



**TROY TOWNSHIP WASTE WATER DISTRICT
ASHLAND COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2002**



**Auditor of State
Betty Montgomery**

**TROY TOWNSHIP WASTE WATER DISTRICT
ASHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Troy Township Waste Water District
Ashland County
P.O. Box 55
Nova, Ohio 44859

To the Board of Trustees:

We have audited the accompanying financial statement of Troy Township Waste Water District, Ashland County, Ohio, (the District) as of and for the year ended December 31, 2002. This financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

As discussed in Note 1, the District prepares its financial statement on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash and reserves for encumbrances of the District as of December 31, 2002, and its cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003 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. 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.

Troy Township Waste Water District
Ashland County
Independent Accountants' Report
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This report is intended solely for the information and use of management, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 7, 2003

**TROY TOWNSHIP WASTE WATER DISTRICT
ASHLAND COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGE IN
CASH BALANCE - FOR THE YEAR ENDED DECEMBER 31, 2002**

	2002
Operating Cash Receipts:	
Tap-In Fees	\$15,619
Total Operating Cash Receipts	15,619
Operating Cash Disbursements:	
Personal Services	2,900
Advertising	117
Office Supplies and Materials	13
Insurance	62
Legal Fees	465
Total Operating Cash Disbursements	3,557
Operating Income	12,062
Non-Operating Cash Receipts:	
Loan Proceeds	4,000
Total Non-Operating Cash Receipts	4,000
Net of Receipts Over Disbursements	16,062
Cash Balance, January 1	0
Cash Balance, December 31	\$16,062
Reserve for Encumbrances, December 31	\$90,588

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

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**TROY TOWNSHIP WASTE WATER DISTRICT
ASHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Troy Township Waste Water District, Ashland County, (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 was created in November 2001 by the Ashland County Court of Common Pleas in accordance with the provisions of Chapter 6119 of the Ohio Revised Code. The District is directed by a five-member Board of Trustees. Board members are appointed by the Troy Township Trustees. The District began charging a user fee in March 2002 to be used towards the local share of connection fees to the sanitary sewer system that is being constructed. The system is anticipated to be operational by the fall of 2005.

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

B. Basis of Accounting

This financial statement follows 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.

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Deposits

All cash is maintained in a checking account. The District has no investments.

D. Budgetary Process

The Ohio Revised Code requires the District to adopt an annual budget.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1.

**TROY TOWNSHIP WASTE WATER DISTRICT
ASHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The District did not use the encumbrance method of accounting. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2002 budgetary activity appears in Note 3.

E. 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.

2. EQUITY IN POOLED CASH

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

	2002
Demand deposits	\$16,062

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2002 follows:

Budgeted vs. Actual Receipts	
Fund Type	2002
Budgeted Receipts	\$171,280
Actual Receipts	19,619
Variance	\$151,661

Budgeted vs. Actual Budgetary Basis Expenditures	
Fund Type	2002
Appropriation Authority	\$0
Budgetary Expenditures	94,145
Variance	(\$94,145)

Contrary to Ohio Rev. Code 5705.41(D), the District did not certify the availability of funds prior to incurring purchase commitments. Also, contrary to Ohio Rev. Code 5705.38 and .41(B), the District did not pass an appropriation measure and as a result all expenditures exceeded appropriations.

**TROY TOWNSHIP WASTE WATER DISTRICT
ASHLAND COUNTY**

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

4. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Troy Township Loan	\$4,000	0.00%

The District received a loan from Troy Township to be used in the preparation of the plan for the operation of the District and for other legal purposes of the District. The loan is collateralized solely by future revenues from the District's Waste Water operations. The debt is scheduled to be repaid in full by January 22, 2004.

5. RISK MANAGEMENT

Commercial Insurance

The District is uninsured for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

6. SUBSEQUENT EVENTS

The District is currently in the engineering phase of the construction of a Waste Water treatment facility. The anticipated project cost is \$2,636,300. Construction on the project will begin in the fall of 2004 with an anticipated completion in the fall of 2005. Funding for the project is anticipated as follows:

<u>Funding Program</u>	<u>Amount</u>	<u>Status</u>
Connection Fees (\$3,000 per Equivalent Dwelling Unit (EDU))	\$132,000	Local Share
Ohio Public Works - Grant	500,000	Application Due in August 2003
Ohio Public Works - Loan Assistance Grant	100,000	Application Due in August 2004
Ohio Department of Development - Small Government Sewer Grant	600,000	Application Submitted Need to Complete Median Household Income Survey
HUD CDBG County Formula Grant	70,000	Application Due in February 2004
USDA - Rural Development Grant	617,150	Application Submitted
USDA - Rural Development Loan (40 years at 4.75%)	617,150	Application Submitted
Total	\$2,636,300	

The District was approved by Ohio Water Development Authority (OWDA) for a loan on February 28, 2002 in the principal amount of \$294,978 for the construction of Waste Water treatment facilities. However, the District did not start drawing on the loan until January 8, 2003. The District has drawn down a total of \$128,795 through November 7, 2003. The District is scheduled to begin repayment of the loan on July 1, 2007 at an annual interest rate of 5.65%. This OWDA loan is an interim loan to start the project until funds are received from the USDA Rural Development Loan. The proceeds from the USDA loan will be used to redeem the OWDA loan. No other grants or loans have been received to date.

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**Auditor of State
Betty Montgomery**

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

Troy Township Waste Water District
Ashland County
P.O. Box 55
Nova, Ohio 44859

To the Board of Trustees:

We have audited the accompanying financial statement of Troy Township Waste Water District, Ashland County, Ohio, (the District) as of and for the year ended December 31, 2002, and have issued our report thereon dated November 7, 2003. 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 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 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 and 2002-002.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 7, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 7, 2003.

Troy Township Waste Water District
Ashland County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely 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.

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

Betty Montgomery
Auditor of State

November 7, 2003

**TROY TOWNSHIP WASTE WATER DISTRICT
ASHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states in part, 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 of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount thereon.

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 both at the time that the contract or order was made and at the time he is completing his certification a sufficient sum was appropriated and free of any previous encumbrances, the Board 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, if such expenditure is otherwise valid.

- B) If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Board upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

None of the District's expenditures were certified by the Clerk prior to incurring the commitment and the two exceptions noted above were not utilized. The District should inform all District employees of the requirements of Ohio Rev. Code Section 5705.41(D) and the importance of certifying the availability of funds. The District should implement the use of so called Then and Now Certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Rev. Code Section 5705.38 requires that on or about the first day of each year, an appropriation measure is to be passed by the taxing authority of each taxing unit.

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

At December 31, 2002, object level expenditures plus outstanding encumbrances were as follows:

Salaries – Board Members	\$2,900
Supplies	130
Insurance Bond	62
Legal Counsel	571
URS Fees	90,482

Since the Board did not formally approve appropriations in the minutes, these amounts were in excess of appropriations. The Board should adopt appropriations and follow budgetary procedures as prescribed by Ohio Rev. Code 5705. Specifically, Section 5705.28(B) (2) prescribes certain budgetary requirements for taxing authorities which do not levy a tax. The Clerk should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the object level to avoid overspending.



**Auditor of State
Betty Montgomery**

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TROY TOWNSHIP WASTE WATER DISTRICT

ASHLAND 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
DECEMBER 4, 2003**