



**Auditor of State  
Betty Montgomery**



**WEST ELKTON GRATIS TOWNSHIP FIRE DISTRICT  
PREBLE COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

West Elkton Gratis Township Fire District  
Preble County  
10031 Pleasant Valley Road  
Somerville, Ohio 45064

To the Board of Trustees:

We have audited the accompanying financial statements of the West Elkton Gratis Township Fire District, Preble County, Ohio (the District), as of and for the years ended December 31, 2003 and 2002. 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 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 statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the District, as of December 31, 2003 and 2002, and its combined 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 September 9, 2004 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.

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

September 9, 2004

**WEST ELKTON GRATIS TOWNSHIP FIRE DISTRICT  
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
GENERAL FUND  
FOR THE YEARS ENDED DECEMBER 31, 2003, AND 2002**

	2003	2002
<b>Cash Receipts:</b>		
Intergovernmental	\$35,213	\$26,387
Earnings on Investments	102	108
Miscellaneous	387	2,218
Total Cash Receipts	35,702	28,713
<b>Cash Disbursements:</b>		
Current:		
Security of Persons and Property	965	965
General Government	25,053	19,646
Debt Service:		
Redemption of Principal	6,918	6,558
Interest	1,653	2,013
Total Cash Disbursements	34,589	29,182
Total Receipts Over/(Under) Disbursements	1,113	(469)
Fund Cash Balances, January 1	11,095	11,564
<b>Fund Cash Balances, December 31</b>	<b>\$12,208</b>	<b>\$11,095</b>

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

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**WEST ELKTON GRATIS TOWNSHIP FIRE DISTRICT  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The West Elkton Gratis Township Fire District, Preble 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 an appointed three-member Board of Trustees. One board member is appointed by each political subdivision within the District. Those subdivisions are West Elkton and Gratis Township. The third board member is an outside member. The District provides fire protection and rescue services within the District.

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. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

**C. Cash and Deposits**

Interest earned is recognized and recorded when received.

**D. Fund Accounting**

The District uses the General Fund as the general operating fund. It is used to account for all financial resources.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District did not adopt operating budgets for the audit period.

**1. 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 Board of Trustees must annually approve appropriation measures and subsequent amendments. No appropriation measures were approved for the audit period.

**2. Estimated Resources**

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

**WEST ELKTON GRATIS TOWNSHIP FIRE DISTRICT  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. The District did not use the encumbrance method of accounting. However, the District had no material outstanding encumbrances at December 31, 2003, and 2002.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a pool of deposits. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 follows:

	2003	2002
Demand deposits	\$12,208	\$11,095

Deposits are insured by the Federal Depository Insurance Corporation.

**3. BUDGETARY ACTIVITY**

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

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$35,702	\$35,702

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$34,589	(\$34,589)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$28,713	\$28,713

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$29,182	(\$29,182)

**WEST ELKTON GRATIS TOWNSHIP FIRE DISTRICT  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio Law, the District did not adopt an operating budget for the years ending December 31, 2003 and 2002.

**4. FIRE DISTRICT FUNDING**

The Fire District receives funding from Gratis Township and the Village of West Elkton. The funding is derived from the fire levy money received by Gratis Township and the Village of West Elkton. Payment is made semi-annually to the Fire District after the Township and Village receive their tax distribution from the Preble County Auditor.

**5. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Fire Equipment Bank Loan	<u>\$23,125</u>	5.5%

The District obtained a loan of \$36,601 from Somerville Bank in May 2001. The loan proceeds were used to pay off an existing Fire Equipment Acquisition Note from 1999. The District intends to pay off the new loan over a five-year period by making annual principal and interest payments of \$8,571.

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

	<u>Bank Loan</u>
Year ending December 31:	
2004	8,571
2005	8,571
2006	8,571
Total	<u>\$25,713</u>

**6. RISK MANAGEMENT**

The District has obtained commercial insurance for the following risks:

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

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## **Auditor of State Betty Montgomery**

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

West Elkton Gratis Township Fire District  
Preble County  
10031 Pleasant Valley Road  
Somerville, Ohio 45064

To the Board of Trustees:

We have audited the accompanying financial statements of the West Elkton Gratis Township Fire District, Preble County, Ohio (the District) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated September 9, 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 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* and which are described in the accompanying schedule of findings as items 2003-001, 2003-002, 2003-003, 2003-004, and 2003-005.

We also noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated September 9, 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 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 District'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 2003-001, 2003-002, 2003-003, 2003-004, and 2003-005.

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 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 September 9, 2004.

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

September 9, 2004

**WEST ELKTON GRATIS TOWNSHIP FIRE DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003-001**

**Noncompliance/Reportable Condition**

Ohio Rev. Code, 5705.28(B)(2)(a), states that the taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget pursuant to division (A) of this section. Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission. The District did not adopt operating budgets for the audit period. Failure to adopt operating budgets could result in overspending funds and negative fund cash balances. The District should adopt an annual operating budget.

**FINDING NUMBER 2003-002**

**Noncompliance/Reportable Condition**

Ohio Rev. Code, 5705.38, states that on or about the first day of each fiscal year, an appropriation measure is to be passed. No appropriation measures were passed for the audit period. Failure to pass appropriation measures could result in overspending funds and negative fund cash balances. The District should pass annual appropriation measures.

**FINDING NUMBER 2003-003**

**Noncompliance/Reportable Condition**

Ohio Rev. Code, 5705.41(B), states that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures were not appropriated for the audit period. Failure to appropriate expenditures could result in overspending funds and negative fund cash balances. The District should appropriate all expenditures.

**FINDING NUMBER 2003-004**

**Noncompliance/Reportable Condition**

Ohio Rev. Code, 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation 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. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

**FINDING NUMBER 2003-004  
(Continued)**

This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 (\$3,000 effective 4/7/03), the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

The District did not properly certify the availability of funds for 100% of their purchase commitments, and neither of the exceptions was applicable.

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the Township properly utilize the encumbrance method of accounting by obtaining approved purchase orders, which contain the Clerk's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment. Then and Now Certificates which exceed \$1,000 should be approved by the Trustees. All purchase orders should be signed by at least two Trustees.

**FINDING NUMBER 2003-005**

**Noncompliance/Reportable Condition**

Ohio Rev. Code, Section 5705.36, states that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. The District did not certify the total amount from all sources for the audit period. Failure to certify the total amount from all sources could result in overspending funds and negative fund cash balances.

**FINDING NUMBER 2003-006**

**Noncompliance/Reportable Condition**

Ohio Admin. Code, 117-2-02(A), requires governments to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per Ohio Admin. Code, Section 117-2-02(C), accounting records that can help achieve these objectives include:



**FINDING NUMBER 2003-005  
(Continued)**

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction. The District only maintains a check register which details the amount, date, check number, and description of who and why cash was received from or paid to.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund. A receipts ledger was not maintained.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution. An appropriation ledger was not maintained.

Ohio Admin. Code, 117-9-01, provides suggested account classifications. These accounts classify receipts by source (taxes or charges for services, for example) and classify disbursements by program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the District with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

Due care should be taken in the preparation of the District's books. Receipts and expenditures were not properly recorded in the District's books. Receipts should be posted to the correct line item. Checks that were written in one fiscal year but did not clear the bank until the subsequent fiscal year were recorded in the subsequent fiscal year. Expenditures should be recorded in the period in which they occurred. Proper posting of receipts and expenditures will aid in the proper presentation of the District's financial position.

We recommend the District maintain a revenue ledger and appropriation ledger. We also recommend the District reconcile the ledgers to the bank on a monthly basis and that a Board member review and sign off on the reconciliation, indicating approval and timeliness of reconciliations. Implementation of these procedures will add a substantial measure of control to the receipt and expenditure process, as well as provide assurance that the activity is properly handled and fairly presented on the District's ledgers and financial reports.

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**WEST ELKTON GRATIS TOWNSHIP FIRE DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
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>
2001-40368-001	Revised Code 5705.28(B)(2)(a), failure to adopt an operating budget	No	Not corrected; reissued as Finding Number 2003-001
2001-40368-002	Revised Code 5705.38, failure to pass an appropriation measure	No	Not corrected; reissued as Finding Number 2003-002
2001-40368-003	Revised Code 5705.41(B), failure to appropriate expenditures	No	Not corrected; reissued as Finding Number 2003-003
2001-40368-004	Revised Code 5705.41(D), failure to certify funds	No	Not corrected; reissued as Finding Number 2003-004





**Auditor of State  
Betty Montgomery**

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**WEST ELKTON GRATIS TOWNSHIP FIRE DISTRICT  
PREBLE 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  
NOVEMBER 4, 2004**