cash Basis Annual Financial Report. In addition, the BPA Clerk maintains all payroll records and processes payroll for BPA employees. There were numerous errors and omissions in the utilities records throughout the audit period. There were periods throughout the audit period in which ledgers were not maintained accurately. For example, interbank transfers were originally recorded as revenues and expenditures. In addition, refunds of overpayments were recorded as revenues and expenditures and were not adjusted to reflect reduction of expenditures.

We recommend the Village maintain an accounting system and accounting records including the BPA. This would include a receipt ledger, appropriation ledger or cash journal. In addition, as chief fiscal officer, the Village Clerk-Treasurer is responsible for all financial activity of the Village, we recommend that the Village Clerk-Treasurer review the monthly reports and the bank reconciliations of the BPA.

Also, activity related to BPA accounts should be posted to the Village's records, at minimum, on a monthly basis. Furthermore, the BPA's bank accounts should become part of the overall depository balances of the Village and presented to Council for their monthly review, and the Village Clerk-Treasurer should process and record all cash disbursements, including payroll, currently being done by the BPA Clerk.

FINDING NUMBER 2002-002

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer. The fiscal officer must certify that the amount required to meet the same commitment has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every such contract made without such certificate should be null and void and no warrant shall be issued in payment of any amount due thereon.

Material Noncompliance (Continued)

FINDING NUMBER 2002-002 (Continued)

This section also provides two “exceptions” to the above requirements:

- 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, both at the time of the contract or order and at the time the certificate, appropriated and free of any previous 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 30 days from the receipt of such certificate.
- B) If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003), the Clerk-Treasurer may authorize it to be paid without the affirmation of the Village Council, if such expenditure is otherwise valid.

Of the transactions tested during the audit period, 98% were not certified by the Clerk-Treasurer prior to incurring the obligation. In addition, neither of the two exceptions above was utilized for the items found to be in noncompliance.

In addition, expenditure transactions of the Board of Public Affairs (BPA) were certified by the BPA Clerk rather than the Village Clerk-Treasurer. As chief fiscal officer of the Village, only the Village Clerk-Treasurer has the authority to certify the availability of funds for all expenditures of the Village.

The Village should certify the availability of expenditures and also implement the use of Then and Now Certificates or Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

FINDING NUMBER 2002-003

Ohio Rev. Code Section 5705.09 requires each subdivision to establish a special fund for each class of revenue derived from a source other than general property tax, which the law requires to be used for a particular purpose.

During 2001 and 2002, the Clerk-Treasurer did not establish an Issue II Fund to record Issue II grant and loan monies and subsequent expenditures from the Ohio Public Works Commission totaling \$317,076 (\$171,554 grants and \$145,522 loans) and \$140,329 (grants), respectively. As a result, receipts and expenditures were initially understated. The financial statements have been adjusted to reflect these receipts and expenditures.

The Clerk-Treasurer should create an Issue II fund and record Issue II monies as a receipt and expenditure. In addition, the Clerk-Treasurer should record its debt receipts as proceeds of loans. This will help ensure receipts and expenditures are not misstated. The Village should refer to Auditor of State Bulletins 2000-008 and 2002-004 for further guidance.

Material Noncompliance (Continued)

FINDING NUMBER 2002-004

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been properly appropriated.

Village expenditures exceeded appropriations at the fund level in the following instances at December 31:

	2002		
<u>Fund Type – Fund</u>	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General Fund	\$106,370	\$157,767	\$51,397
Special Revenue – Income Tax Fund	37,915	100,392	62,477
Special Revenue – Fire Equipment Fund	5,000	23,137	18,137
Special Revenue – Mayor’s Court			
Computer Fund	0	9,314	9,314
Capital Projects – Capital Improvement Fund	0	212,945	212,945
Enterprise – Electric Fund	476,000	504,439	28,439
Enterprise – Water Fund	124,065	132,079	8,014
Enterprise – Meter Deposit Fund	2,000	3,454	1,454
Enterprise - Water Maintenance Fund	18,000	44,553	26,553
Expendable Trust – Klusch Fund	0	24,981	24,981

	2001		
<u>Fund Type – Fund</u>	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General Fund	\$101,140	\$104,088	\$2,948
Special Revenue – Ambulance Fund	31,925	158,876	126,951
Special Revenue – Income Tax Fund	3,300	4,083	783
Special Revenue - Fire Fund	18,000	18,159	159
Special Revenue – Ambulance Fund	3,000	6,195	3,195
Special Revenue – Mayor’s Court			
Computer Fund	3,000	3,242	242
Capital Projects -			
Capital Improvement Fund	0	168,300	168,300
Enterprise – Electric Fund	454,100	511,698	57,598
Enterprise – Sewer Fund	87,300	88,058	758
Enterprise – Water Fund	113,400	527,029	413,629
Enterprise – Meter Deposit Fund	2,000	4,117	2,117
Enterprise - Water Maintenance Fund	10,000	23,011	13,011

In addition, the Village Clerk-Treasurer did not maintain an appropriations ledger for all of 2002 and part of 2001. The Clerk-Treasurer should maintain an appropriation ledger and frequently compare actual expenditures plus outstanding encumbrances to appropriations at the legal level of control (fund level) to avoid potential overspending. In addition, the Clerk-Treasurer should periodically review the Village’s Appropriations Reports to ensure appropriation amounts are posted accurately and timely.

Material Noncompliance (Continued)

FINDING NUMBER 2002-005

Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which such fund is established. As a result, a negative cash fund balance is an indication that revenues from one fund were used to pay the obligations of another fund.

The Village had negative fund cash balances in the Capital Projects Fund of \$74,432 in 2002 and \$34,316 in 2001.

Negative cash fund balances are an indication that revenues from other sources were used to pay obligations of the Capital Projects Fund. Additionally, any money spent for purposes other than specified in grant agreements could result in the loss of future grant awards.

In addition, during our audit, we noted the following:

- In 2001, the Village posted interest earnings totaling \$13,435 to various Special Revenue Funds, Enterprise Funds and the Capital Projects Fund. These revenues should have been allocated to the General Fund. In 2002, the Village posted interest earnings totaling \$8,651 to all Enterprise Funds. These revenues should have been allocated to the General Fund, Street Construction Maintenance and Repair (SCMR) Special Revenue Fund and State Highway Improvement Special Revenue Fund. The interest allocation for both years is summarized in Finding Number 2002-009 as well as being included with the adjustments in the table below.
- In 2001, the Village posted revenues totaling \$65,048 to the General Fund that should have been posted to several other Village funds. We also noted park project expenditures of \$111,136 and waterline expenditures of \$87,131 which were posted to the General Fund which should have been posted to the Capital Projects Fund and Water Enterprise Fund, respectively. In addition, the Village recorded a \$13,000 check, from the Board of Public Affairs which was sent back, twice as a receipt and expenditure in the General Fund.
- In 2001, the Village received \$62,500 for a park project grant which was posted to the Income Tax Fund instead of the Capital Projects Fund.
- In 2002, the Village posted revenues totaling \$286,527 to the General Fund that should have been posted to several other Village funds. We also noted park project expenditures of \$60,141 posted to the General Fund which should have been posted to the Capital Projects Fund.
- In 2002, the Village posted \$23,137 in expenditures to the Fire Levy Fund for the purchase of fire equipment. This should have been posted to the Fire Equipment Fund.
- In 2002, the Village approved a transfer of \$100,000 from the Income Tax Fund to the General Fund \$75,000 and Capital Projects \$25,000; however, this transfer was not posted to the Village's ledgers. Also, a transfer from the Water Fund to the Enterprise Debt Service Fund of \$27,750 to retire debt was not posted to the Village's ledger.

As a result, we determined that the following fund balance adjustments are required at December 31, 2002 and 2001 to properly record these receipts and expenditures in the appropriate funds:

Material Noncompliance (Continued)

FINDING NUMBER 2002-005 (Continued)

Fund	Balance 12/31/01	Fund Balance Increase	Fund Balance Decrease	Net Adjustment	Adjusted Balance 12/31/01
General	\$5,580	\$224,704	(\$65,048)	\$159,656	\$165,236
Income Tax	199,576	16,543	(63,565)	(47,022)	152,554
SCMR	62,152	11,311		11,311	73,463
State Highway	30,994	941		941	31,935
Fire	15,967	16,317	(143)	16,174	32,141
Court Computer	6,067	4,510	(38)	4,472	10,539
Ambulance	7,559	702	(74)	628	8,187
Fire Levy	183	1,725	(28)	1,697	1,880
Capital Projects	14,370	62,500	(111,186)	(48,686)	(34,316)
Water	106,997		(90,306)	(90,306)	16,691
Sewer	20,495		(578)	(578)	19,917
Electric	187,169		(3,775)	(3,775)	183,394
Water Tap	16,159		(321)	(321)	15,838
Sewer Tap	25,143		(431)	(431)	24,712
Utility Deposits	18,844		(347)	(347)	18,497
Debt Service	19,915		(997)	(997)	18,918
Water Maintenance	33,943		(649)	(649)	33,294
Sewer Maintenance	143,532		(1,767)	(1,767)	141,765
Total		\$339,253	(\$339,253)	\$0	

Fund	Balance 12/31/02	Fund Balance Increase	Fund Balance Decrease	2001 Adjustments	Net Adjustment	Adjusted Balance 12/31/02
General	\$200,621	\$143,794	(\$286,528)	\$159,656	\$16,922	\$217,543
Income Tax	199,185	47,138	(100,000)	(47,022)	(99,884)	99,301
SCMR	53,387	36,673		11,311	47,984	101,371
State Highway	30,994	3,313		941	4,254	35,248
Fire	9,793	21,005		16,174	37,179	46,972
Court Computer	(3,247)	2,255		4,472	6,727	3,480
Ambulance	7,137	5,267		628	5,895	13,032
Fire Equipment	29,765		(23,137)		(23,137)	6,628
Fire Levy	(23,250)	26,512		1,697	28,209	4,959
Capital Projects	1,895	32,500	(60,141)	(48,686)	(76,327)	(74,432)
Water	130,405		(30,268)	(90,306)	(120,574)	9,831
Sewer	14,738		(366)	(578)	(944)	13,794
Electric	217,625		(2,673)	(3,775)	(6,448)	211,177
Water Tap	19,331		(172)	(321)	(493)	18,838
Sewer Tap	28,394		(251)	(431)	(682)	27,712
Utility Deposits	20,229		(184)	(347)	(531)	19,698
Debt Service	(7,821)	27,750	(694)	(997)	26,059	18,238
Water Maintenance	11,565		(310)	(649)	(959)	10,606
Sewer Maintenance	159,661		(1,483)	(1,767)	(3,250)	156,411
Klusch	(24,981)	160,000			160,000	135,019
Total		\$506,207	(\$506,207)	\$0	\$0	

Material Noncompliance (Continued)

FINDING NUMBER 2002-005 (Continued)

The Village made the necessary adjustments to correct these errors. These adjustments are reflected within the Village's accounting records and financial statements.

Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Rev. Code.

FINDING NUMBER 2002-006

Ohio Rev. Code Section 149.43(A)(1) provides, in part: "Public record" means any records kept by any public office, including, but not limited to, state, county, city, village, township, and school district units, with certain exceptions, including but not limited to, certain medical, adoption, probation, and parole proceeding records.

Ohio Rev. Code Section 149.43(B)(1) provides, in part that, all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time.

The following records were either in disarray or not maintained and made available during the audit:

- Cash Journal, Receipt Ledger, and Appropriations Ledger for 2002.
- Monthly bank reconciliations for both years.
- Village voucher packages, including invoices and purchase orders.
- Income Tax records.
- Construction contract records.
- Payroll timesheets for 2002.

Although we were able to satisfy our audit objectives using the resources made available, the Village and BPA should develop formal procedures for the proper filing and storage of the Village and BPA public records. The procedures should include clear labeling of records, assignment of storage areas by department and assignment of personnel having access to the records. Developing such procedures will reduce the likelihood of records being misplaced and/or discarded.

We also reported a similar matter in the management letter of our December 31, 2000 and 1999, audit of the financial statements.

Material Noncompliance (Continued)

FINDING NUMBER 2002-007

Ohio Rev. Code Section 9.38 provides that public monies shall be deposited with the Village Clerk-Treasurer or designated depository on the business day following the day of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, the public office may adopt a policy permitting their officials who receive money to hold it past the next business day, but the deposit must be made no later than three business days after receiving it. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

- Certain Income Tax daily receipts were not deposited with the Village Clerk-Treasurer or designated depository for a period ranging between four to 30 days after initial receipt of the money.
- Receipts from the County Auditor (Real Estate Taxes, Local Government, Motor Vehicle Taxes, etc.) were deposited for a period ranging between five days to six weeks after initial receipt.
- Three Auditor of State warrants totaling \$1,486.58, dating from July 12, 2002 through September 3, 2002, were discovered subsequent to year end by the Village Fiscal Officer. Procedures were performed by the Village Fiscal Officer to have these checks voided and reissued.

Delays of this nature could cause Village daily receipts to be lost or misplaced without being detected in a timely manner. The Village could contact the State and County about having some of these receipts electronically deposited into their bank account.

We also reported a similar matter in the management letter of our December 31, 2000 and 1999, audit of the financial statements.

FINDING NUMBER 2002-008

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form of the report, the public office shall submit its report on the form utilized by the public office. Cash-basis entities are required to file annual reports with the Auditor of State within 60 days of the fiscal year end. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension. At the time the report is filed with the Auditor of State, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The Village did not file its 2001 report with the Auditor of State until June 14, 2002 and has yet to file its 2002 report. In addition, a notice of the availability of the report for public inspection was not published for the 2001 or 2002 annual financial report. The Village may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the Clerk-Treasurer prepare and file the annual financial report with the Auditor of State within 60 days after the close of the fiscal year. We also recommend a notice of the availability of the report for public inspection be published in a local newspaper.

Material Noncompliance (Continued)

FINDING NUMBER 2002-009

Ohio Rev. Code Section 135.21 states in part that all investment earnings, except as otherwise expressly provided by law, shall be credited to the General Fund of the Village. One exception is found in **Ohio Constitution, Article XII, Section 5a**, which states that interest earned on money derived from a motor vehicle license or fuel tax must follow the principal. All other interest earned must be credited to the General Fund of the subdivision.

The Clerk-Treasurer made investment of pooled cash from various funds and did not distribute the interest earned in accordance with the above requirement.

In 2001, the Clerk-Treasurer allocated interest to all Village funds. In addition, the Board of Public Affairs (BPA) Clerk allocated interest to all Enterprise Funds. As a result, revenues were overstated in the Fire Fund, Fire Levy Fund, Court Computer Fund, Ambulance Fund, Income Tax Fund, Capital Projects Fund, Water Fund, Water Tap Fund, Water Maintenance Fund, Sewer Fund, Sewer Tap Fund, Sewer Maintenance Fund, Electric Fund, Meter Deposit Fund and Debt Service Fund and understated in the General Fund.

In 2002, the Clerk-Treasurer allocated interest to the General Fund only, whereas the BPA clerk continued to allocate interest to all Enterprise Funds. As a result, revenues were overstated in the Water Fund, Water Tap Fund, Water Maintenance Fund, Sewer Fund, Sewer Tap Fund, Sewer Maintenance Fund, Electric Fund, Meter Deposit Fund and Debt Service Fund and understated in the General Fund, Street Construction Maintenance and Repair Fund and State Highway Improvement Fund.

The Village should adjust for the following amounts:

Funds Entitled to Interest	2002	2001	Total
General Fund	\$6,858	\$13,435	\$20,293
Street Construction Maintenance and Repair Fund	1,345		1,345
State Highway Fund	448		448
Fire Fund		(142)	(142)
Fire Levy Fund		(28)	(28)
Court Computer Fund		(38)	(38)
Ambulance Fund		(74)	(74)
Income Tax Fund		(1,065)	(1,065)
Capital Projects Fund		(50)	(50)
Water Fund	(2,518)	(3,173)	(5,691)
Water Tap Fund	(172)	(321)	(493)
Water Maintenance Fund	(310)	(649)	(959)
Sewer Fund	(366)	(578)	(944)
Sewer Tap Fund	(251)	(431)	(682)
Sewer Maintenance Fund	(1,483)	(1,767)	(3,250)
Electric Fund	(2,673)	(3,775)	(6,448)
Meter Deposit Fund	(184)	(347)	(531)
Debt Service Fund	(694)	(997)	(1,691)
Total	\$0	\$0	\$0

If it is the Village's intent to distribute interest to funds not established by the aforementioned laws, then a resolution should be passed to transfer interest earnings from the General Fund to the respective Funds. However, all interest, except as required by law, must be originally credited to the General Fund.

Material Noncompliance (Continued)

FINDING NUMBER 2002-009 (Continued)

The Village made the necessary adjustments to correct these errors. These adjustments are reflected within the Village's accounting records and financial statements.

A similar matter was reported in the Management Letter of the December 31, 2000 and 1999 financial statements.

FINDING NUMBER 2002-010

The Village's loans obtained through the Ohio Public Works Commission (OPWC) and the Ohio Water Development Authority (OWDA) for long term financing for Water and Sewer Projects require the Village to comply with various debt covenants. The following violations were noted with the loans from both lenders:

- OPWC Project Agreement Appendix C-1 Article 2.2(a) and OWDA Loan Agreement Article IV Section 4.3(a) requires the Village's revenues should be adequate to meet the requirements of debt service and operation and maintenance expenses. In 2002 and 2001 the Village's Water Fund expenses exceeded revenues by (\$26,548) and (\$15,193), respectively.
- OPWC Project Agreement Appendix C-1 Article 2.2(b) and OWDA Loan Agreement Article IV Section 4.3(b) requires the Village is to provide annual reports to OPWC of the operation and income of the Utility together with an annual report of the accounts and operations of the Utility. In 2002 and 2001 the Village failed to file these reports.

These covenant violations permit OPWC to:

- a) At the lenders option the entire principal outstanding and accrued interest can be declared to be immediately due and payable,
- b) In accordance with Ohio Revised Code Section 164.05 the lender may direct the County Treasurer to pay the amount due from the local government fund without any notice or demand during any default.

In addition, these covenant violations permit OWDA to:

- At the lenders option the entire principal outstanding and accrued interest can be declared to be immediately due and payable.

The Village should take immediate action to ensure that this reported non-compliance with the loan covenants is corrected by increasing user fees and filing the required reports.

Material Noncompliance (Continued)

FINDING NUMBER 2002-011

The Village's mortgage revenue bonds obtained through GMAC Commercial Mortgage for long term financing for Water Projects require the Village to comply with various debt covenants. The following violations were noted:

- GMAC Loan Agreement Section 8 states the Village is to establish a Surplus Revenue Fund for the water utility. The required fund was not established in the Village financial accounting system.
- GMAC Loan Agreement Section 8B states the Village is to deposit into the Surplus Revenue Fund the remaining balance of the water utility each year. The required deposit was not made since the fund was not established. The Village should have deposited \$16,691 into this fund at December 31, 2001.
- GMAC Loan Agreement Section 8B states the Village is to establish a separate bank account for the water utility. The required separate bank account was not established.
- GMAC Loan Resolution 82-29 Section 10 states the Village's revenues should be adequate to meet the requirements of debt service and operation and maintenance expenses, and the establishment of adequate reserves. In 2002 and 2001 the Village's Water Fund expenses exceeded revenues by (\$26,548) and (\$15,193) respectively.
- GMAC Loan Resolution 82-29 Section 12 states the Village is to provide annual reports to GMAC of the operation and income of the Utility together with an annual report of the accounts and operations of the Utility. In 2002 and 2001 the Village failed to file these reports.
- GMAC Loan Agreement Section 8 states the Village Clerk-Treasurer is to keep in force a fidelity bond in an amount not less than \$60,000 as long as the revenue bonds are outstanding. The Village did not obtain the required fidelity bond.

These covenant violations permit GMAC to (a) declare the entire principal amount outstanding and accrued interest immediately due and payable, (b) take possession of funds pledged and pay such expenses as required to cure the cause of default, (c) take possession of the facility, repair, maintain, and operate or rent it. The Village should take immediate action to ensure that this reported non-compliance with the loan covenants is corrected by increasing user fees, filing the required reports, obtaining a fidelity bond in the required amount, creating the required Surplus Revenue Fund, and making any adjusting entries required to comply with the debt agreements.

Reportable Condition/Material Weaknesses

FINDING NUMBER 2002-012

Council Monitoring of Financial Reports

The Clerk-Treasurer does not prepare monthly financial reports for Council to review and approve. The Council does not formally review or approve any financial information on a monthly basis. In addition, the Clerk-Treasurer was not preparing monthly bank reconciliations.

This does not allow Council to be up to date on the financial activity of the Village and restricts their monitoring abilities over the Clerk-Treasurer and the Village's finances. Not reviewing and approving the bank reconciliations or monthly reports demonstrates a lack of fiscal monitoring by Village Council. Unrecognized errors resulting in misstatements of the Village's records could occur and not be timely detected as a result of not monitoring the bank reconciliations and monthly reports.

We recommend Council request monthly financial reports and formally recognize in the minutes the acceptance of monthly reports they receive from the Clerk-Treasurer. Reports should include, but not be limited to, monthly cash reconciliation, budget to actual statements, year-to-date receipt/expenditure/fund balance reports, etc. These reports should reflect all activity of the Village including the Board of Public Affairs. This will increase Council's awareness of all finance related activity and facilitate their decision making process.

We also reported this matter in the management letter of our December 31, 2000 and 1999 audit of the financial statements.

FINDING NUMBER 2002-013

Monitoring Board of Public Affairs Activity

The Village has not implemented internal controls to provide proper monitoring of transactions in the Village utility system. The computer control environment allows the BPA Clerk to make improper adjustments to accounts without the review of the BPA or Village Council. This condition increases the risk that unauthorized or incorrect adjustments to utility data could occur.

We recommend the Village develop and implement policies and procedures to provide for improved accountability over utility billings and collections including review of monthly reports for unusual adjustments by the BPA, fiscal officer and/or Village Council. Adequate control over utility receipts will help ensure all revenue is properly recorded, and any errors will be detected in a timely and efficient manner. Lack of accountability could ultimately result in a loss of revenue due the Village.

Reportable Condition/Material Weaknesses (Continued)

FINDING NUMBER 2002-014

Nonpayroll Disbursements (Village and Board of Public Affairs)

During our test of nonpayroll disbursements within the Village, we noted the following:

- The Village does not use the proper coding and accounting for disbursements as prescribed in the Village Officer's Handbook or as described in Ohio Administrative Code Section 117-9-01.
- In 2001, the fund listing on the duplicate check was not always in agreement with the fund posting in the appropriations ledger.
- Some disbursements lacked supporting documentation for both years, such as vendor invoices.
- In 2001, cash journal postings did not always correspond to the postings in the appropriation ledger.
- No appropriation ledger was maintained in 2002.

Our test of Board of Public Affairs (BPA) disbursements noted the following:

- Purchase orders were not attached to the voucher, nor was there reference on the voucher to the purchase order.
- Vouchers did not always indicate from what fund the disbursement was posted.

We recommend that the Clerk-Treasurer and the BPA Clerk consult the "Village Officer's Handbook" prepared by the Auditor of State to determine the proper coding and accounting of Village disbursements. Further, the Village should establish additional accounts to properly reflect their disbursements. In addition, we recommend that the Clerk-Treasurer use the same data, such as fund numbers and dates, throughout all records.

We also reported a similar matter in the management letter of our December 31, 2000 and 1999 audit of the financial statements.

**VILLAGE OF MARSHALLVILLE
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30985-001	ORC 733.40 – Finding for Recovery Repaid Under Audit	Yes	
2000-30985-002	OAC 117-5 – Financial records not maintained in proper format.	No	Not corrected, however, this Section of the OAC has been revised (now OAC Section 117-9), effective 1/1/01. This comment will be modified and repeated as Finding Number 2002-001.
2000-30985-003	ORC 5705.41(D) – Failure to Certify Funds	No	Not corrected – See Finding Number 2002-002
2000-30985-004	ORC 5705.41(B) – Expenditures exceeded appropriations.	No	Not corrected – See Finding Number 2002-004
2000-30985-005	ORC 5705.09 – Village did not establish a fund for Issue II monies.	No	Not corrected – See Finding Number 2002-003
2000-30985-006	ORC 733.28 – Village Clerk-Treasurer was not maintaining records of the BPA.	No	Not corrected – See Finding Number 2002-001



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VILLAGE OF MARSHALLVILLE

WAYNE 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
MAY 13, 2004**