



**WESTERN RESERVE WATER DISTRICT
MEDINA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1999-1997



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Western Reserve Water District
Medina County
1918 Pearl Road
Brunswick Hills, Ohio 44212

To the Board of Trustees:

We have audited the accompanying financial statements of Western Reserve Water District, Medina County, Ohio, (the District) as of and for the years ended December 31, 1999, 1998 and 1997. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the District 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.

As described in Note 5, the Western Reserve Water District Board of Trustees approved the dissolution of the District as of September 7, 1999. This dissolution is being contested by the Ohio Water Development Authority (OWDA) because of the significant debt owed to the OWDA as described in Note 3. The outcome of this matter cannot be determined at this time. Also, as described in Note 1, the financial statements cover a period beyond the Board voted dissolution date.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the District as of December 31, 1999, 1998 and 1997, and its cash receipts and 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 May 18, 2000 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

This report is intended solely for the information and use of the Board of Trustees 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, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

May 18, 2000

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997**

	Enterprise Fund		
	1999	1998	1997
Operating Cash Disbursements:			
Other Contractual Services	\$4,300		\$123,479
Office Supplies and Materials	179	\$176	202
Insurance	1,250	1,250	1,250
 Total Operating Cash Disbursements	 5,729	 1,426	 124,931
 Operating Income/(Loss)	 (5,729)	 (1,426)	 (124,931)
Non-Operating Cash Receipts:			
Proceeds from OWDA Loans			123,619
Miscellaneous	53	83	139
 Total Non-Operating Cash Receipts	 53	 83	 123,758
 Net Receipts Under Disbursements	 (5,676)	 (1,343)	 (1,173)
 Fund Cash Balances, January 1	 5,904	 7,247	 8,420
 Fund Cash Balances, December 31	 \$228	 \$5,904	 \$7,247

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

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**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999, 1998 AND 1997**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Western Reserve Water District, Medina County, Ohio, (the District) 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 District is directed by a five-member Board appointed by the Board of Trustees of Brunswick Hills Township. The purpose of the District is to locate and provide safe drinking water to the residents of Brunswick Hills Township.

To date, a source for this water has not been found, and as further discussed in Note 5, the Board voted to dissolve the District as of September 7, 1999, however that action is currently being challenged. The financial statements reflect financial activity through December 31, 1999, because financial transactions (relating to closing costs) occurred after the Board voted dissolution date, and the disposition of all assets and obligations has not occurred as of May 18, 2000.

The District's management believes these financial statements present all activities for which the District 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.

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

C. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its fund into the Enterprise Fund Type.

D. Budgetary Process

The District's Board of Trustees currently do not adopt an operating budget. Recent Ohio Attorney General Opinion No. 99-020 has clarified that the budget process described in Chapter 5705, Revised Code, applies to the District, regardless of whether the District levies property taxes. The District must henceforth adopt annual appropriations, limited by estimated resources. Expenditures will be limited by appropriations.

E. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. There were no capital outlays made during 1999, 1998, or 1997.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999, 1998 AND 1997**

2. EQUITY IN POOLED CASH AND INVESTMENTS

The carrying amount of cash at December 31 was as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Demand deposits	<u>\$228</u>	<u>\$5,904</u>	<u>\$7,247</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. DEBT

Debt outstanding at December 31, 1999 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Water Planning Loan	<u>\$416,604</u>	8%

The OWDA Water Planning Loan was obtained to pay for those costs incurred during the planning and development stages of building a water system for the District. This loan was scheduled for repayment on July 1, 1997. However, as of May 18, 2000 the District has not made any payments to OWDA for the debt incurred. To raise funds necessary to make the repayment, the District passed a resolution during May 1997 to assess Brunswick Hills Township residents for the loan amount. However, a lawsuit by certain residents of the Township to prevent the assessment was affirmed by the Medina County Court of Common Pleas in October 1997 and was upheld by the Ohio, 9th Judicial District, Court of Appeals on December 9, 1998. Accrued interest on this loan is \$139,429.

4. RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Errors and omissions

5. CONTINGENCIES

The Western Reserve Water District Board voted to dissolve the District as of September 7, 1999. This decision was approved by the Board because the District no longer has a large enough client base to justify its existence, nor has the District found a water source to provide water to the residents of Brunswick Hills Township. This decision is being contested by OWDA because of the significant debt owed to OWDA, as discussed in note 3, and is currently in litigation. The outcome of this suit is not presently determinable.



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

Western Reserve Water District
Medina County
1918 Pearl Road
Brunswick Hills, Ohio 44212

To the Board of Trustees:

We have audited the accompanying financial statements of Western Reserve Water District, Medina County, Ohio, (the District) as of and for the years ended December 31, 1999, 1998 and 1997, and have issued our report thereon dated May 18, 2000. Our report noted that the District Board acted to dissolve the District as of September 7, 1999 and that the dissolution is being contested related to outstanding debt. The report also noted the financial statements include certain financial activity which occurred subsequent to the Board voted dissolution date. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 1999-40952-001.

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 consider the item referred to above to be a material weakness.

This report is intended for the information and use of management and the 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

May 18, 2000

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999, 1998 AND 1997**

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

FINDING NUMBER 1999-40952-001

Material Weakness

For the years ended December 31, 1999, 1998, and 1997, the District's accounting records were maintained in a manner such that interim summary financial activity and annual financial statements were not available for audit. As a result, part of our services included reconstructing the accounting records by aggregating cash receipts and disbursement activity by month and year in order to prepare summary records of financial activity and annual financial statements. In addition, bank reconciliations were not performed during the audit period; there were no expenditure ledgers or receipt ledgers; records were filed in a haphazard manner; and certain pertinent bank and vendor records were not maintained on file.

The District should prepare and maintain financial ledgers such as a receipt ledger, expenditure ledger, and general ledger. The general ledger should be reconciled with the bank at the end of each month to account for the District's assets. These ledgers should be used to record the pertinent details of all District financial transactions.

Additionally, to help ensure that accurate financial statement information is provided, at a minimum, we recommend that the Treasurer and Board of Trustees develop, implement, and monitor the following control procedures for assurance as to the timeliness and reliability of financial information.

- Review and approve monthly financial statement information in a timely manner.
- Review information such as bank reconciliations, payments, and unusual or significant accounting entries.
- Establish and adhere to policies and procedures governing the general ledger pursuant to the Ohio administrative code sections 117-5-01 through 117-5-18. These policies and procedures include such matters as processing journal entries in a timely fashion, proper cut-off, supervisory approvals, etc.
- Review account reconciliations timely, including clearance of reconciling items on bank account reconciliations to help ensure accounts are reconciled accurately and in a timely manner.
- Develop and implement monitoring procedures to help ensure that all financial activity for the period is reflected in the financial statements.
- Develop and implement procedures regarding the payment of financial obligations to avoid overpayment of bills and help eliminate late payments, fines, and penalties.

These procedures will help improve the timeliness and accuracy of financial information provided to the Board and improve the financial record keeping of the District.



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WESTERN RESERVE WATER DISTRICT

MEDINA 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
JULY 18, 2000**