

Greenfield Township Water and Sewer District

Fairfield County

Regular Audit

January 1, 2002 Through December 31, 2003

Fiscal Years Audited Under GAGAS: 2003 & 2002

BALESTRA, HARR & SCHERER CPAs, INC.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Greenfield Township Water & Sewer District

We have reviewed the Independent Auditor's Report of the Greenfield Township Water & Sewer District, Fairfield County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period January 1, 2002 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Greenfield Township Water & Sewer District is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

August 19, 2004

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GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT
FAIRFIELD COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditors' Report	1
General Purpose Financial Statements:	
Balance Sheets	2-3
Statements of Revenues, Expenses and Changes in Accumulated Deficit	4
Statements of Cash Flows	5-6
Notes to General Purpose Financial Statements	7-15
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	16
Schedule of Findings	17
Schedule of Prior Audit Findings	18

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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the Greenfield Township Water and Sewer District (the District), Fairfield County, as of and for the years ended December 31, 2003 and 2002. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Greenfield Township Water and Sewer District, as of December 31, 2003 and 2002, and the results of its operations and cash flows for the years 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 June 24, 2004 on our consideration of the District's internal control over financial reporting and our tests of 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.

Balestra, Harr & Scherer CPAs, Inc.
Balestra, Harr & Scherer CPAs, Inc.

June 24, 2004

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

BALANCE SHEETS

As of December 31, 2003 and 2002

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 96,041	\$ 50,633
Accounts receivable	98,829	47,529
TOTAL CURRENT ASSETS	194,870	98,162
RESTRICTED ASSETS		
Escrow savings - contractor retainage	-	10,622
Cash in savings - contractor bonds	2,940	3,493
Assessment receivables:		
Water	299,999	311,270
Sewer	351,544	364,026
TOTAL RESTRICTED ASSETS	654,483	689,411
PROPERTY, PLANT AND EQUIPMENT		
Land easements	17,230	17,230
Water tower	52,100	52,100
Building - water plant	20,264	20,264
Water line construction	988,386	985,722
Water line construction in progress	11,040	-
Sewer line construction	2,564,753	2,559,885
Sewer line construction in progress	15,544	-
Water treatment plant improvements	657,792	657,792
Water planning	104,789	104,789
Sewer planning	134,373	134,373
General equipment	89,379	89,379
	4,655,650	4,621,534
Less: Accumulated depreciation	(1,318,280)	(1,132,371)
NET PROPERTY, PLANT AND EQUIPMENT	3,337,370	3,489,163
OTHER ASSETS		
Prepaid insurance	297	250
Loan fees, net of \$6,929 accumulated amortization (\$6,371 in 2002)	10,664	11,222
OTHER ASSETS	10,961	11,472
TOTAL ASSETS	\$ 4,197,684	\$ 4,288,208

See the accompanying notes to the general purpose financial statements.

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

BALANCE SHEETS

As of December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 52,170	\$ 29,506
Customer deposits	22,827	19,491
Contract bonds payable	3,000	3,500
Retainage payable	-	10,622
Notes payable	102,966	48,034
Water revenue bonds payable	31,381	30,383
Accrued interest payable	122,702	-
TOTAL CURRENT LIABILITIES	<u>335,046</u>	<u>141,536</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	3,632,166	3,706,337
Water revenue bonds payable, net of current portion	<u>349,592</u>	<u>380,973</u>
TOTAL LIABILITIES	<u>4,316,804</u>	<u>4,228,846</u>
FUND EQUITY		
Contributed capital:		
Grants	702,594	702,594
Assessments	962,000	962,000
Accumulated deficit	<u>(1,783,714)</u>	<u>(1,605,232)</u>
TOTAL FUND EQUITY	<u>(119,120)</u>	<u>59,362</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 4,197,684</u>	<u>\$ 4,288,208</u>

See the accompanying notes to the general purpose financial statements.

GREENFIELD WATER AND SEWER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT

For the Years Ended December 31, 2003 and 2002

	2003	2002
OPERATING REVENUES		
Billing revenues	566,449	\$ 506,461
Late charge revenues	8,243	13,340
TOTAL OPERATING REVENUES	574,692	519,801
OPERATING EXPENSES		
Trustee fees	4,700	3,000
Contract labor	3,675	3,250
Operations and testing	43,115	34,742
Lancaster surcharge	176,031	164,370
Chemical and operating supplies	12,620	12,138
Sludge hauling	-	2,813
Repairs and maintenance	32,117	26,804
Telephone	3,475	3,483
Utilities	23,279	21,256
Accounting fees	3,165	14,649
Audit fees	191	5,966
Engineering fees	19,028	16,351
Legal fees	8,730	11,588
Billing fees	-	684
Office rent	3,675	3,250
Insurance	5,942	5,314
Advertising and communications	22	21
Office supplies	95	655
Postage	123	109
Licenses	-	88
Bank service fees	52	21
Depreciation	185,909	185,714
Amortization	558	559
Total operating expenses	526,502	516,825
Operating income (loss)	48,190	2,976
OTHER INCOME (EXPENSE)		
Inspection fees (net of costs)	200	2,458
Tap fee revenue	7,410	44,255
Interest income	45,661	47,786
Meter fees	150	6,785
Cost of meters	(1,240)	(1,846)
Interest expense	(279,013)	(279,284)
Miscellaneous income	160	8,715
Net other income (expenses)	(226,672)	(171,131)
NET LOSS	(178,482)	(168,155)
Accumulated deficit, beginning of year	(1,605,232)	(1,437,077)
Accumulated deficit, end of year	(1,783,714)	(1,605,232)
Contributed capital, beginning and end of year	1,664,594	1,664,594
Fund equity, end of year	\$ (119,120)	\$ 59,362

See accompanying notes to the general purpose financial statements.

GREENFIELD WATER AND SEWER DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 523,392	\$ 503,271
Cash payments to suppliers for goods and services	(317,366)	(349,188)
Net cash provided by operating activities	206,026	154,083
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Increase in customer deposits	3,336	6,441
Miscellaneous income	160	8,715
Net cash provided by non-capital financing activities	3,496	15,156
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from OWDA loans	28,961	-
Tap fees	7,410	44,255
Inspection fee	200	1,752
Meter fees net of cost	(1,090)	4,939
OWDA principal payments	(48,199)	(93,559)
OWDA interest payments	(124,274)	(251,766)
First National principal payments	-	(285,374)
First National interest payments	-	(15,953)
Proceeds from sale of short term note	-	150,000
Fairfield National short term note principal payment	-	(150,000)
Fairfield National short term note interest payment	-	(1,373)
Fairfield National note principal payment	(30,383)	(9,644)
Fairfield National note interest payment	(32,037)	(10,192)
Proceeds from sale of long term notes	-	421,000
Special assessment collections	23,753	13,898
Special assessment interest income	45,529	46,978
Capital outlay	(34,116)	(6,025)
Net cash used by capital and related financing activities	(164,246)	(141,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	132	808
Net increase (decrease) in cash and cash equivalents	45,408	28,983
Cash and cash equivalents, beginning of year	50,633	21,650
Cash and cash equivalents, end of year	\$ 96,041	\$ 50,633

See accompanying notes to the general purpose financial statements.

GREENFIELD WATER AND SEWER DISTRICT

STATEMENTS OF CASH FLOWS - Continued

For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 48,190	\$ 2,976
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	186,467	186,273
Bank service fee for contractor bonds account	52	21
Changes in assets and liabilities:		
(Increase) in accounts receivable	(51,300)	(16,551)
(Increase)/Decrease in prepaids	(47)	1,500
Increase/(Decrease) in accounts payable	22,664	(20,136)
Total adjustments	<u>157,836</u>	<u>151,107</u>
Net cash provided by operating activities	<u>\$ 206,026</u>	<u>\$ 154,083</u>

See accompanying notes to the general purpose financial statements.

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE A – NATURE OF ORGANIZATION

Greenfield Township Water and Sewer District (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 established to provide water and sewer services to the residents of Greenfield Township. The District is directed by an appointed five-member Board of Trustees. The District's management believes these financial statements present all activities for which the District is financially accountable.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Under the guidelines of GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. The adoption of this approach to accounting for proprietary activities by the District required no change from prior years. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

1. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. The financial statements include the fund for which the District is "accountable." Accountability as described in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the district and whether exclusion would cause the District's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the District.

Based on the foregoing criteria, there were no PCU's for the years reported on in the financial statements in accordance with GASB Statement No. 14.

2. Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The fund type which the District uses is described below:

Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Water and Sewer Fund – This fund receives charges for services from residents to cover the cost of providing these utilities, and loan and grant proceeds to improve the District's systems.

3. Basis of Accounting

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

4. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget and adopted and passed annual appropriations and resolutions for the years ended December 31, 2003 and 2002.

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

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

Encumbrances - The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. The District had no outstanding encumbrances at December 31, 2003 and 2002.

- 5. Measurement Focus** – The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary 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 the fund are included on the balance sheet. This measurement focus emphasizes the determination of net income. Fund equity (i.e., net total assets) is segregated into contributed capital and accumulated (deficit)/earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

6. Revenue Recognition

Revenues for service fees are recorded in the period the service is provided. Revenue for tap fees are recorded when the taps have been installed and the customer is using the service. All other revenue is recognized when earned.

7. Accounts Receivable

Accounts receivable are presented at their net realizable value. Fairfield County Utilities managed all accounts receivable, including the enforcement of a shut-off policy. Uncollectible sewer account balances are certified to the County Auditor after administrative collection efforts have been exhausted.

8. Restricted Assets

As explained in the Escrow Savings note, a restricted savings account was established for contractor retainage.

Receivables from assessments are considered to be restricted assets because their proceeds are restricted to future debt retirement of the associated projects.

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

9. Property, Plant, Equipment and Planning Costs

Property, plant, equipment and planning costs are presented at cost and are depreciated over the estimated useful lives of the assets from 5 to 25 years, depending upon the type of asset. In addition, interest costs incurred during the construction of the water and sewer system are capitalized and included in property, plant and equipment. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, and capitalized interest over the life of the construction loan, which is determined to be the estimated useful life of the assets.

Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions are capitalized.

10. Amortization

Loan costs are being amortized over the life of each loan beginning on the first date of each loan. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan cost amortization expense charged to operations for the years ended December 31, 2003 and 2002 was \$558 and \$559 respectively.

11. Income Tax

The District operates as a public water/sewer system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

12. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

13. Interest Expense

Interest expense represents the interest portion of construction loan payments to the Ohio Water Development Authority, as well as amounts paid and accrued for the note obtained through Fairfield National Bank of Lancaster, Ohio.

14. Interest Income

Interest income represents earnings from the checking account, savings account, and assessment receivables.

15. Estimates

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

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE C – BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Budgeted Receipts	\$ 718,000	\$ 748,100
Actual Receipts	<u>629,538</u>	<u>1,194,194</u>
Variance - Favorable/(Unfavorable)	<u>\$ (88,462)</u>	<u>\$ 446,094</u>
Appropriation - Operating Expenses	\$ 325,000	\$ 364,000
Actual Expenses	<u>317,418</u>	<u>342,133</u>
Variance - Favorable/(Unfavorable)	<u>\$ 7,582</u>	<u>\$ 21,867</u>
Appropriation - Debt Expenses	\$ 405,265	\$ 397,000
Actual Expenses	<u>236,074</u>	<u>817,861</u>
Variance - Favorable/(Unfavorable)	<u>\$ 169,191</u>	<u>\$ (420,861)</u>

NOTE D – ESCROW SAVINGS

A separate escrow savings account was established to maintain the contractor retainage balance due on the construction of the sewage lines. Interest earned is due and payable to the contractor upon project completion, pending approval by the Board. The escrow account was closed out during 2003. A separate savings account has been set up for contractor bonds.

NOTE E – ACCOUNTS AND ASSESSMENTS RECEIVABLE

Following are accounts receivable balances presented by aging classifications as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Current receivables (0-30 days)	\$ 92,456	\$ 38,525
Delinquent receivables (over 30 days)	<u>6,373</u>	<u>9,004</u>
Total accounts receivables	\$ 98,829	\$ 47,529

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE E – ACCOUNTS AND ASSESSMENTS RECEIVABLE - Continued

Assessment receivables represent the remaining balance of construction assessments less prepayments and principal payments from the County Auditor. Once a project is complete, the related assessments are calculated. Prepayments are permitted for a specified period, and remaining unpaid balances are certified to the county auditor for semi-annual collection over 25 years through real estate tax billings. Interest is being charged at the same rate as the respective OWDA loan. The District had amounts receivable for assessments of water and sewer line construction costs to local service users in the amounts of \$299,999 and \$351,544 respectively, as of December 31, 2003 (\$311,270 and \$364,026, respectively as of December 31, 2002). These amounts will be paid over the life of the related debt including interest at a rate of 6.72%.

NOTE F – CONTRIBUTED CAPITAL

Capital grant - In April, 1992, a \$15,000 capital grant was received to fund start-up costs.

Capital grant-construction in progress - From 1993 through 1994, \$420,762 of capital grant funds were received to fund construction costs of the water treatment plant improvements.

Capital grant-credit enhancement - From 1996 through 1998, \$79,233 capitalized interest and \$187,599 interest expense on the OWDA sewer line loan was paid by Ohio Public Works Commission through a credit enhancement grant.

Assessments – Contributed capital for assessments totals \$962,000 at December 31, 2003 and 2002, and represent the prepaid and certified assessments to customers for construction costs.

NOTE G – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS

Accrued interest, current and long-term debts at December 31, 2003 and 2002 are as follows:

	Interest Rate	First Payment	Contract Term	2003	2002
<u>Notes payable to OWDA:</u>					
Construction loan 1606	7.24%	1/1/1994	25 yrs.	\$ 75,088	\$ 76,455
Construction loan 1607	7.24%	1/1/1994	25 yrs.	75,088	76,455
Construction loan 2938	6.58%	7/1/1996	25 yrs.	180,055	182,836
Construction loan 2966	6.72%	1/1/1997	25 yrs.	878,842	891,190
Construction loan 2967	6.72%	1/1/1997	25 yrs.	1,304,635	1,322,965
Construction loan 2968	6.32%	1/1/1998	24 yrs.	65,059	66,019
Construction loan 3193	6.13%	1/1/2002	25 yrs.	1,127,404	1,138,451
Construction loan 3887	5.28%	7/1/2008	5 yrs.	7,249	-
Construction loan 3902	5.28%	7/1/2008	5 yrs.	12,718	-
Construction loan 3903	5.28%	7/1/2008	5 yrs.	8,994	-
				3,735,132	3,754,371
<u>Water Revenue Bonds</u>					
Fairfield National Bank	7.325%	9/12/2002	5 yrs.	380,973	411,356
Total debt				4,116,105	4,165,727
Less current maturities				(134,347)	(78,417)
Long-term debt				\$ 3,981,758	\$ 4,087,310

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE G – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS - Continued

The current and long-term construction loans listed are with Ohio Water Development Authority (OWDA). As construction begins on any project, specified amounts from approved OWDA construction loans are used to repay OWDA planning loans. It is the intent of the District to expand the water and sewer services within the District.

Future principal and interest payments on all loans are as follows, including interest of \$2,995,328:

O.W.D.A. Construction							2009 & After
<u>Loan #</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		
1606	\$ 8,370	\$ 8,370	\$ 8,370	\$ 8,370	\$ 8,370	\$ 8,370	\$ 83,696
1607	8,370	8,370	8,370	8,370	8,370	8,370	83,696
2938	17,629	17,629	17,629	17,629	17,629	17,629	220,361
2966	85,601	85,601	85,601	85,601	85,601	85,601	1,112,814
2967	127,075	127,075	127,075	127,075	127,075	127,075	1,651,975
2968	6,154	6,154	6,154	6,154	6,154	6,154	79,999
3193	92,066	92,066	92,066	92,066	92,066	92,066	1,657,184
<u>Other Loans</u>							
Fairfield National							
Bank	59,508	59,508	59,508	288,180	-	-	
	<u>\$ 404,773</u>	<u>\$ 404,773</u>	<u>\$ 404,773</u>	<u>\$ 633,445</u>	<u>\$ 345,265</u>	<u>\$ 4,889,725</u>	

Project loan agreements 3887, 3902, and 3903 have not been finalized with the OWDA; therefore, no amortization schedules have been created. As a result these loans are not shown on the above maturity schedule.

NOTE H – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District 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 represent interim 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 accounts including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer 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.

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE H – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS- Continued

Interim monies can 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 any 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;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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 District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment 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 Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, investments and Reverse Repurchase Agreements*.

Deposits – At both fiscal year ends, the carrying amount of deposits was \$98,981 and \$64,748 as of December 31, 2003 and 2002, respectively. The bank balances as of December 31, 2003 and 2002 were \$98,889 and \$237,652, respectively and \$100,000 of the bank balances were covered by federal depository insurance. The remaining balances were collateralized by third party trustees in single institution collateral pools, securing all public funds on deposit with specific depository institutions. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements were potentially subject the District to a successful claim by the FDIC.

Investments – The District did not have any investments during fiscal years 2003 and 2002.

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE I – OTHER FUND DISCLOSURES

The accumulated fund deficit balance for the District was \$1,783,714 and \$1,605,232 at December 31, 2003 and 2002, respectively.

NOTE J – RISK MANAGEMENT

The Sewer District contracted with Rinehart-Walters-Danner Insurance for commercial general liability insurance. The coverage insures up to \$1,000,000 for each occurrence and \$3,000,000 for an aggregate total.

Settled claims have not exceeded commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage by class from the prior year.

NOTE K – PENDING LITIGATION

The District's general legal counsel is the O'Keefe Law Office, Columbus, Ohio.

During the period from January 1 to December 31, 2003 and 2002, there were no contingent liabilities or pending litigation for the District that management believes is material to the financial statements.

NOTE L – NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*. The phase-in period of this accounting principle will require the District to implement the change for the year ended December 31, 2004. The District is preparing for this change in accounting principle, but has elected not to early implement it for fiscal years 2003 and 2002.

NOTE M – SUBSEQUENT EVENT

The District issued a revenue anticipation note in the amount of \$80,000 on January 2, 2004. This note carries an interest rate of 4.375%, matures on December 31, 2004, and will be repaid from revenues generated by the District.

NOTE N – CASH MANAGEMENT

The accompanying general purpose financial statements have been prepared in conformity with generally accepted accounting principles which contemplates continuation of the District as a going concern. However, the District has had substantial operating losses in recent years. In addition, the District has used substantial amounts of working capital in its operations. Further, at December 31, 2003 and 2002, current liabilities exceed current assets by \$60,176 and \$43,374, respectively.

In view of these matters, realization of a major portion of assets in the accompanying balance sheet is dependent upon continued operations of the District, which in turn is dependent upon the District's ability to meet its financing requirements and the success of its future operations. Management believes that actions presently being taken to revise the District's operating and financial requirements provide the opportunity for the District to continue as a going concern.

GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

NOTE O – COMPLIANCE

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

It was noted during the audit that for the year ended December 31, 2002, the District had expenses exceeding appropriations:

<u>Budget Description</u>	<u>Appropriations</u>	<u>Expenses</u>	<u>Excess</u>
Debt Expense	\$397,000	\$817,861	\$(420,861)

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Greenfield Township Water and Sewer District
P.O. Box 172
Carroll, Ohio 43112

We have audited the general purpose financial statements of the Greenfield Township Water and Sewer District (the District), Fairfield County, as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated June 24, 2004. 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 general purpose 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 and 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as 2003-GTWS-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Greenfield Township Water & Sewer District in a separate letter dated June 24, 2004.

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 general purpose 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 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 general purpose 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 internal control over financial reporting, which we have reported to the management in a separate letter dated June 24, 2004.

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

Balestra, Harr & Scherer CPAs, Inc.

Balestra, Harr & Scherer CPAs, Inc.

March 1, 2004

SCHEDULE OF FINDINGS

**GREENFIELD TOWNSHIP WATER & SEWER DISTRICT
FAIRFIELD COUNTY
DECEMBER 31, 2003 AND 2002**

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

Finding Number	2003-GTWSD-001
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit for the year ended December 31, 2002 the District had expenses exceeding appropriations:

<u>Budget Description</u>	<u>Appropriations</u>	<u>Expenses</u>	<u>Excess</u>
Debt Expenses	\$397,000	\$817,861	\$(420,861)

With expenses exceeding appropriations, the District is spending monies not lawfully appropriated for and certified.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring expenses so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis. We recommend the District utilize its accounting software or a spreadsheet to help monitor the budget.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-GTWSD-001	This was completely corrected for the during the 2003.	Complete	Peggy Arnett

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

GREENFIELD TOWNSHIP WATER & SEWER DISTRICT

FAIRFIELD COUNTY

DECEMBER 31, 2003 AND 2002

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-GTWSD-001	ORC, Section 5705.41(B)	No	Not Corrected in 2002- Reissued. Corrected in 2003.



**Auditor of State
Betty Montgomery**

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GREENFIELD TOWNSHIP WATER AND SEWER DISTRICT

FAIRFIELD 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
SEPTEMBER 7, 2004**