



**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Report of Independent Accountants | 1 |
| Balance Sheet - As of December 31, 1999 | 3 |
| Statement of Revenues, Expenses and Changes in Retained Earnings For The Year Ended December 31, 1999 | 4 |
| Statement of Revenues, Expenditures and Changes in Fund Equity Budget (Non-GAAP Basis) and Actual - For The Year Ended December 31, 1999 | 5 |
| Statement of Cash Flows - For The Year Ended December 31, 1999 | 6 |
| Notes to the Financial Statements | 7 |
| Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> | 17 |
| Schedule of Findings | 19 |
| Schedule of Prior Audit Findings | 23 |

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Jefferson Regional Water Authority
Montgomery County
P.O. Box 369
Miamisburg, Ohio 45342

To the Board of Trustees:

We have audited the accompanying financial statements of the Jefferson Regional Water Authority (the Authority), Montgomery County, as of and for the year ended December 31, 1999, as listed in the table of contents. These financial statements are the responsibility of the Authority'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Jefferson Regional Water Authority, Montgomery County, as of December 31, 1999, and the results of its operations and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2001 on our consideration of the Authority'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.

Jim Petro
Auditor of State

November 20, 2001

This page intentionally left blank.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF DECEMBER 31, 1999**

| | |
|--|---------------------------|
| Assets | |
| Cash and Cash Equivalents | \$362,545 |
| Receivables: | |
| Accounts | 71,800 |
| Interest | 585 |
| Materials and Supplies Inventory | 16,117 |
| Prepaid Items | 1,468 |
| | |
| Restricted Assets: | |
| Cash and Cash Equivalents | 174,750 |
| | |
| Fixed Assets (Net) | <u>3,182,899</u> |
| | |
| Total Assets | <u><u>3,810,164</u></u> |
| | |
| Liabilities and Fund Equity | |
| Liabilities | |
| Accounts Payable | 14,740 |
| Accrued Wages | 7,313 |
| Intergovernmental Payable | 849 |
| Payable from Restricted Assets: | |
| FMHA Loan Payable | 15,000 |
| Accrued Interest Payable | 29,750 |
| Compensated Absences Payable | 1,236 |
| FMHA Loan Payable | 1,770,000 |
| OWDA Loan Payable | <u>573,108</u> |
| | |
| Total Liabilities | 2,411,996 |
| | |
| Fund Equity | |
| Retained Earnings: | |
| Reserved for FMHA Loan | |
| Replacement and Improvement | 130,000 |
| Unreserved Retained Earnings | <u>1,268,168</u> |
| | |
| Total Fund Equity | <u>1,398,168</u> |
| | |
| Total Liabilities and Fund Equity | <u><u>\$3,810,164</u></u> |

See accompanying notes to the financial statements.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1999**

| | |
|---|--------------------|
| Operating Cash Receipts: | |
| Charges for Services | \$489,684 |
| Tap-In Fees | 44,246 |
| Miscellaneous | <u>10,256</u> |
| | |
| Total Operating Cash Receipts | <u>544,186</u> |
| | |
| Operating Cash Disbursements: | |
| Personal Services | 125,347 |
| Contractual Services | 177,912 |
| Materials and Supplies | 37,017 |
| Other | 3,762 |
| Depreciation | <u>132,234</u> |
| | |
| Total Operating Cash Disbursements | <u>476,272</u> |
| | |
| Operating Income | <u>67,914</u> |
| | |
| Non-Operating Revenues (Expenses): | |
| Interest | 15,061 |
| Interest and Fiscal Charges | <u>(134,999)</u> |
| | |
| Total Non-Operating Revenues (Expenses): | <u>(119,938)</u> |
| | |
| Net Loss | (52,024) |
| | |
| Retained Earnings Beginning of the Year | <u>1,450,192</u> |
| | |
| Retained Earnings End of the Year | <u>\$1,398,168</u> |

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

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 1999**

| | Revised Budget | Actual | Variance Favorable (Unfavorable) |
|--|---------------------------|---------------|---|
| Revenues: | | | |
| Charges for Services | \$494,200 | \$494,394 | \$194 |
| Tap-in Fees | 19,980 | 44,246 | 24,266 |
| Interest | 19,200 | 14,476 | (4,724) |
| Other Operating Revenues | 8,100 | 10,256 | 2,156 |
| Total Revenues | 541,480 | 563,372 | 21,892 |
| Expenses: | | | |
| Capital Outlay | 90,000 | 37,290 | 52,710 |
| Personal Services | 128,332 | 127,238 | 1,094 |
| Contractual Services | 100,570 | 168,999 | (68,429) |
| Materials and Supplies | 36,700 | 35,960 | 740 |
| Other | 7,300 | 3,762 | 3,538 |
| Debt Service: | | | |
| Principal Retirement | | 58,317 | (58,317) |
| Interest and Fiscal Charges | 135,666 | 135,666 | |
| Total Expenses | 498,568 | 567,232 | (68,664) |
| Excess of Revenues Over Expenses | 42,912 | (3,860) | (46,772) |
| Fund Equity at the Beginning of the Year | 541,155 | 541,155 | |
| Fund Equity at the End of the Year | \$584,067 | \$537,295 | (\$46,772) |

See accompanying notes to the financial statements.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1999**

**Increase (Decrease) in Cash and Cash Equivalents
Cash Flows from Operating Activities:**

| | |
|---|----------------|
| Cash Received from Customers | \$494,394 |
| Other Operating Revenues | 54,502 |
| Cash Payments for Employee Services and Benefits | (127,238) |
| Cash Payments for Supplies for Goods and Services | (204,959) |
| Other Operating Expenses | <u>(3,762)</u> |

Net Cash Provided by Operating Activities 212,937

Cash Flows from Capital and Related Financing Activities:

| | |
|-------------------------------------|-----------------|
| Principal Paid on ODWA Loan Payable | (18,317) |
| Principal Paid on FMHA Loan Payable | (40,000) |
| Interest Paid on ODWA Loan Payable | (44,416) |
| Interest Paid on FMHA Loan Payable | (91,250) |
| Acquisition of Capital Assets | <u>(37,290)</u> |

Net Cash Used for Capital and Related Financing Activities (231,273)

Cash Flows from Investing Activities:

| | |
|----------|---------------|
| Interest | <u>14,476</u> |
|----------|---------------|

Net Increase in Cash and Cash Equivalents (3,860)

Cash and Cash Equivalents Beginning of Year 541,155

Cash and Cash Equivalents End of Year 537,295

**Reconciliation of Operating Income
to Net Cash Provided by Operating Activities:**

Operating Income 67,914

**Adjustments to Reconcile Operating Income
to Net Cash Provided by Operating Activities:**

Depreciation 132,234

Changes in Assets and Liabilities:

| | |
|--|----------------|
| Increase in Accounts Receivable | 4,710 |
| Increase in Materials and Supplies Inventory | 430 |
| Increase in Prepaid items | 177 |
| Increase in Accounts Payable | 9,363 |
| Increase in Accrued Wages | 2,518 |
| Decrease in Intergovernmental Payable | <u>(4,409)</u> |

Total Adjustments 145,023

Net Cash Provided by Operating Activities \$212,937

See accompanying notes to the general purpose financial statements.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999**

1. REPORTING ENTITY

The Jefferson Regional Water Authority (the "Authority") is a body corporate and politic established to exercise the rights and privileges conveyed to it by Ohio Revised Code Chapter 6119. The Authority was organized to provide water services to members of the district. The Authority is directed by a nine member Board of Trustees elected, for a three-year term, by the members of the district. The board has complete authority over all aspects of the operation.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Authority are not misleading. The primary government consists of all departments, boards and agencies that are not legally separate from the Authority.

Component units are legally separate organizations for which the Authority is financially accountable. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's governing board and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or is obligated for the debt of the organization. Component units also includes organizations that are fiscally dependent on the Authority in that the Authority approves the organization's budget, the issuance of its debt or levying of its taxes. The Authority has no component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

All transactions of the Authority are accounted for in a single enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where it has been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The Authority does not have contributed capital. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The Authority follows the accrual basis of accounting whereby revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year-end.

B. Budgetary Accounting

Although not required under the Ohio Revised Code, an annual operating budget is adopted for management purposes. Budgetary control is exercised at the object level. Budget information is reported to the Board of Trustees. As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported in the notes to the financial statements. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

C. Cash and Cash Equivalents

Cash balances of the Authority are invested in short-term investments in order to provide improved cash management. These balances are presented on the balance sheet in the account "Cash and Cash Equivalents." During 1999, investments included nonnegotiable certificates of deposit.

Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

For purpose of the statement of cash flows and for presentation on the balance sheet, investments with an initial maturity of three months or less are considered to be cash equivalents.

During 1999, the Authority owned 16 shares of Guarantee Life common stock which had not been included in prior financial statements. During November 1999, Jefferson Pilot Financial merged with Guarantee Life, and on December 30, 1999, the Authority received notice of merger proceeds in the amount of \$32 times the number of shares. Merger proceeds in the amount of \$512 was received by the Authority on January 16, 2000. The Authority's "cost or other basis" for the 16 shares of Guarantee Life was zero.

D. Inventory of Supplies

Inventory of the enterprise fund is stated at the lower of cost or market. The costs of inventory items are recorded as expenses in the enterprise fund when used.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 1999, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

F. Fixed Assets and Depreciation

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset of materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The Authority maintains a capitalization threshold of five hundred dollars.

Depreciation of fixed assets is computed using the straight-line method over the following estimated useful lives:

| | |
|----------------|----------|
| Infrastructure | 40 years |
| Buildings | 40 years |
| Equipment | 10 years |
| Vehicles | 5 years |
| Machinery | 10 years |

G. Compensated Absences

The Authority follows the provisions of Governmental Accounting Standards Board No. 16, "Accounting for Compensated Absences." The Authority only has one type of leave "paid time off" (PTO). Unused leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributed to services already rendered and it is probable that the Authority will compensate the employee for the benefits through paid time off or some other means.

The Authority records a liability for all accumulated unused leave time when earned for all employees with more than one year of service. These amounts are recorded in the account "compensated absences payable."

H. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

3. DEPOSITS AND INVESTMENTS

The investments and deposits of the Authority's monies are governed by the Ohio Revised Code. State statutes classify monies held by the Authority into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Authority's treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit account including:

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit account including passbook accounts.

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

State statute permits interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements".

Deposits

At year end, the carrying amount of the Authority's deposits was \$537,295 and the bank balance was \$541,523. Of the bank balance, \$262,781 was covered by federal depository insurance, and \$278,742 was uninsured and uncollateralized. Although the securities serving as collateral was held by the pledging financial institutions' trust department in the Authority's name and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Authority to a successful claim by the Federal Deposit Insurance Corporation.

4. ACCOUNTS RECEIVABLE

Accounts receivable represent monies due from customers for their portion of water services. No allowance for doubtful accounts has been recorded as all amounts are considered collectible.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

5. FIXED ASSETS

A summary of the Authority's fixed assets as December 31, 1999, follows:

| | <u>1999</u> |
|--------------------------------|---------------------|
| Land | \$ 110,816 |
| Infrastructure | 4,212,832 |
| Buildings | 748,343 |
| Equipment | 41,048 |
| Vehicles | 9,340 |
| Machinery | 40,998 |
| Total | 5,163,377 |
| LESS: Accumulated Depreciation | <u>(1,980,478)</u> |
| Total | <u>\$ 3,182,899</u> |

6. LOANS PAYABLE

The Authority had the following loans outstanding at December 31, 1999.

| | <u>Balance at 12/31/98</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 12/31/99</u> |
|------------------------|--------------------------------|------------------|------------------|--------------------------------|
| FMHA Loan, 1982, 5.00% | \$1,825,000 | \$0 | \$40,000 | \$1,785,000 |
| OWDA Loan, 1991, 7.51% | <u>591,425</u> | <u>0</u> | <u>18,317</u> | <u>573,108</u> |
| Totals | <u>\$2,416,425</u> | <u>\$0</u> | <u>\$58,317</u> | <u>\$2,358,108</u> |

FMHA Loan 1982 - The loan was issued on September 1, 1982, for a period of 40 years with an interest rate of 5.00 percent. The original issue was for \$2,232,000. Current operations are expected to provide sufficient cash flows to fund debt service requirements.

OWDA Loan 1991 - The loan was issued on July 1, 1991, for a period of 25 years in the amount of \$698,674 with an interest rate of 7.51 percent. Current operations are expected to provide sufficient cash flows to fund debt service requirements.

The annual debt service requirements for payment of principal and interest at December 31, 1999 are as follows:

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

6. LOANS PAYABLE (Continued)

FMHA Loan 1982

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|--------------------|--------------------|--------------------|
| 2000 | \$ 45,000 | \$ 89,250 | \$ 134,250 |
| 2001 | 45,000 | 87,000 | 132,000 |
| 2002 | 45,000 | 84,750 | 129,750 |
| 2003 | 50,000 | 82,500 | 132,500 |
| 2004-2008 | 290,000 | 372,750 | 662,750 |
| 2009-2013 | 365,000 | 292,750 | 657,750 |
| 2014-2018 | 475,000 | 191,250 | 666,250 |
| 2019-2022 | <u>470,000</u> | <u>60,000</u> | <u>530,000</u> |
| Totals | <u>\$1,785,000</u> | <u>\$1,260,250</u> | <u>\$3,045,250</u> |

OWDA Loan 1991

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|------------------|------------------|--------------------|
| 2000 | \$ 19,693 | \$ 43,040 | \$ 62,733 |
| 2001 | 21,172 | 41,562 | 62,734 |
| 2002 | 22,762 | 39,972 | 62,734 |
| 2003 | 24,471 | 38,262 | 62,733 |
| 2004-2008 | 152,843 | 160,824 | 313,667 |
| 2009-2013 | 219,527 | 94,133 | 313,660 |
| 2014-2016 | <u>112,640</u> | <u>12,825</u> | <u>125,465</u> |
| Total | <u>\$573,108</u> | <u>\$430,618</u> | <u>\$1,003,726</u> |

7. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority carries liability insurance with Swartzel/Affiliated Insurance. The Authority pays an annual premium for this coverage.

The following is a list of insurance coverage and deductibles for 1998:

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

7. RISK MANAGEMENT (Continued)

| <u>Coverage</u> | <u>Limit</u> | <u>Deductible</u> |
|--------------------|-------------------|-------------------|
| Property | \$1,393,471 | \$500 |
| General Liability | 3,000,000 | 0 |
| Computer Equipment | 23,475 | 250 |
| Inland Marine | 68,856 | 250 |
| Automobile: | | |
| Liability | 3,000,000 | None |
| Comprehensive | Actual Cash Value | 50 |
| Collision | Actual Cash Value | 250 |

There has been no material change in this coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

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

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT PENSION PLAN

The Authority contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations, and the Authority is required to contribute 13.55 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Authority's required contributions to PERS for the years ended December 31, 1999, 1998, and 1997, were \$13,832, \$8,462, and \$7,777, respectively. The full amount has been contributed for 1998 and 1997. 96 percent has been contributed for fiscal year 1999. \$680 representing the unpaid contribution for year 1999, is recorded as a liability.

9. PUBLIC EMPLOYEES RETIREMENT SYSTEM POST EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 1999 contribution rate was 13.55 percent of covered payroll; 4.2 percent of each employer contribution will be used to fund health care.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

9. PUBLIC EMPLOYEES RETIREMENT SYSTEM POST EMPLOYMENT BENEFITS (Continued)

For 1999, benefits are funded on a pay as you go basis. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,062. The Authority's actual contributions for 1999 which were used to fund OPEB were \$4,287.

10. OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plan

The Authority's employees participate in the Ohio Public Employees Deferred Compensation Plan. This plan is created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

B. Insurance Benefits

The Authority pays 100 percent of health care premiums for all full time employees. Health insurance coverage is provided by United Healthcare of Ohio, Inc.

C. Compensated Absences

The Authority's employees earn paid time off (PTO) leave based on length of service. Employees may accrue an unlimited amount of PTO days. In the event of a termination of employment, death or retirement, the employee (or the estate) would be paid for unused leave. The total obligation for leave accrual for the Authority amounted to \$1,236 at December 31, 1999.

11. BUDGETARY BASIS OF ACCOUNTING

While the Authority is reporting financial position, results of operations, and changes in retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, and disbursements. The Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

11. BUDGETARY BASIS OF ACCOUNTING (Continued)

3. The acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
4. Principal payments made on the OWDA and FMHA loan payable are reported on the operating statement (budget basis) rather than as a balance sheet transaction (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements.

| Net Income/Excess of Revenues Over Expenses | |
|--|--------------------------|
| GAAP Basis | (\$ 52,024) |
| Net Adjustment for Revenue Accruals | 4,125 |
| Net Adjustment for Expense Accruals | 8,019 |
| Principal Payment | (58,317) |
| Capital Asset Acquisitions | (37,290) |
| Prepaid Items | (177) |
| Material and Supplies Inventory | (430) |
| Depreciation | <u>132,234</u> |
| Budget Basis | <u><u>(\$ 3,860)</u></u> |

12. LITIGATION

There are currently no matters in litigation with the Authority as defendant.

13. NONCOMPLIANCE

The Authority did not comply with Ohio Rev. Code Section 117.38 regarding completion and publishing of an annual report, the various sections of 26 CFR regarding proper reporting of wage income and filing of tax forms, and Article X, Section 4, of the Jefferson Regional Water Authority's Bylaws regarding the presentation of financial reports to the Board of Trustees and a fidelity bond,.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

Jefferson Regional Water Authority
Montgomery County
P.O. Box 369
Miamisburg, Ohio 45342

To the Board of Trustees:

We have audited the financial statements of Jefferson Regional Water Authority (the Authority), as of and for the year ended December 31, 1999, and have issued our report thereon dated November 20, 2001. 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 Authority'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 1999-60357-001 through 1999-60357-003. We also noted an instance of noncompliance that we have reported to management of the Authority in a separate letter dated November 20, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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 Authority'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 1999-60357-004 through 1999-60357-007.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal controls over financial reporting that do not require inclusion in this report, that we have reported to management of the Authority in a separate letter November 20, 2001.

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

Jim Petro
Auditor of State

November 20, 2001

JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 1999

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

FINDING NUMBER 1999-60357-001

Annual Report

Ohio Rev. Code Section 117.38 requires GAAP - basis entities to file unaudited financial reports with the Auditor of State's Office within 150 days of fiscal year end. Any public office which does not file the report by the required date shall be subject to a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred and fifty dollars. Also, 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 financial report for the year ended December 31, 1999, had not been filed with the Auditor of State's Office as of the date of this report, and the required public notice was not published. The Authority should develop and implement procedures to provide that the financial report is prepared and filed timely, and the required notice is published to provide notice that the report is available for public inspection. Additionally, timely reporting should provide improved information for financial decision making purposes.

FINDING NUMBER 1999-60357-002

Tax Reporting

26 C.F.R. Section 1.6041-2 requires, in part, reporting of wage income on forms W-2. Additionally, 26 C.F.R. Section 31.6011(a)-4 requires, in part, the filing of quarterly 941 forms which are due by the last of the month following the end of the quarter.

The Authority did not provide documentation for the filing of W-2s for wages paid during 1999. Also, as of the date of this report, the Authority had not provided evidence of filing the required first quarter, third quarter or fourth quarter Federal form 941 payroll reports for fiscal year 1999.

The Authority's violation of the Internal Revenue Code subjects the Authority to penalties, fines and interest. The Authority should develop and implement procedures to provide for compliance with the Internal Revenue Code to avoid any unnecessary expense resulting from penalties, fines and interest as a result of non-compliance.

FINDING NUMBER 1999-60357-003

Duties of Treasurer

Article X, Section 4, *Duties of the Treasurer, of the Water Authority's By-Laws states:* The Treasurer or his/her designate shall receive all monies of the Authority, shall keep an accurate record of receipts and expenditures, and shall pay out funds as authorized by the Authority or the Board of Trustees. The Treasurer shall present a financial statement at every meeting of the Board of Trustees and at other times when requested by the Board of Trustees and shall make a full report at the Annual Meeting of members. The Treasurer shall furnish the Authority a fidelity bond in an amount to be determined annually by the Board of Trustees to the largest sum of funds in his/her possession at any time.

The Treasurer did not provide a financial report with financial statements for five out of the twelve months during fiscal year 1999, as required by the Authority's bylaws, nor was a fidelity bond provided by the Treasurer. To comply with the Authority's bylaws and to provide information for key decision making purposes, the Treasurer should keep accurate and timely records of receipts and expenditures, and present to the Board of Trustees, at every meeting, a complete set of financial statements including Budget to Actual statements. Additionally, the Board of Trustees should take an active role in monitoring the financial records of the Authority and institute procedures to obtain the required bond from the Treasurer.

Finding Number 1999-60357-004

Bank Reconciliations and Deposit Records

The financial records for the Authority's banking activities were not maintained or reported in an accurate manner., and the bank accounts were not timely and accurately reconciled. The check register was not maintained in sequential order, resulting in errors throughout the fiscal year. Three checks that were listed as outstanding on the December 31, 1999 reconciliation had already cleared the bank account in previous months, and other lost or unaccounted for checks were replaced without having a "stop payment" issued for the original check.

Board members received checks to replace checks that were previously issued and uncashed for compensation including some for periods prior to 1999, however stop payments were not issued and the original checks were not voided. The Authority should institute procedures to void these types of transactions and/or issue stop payments prior to reissuing checks. Additionally, the Trustees should exercise care in handling the checks issued to them by the Authority to prevent the need to reissue and ease the reconciliation process.

The Authority did not furnish information in reference to three certificates of deposits, totaling in excess of \$134,000, with Firststar Bank which were included on the December 31, 1999 reconciliation. Per the bank's records, these certificates matured in January of 1999 and the proceeds were transferred to other accounts.

Finding Number 1999-60357-004 (Continued)

Bank Reconciliations and Deposit Records (Continued)

Errors in accounting for the financial transactions by the Treasurer resulted in the preparation of financial statements that did not properly reflect the Authority's financial activity or status, which may result in statement users or management making improper decisions and additional costs to the Authority. Procedures should be developed and implemented to post items in an accurately and timely manner to provide useful information for decision making purposes. Additionally, procedures should be developed and implemented to follow up on old outstanding checks and re-issuances of checks including the use of "stop payments". This should decrease the possibility of errors in the reconciliation process and decrease the chance of double payments. The Treasurer should also submit monthly bank reconciliations, that include current deposits and investments, and financial reports to the Board of Trustees for review and approval, and maintain documentation of all investment instruments. Finally, the Board of Trustees should take an active role in monitoring the financial records of the Authority to provide for increased accuracy and usefulness of the information

FINDING NUMBER 1999-60357-005

Billing System Software

The Authority changed billing software during the fiscal year, however the old billing software did not interface with the new billing software at the time of start up, which required that financial information be manually input into the new billing system. Adequate financial reports of balances were not ran at the time of the changeover, nor at the end of the fiscal year. Additionally, the new billing software was not integrated into the accounting software, which was used for the routine financial activity of the Authority.

Without final reports from the old software system or reports that were ran immediately after the manual input of data into the Keystone software system, the Authority could not reconcile to determine that the data in the Keystone system was complete and accurate.

Lack of timely and accurate reports during the changeover from system to system resulted in a lack of proper supporting documentation of balances and manual entries. Additionally, financial systems that are not integrated increase the likelihood for input errors.

The Authority should develop and implement policies and procedures to provide that all activity of the customer billing system is transferred to the general ledger. Each month, the Authority should reconcile amounts posted from the meter readings, to the amount posted to the customer billing system, and to the amount posted via journal entries to the general ledger. These procedures should improve the posting of all activity to the general ledger, and provide greater assurance of the reliability of financial information and related financial statement amounts.

FINDING NUMBER 1999-60357-006

Fixed Assets Accounting

A complete fixed asset listing was not maintained and procedures were not in place to make clear distinctions between maintenance costs and fixed asset purchases, or the calculation of detailed depreciation by item. These weaknesses decreased the Authority's ability to maintain accurate fixed asset records and could either understate or overstate fixed assets. Without proper documentation, especially ownership and cost documentation, the Authority cannot prove ownership in the case of theft or destruction, and may be unable to recover lost costs. Further, the Authority can not be certain that current insurance coverage is sufficient without complete and accurate fixed asset records.

The Water Authority should develop and implement a comprehensive fixed asset policy and system to provide that all fixed assets are properly classified, and depreciated in a reasonable time period. Complete and accurate supporting documentation should be maintained for all fixed assets including cost, serial number, location, and any other pertinent information. Additionally, reasonable estimated lives for assets should be developed and used in the periodic depreciation of each item. Also, a minimum capitalization threshold should be adhered to in determining which items to be capitalized and all items should be reviewed to determine if they were only maintenance expenses or were properly included as fixed assets. The implementation of a comprehensive fixed asset policy will allow the Board to use accurate information in decision making procedures, including replacement of items, and give an accurate accounting for annual depreciation and maintenance expenses. Further, accurate records will increase the Authority's ability to secure recovery in the event of some loss of assets.

FINDING NUMBER 1999-60357-007

Audit Committee

The Authority should establish an Audit Committee to serve as a liaison between management and its auditors. The primary functions of such a Committee are to monitor and review the Authority's accounting and financial reporting practices, and to follow up on citations and recommendations made by its auditors.

The Audit Committee should be actively involved in:

- Meeting with the Authority's independent auditors before and after each audit;
- Monitoring the progress of the financial and compliance audit;
- Evaluating the results of the financial and compliance audit; and
- Ensuring that the internal control and legal compliance issues identified in the audit are promptly and effectively remedied.

In addition, the audit committee should meet regularly (perhaps quarterly) to monitor the Authority's legal compliance, financial condition, and controls over the safeguarding of assets.

The audit committee can include Trustees. However, it can also include representation that is independent from elected officials or management. The committee could include professionals knowledgeable in the Authority's financial operations, such as attorneys or bankers.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 1999**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|---|------------------|---|
| 1998-60357-001 | Preparation and submission of annual report within 150 days after year-end. Publication of notice in local newspaper. | No | Comment repeated in current report |



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

JEFFERSON REGIONAL WATER AUTHORITY

MONTGOMERY 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
FEBRUARY 21, 2002**