



**Auditor of State
Betty Montgomery**

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statement of Jefferson Regional Water Authority (the Authority) as of and for the year ended December 31, 2003. This financial statement is the responsibility of the Authority'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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 Authority 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 balance of the Authority as of December 31, 2003 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 16, 2004 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jefferson Regional Water Authority
Montgomery County
Independent Accountants' Report
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This report is intended solely for the information and use of the 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 16, 2004

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2003**

Operating Cash Receipts:

| | |
|-------------------------------|-----------|
| Charges for Services | \$539,265 |
| Tap-In Fees | 36,388 |
| Miscellaneous | 10,196 |
| | <hr/> |
| Total Operating Cash Receipts | 585,849 |

Operating Cash Disbursements:

| | |
|------------------------------------|---------|
| Personal Services | 176,779 |
| Contractual Services | 169,748 |
| Office Supplies and Materials | 73,422 |
| Other | 4,391 |
| Debt Service: | |
| Principal | 74,471 |
| Interest | 119,463 |
| | <hr/> |
| Total Operating Cash Disbursements | 618,274 |

Operating (Loss) (32,425)

Non-Operating Cash Receipts:

| | |
|----------|-------|
| Interest | 2,299 |
| | <hr/> |

Net Loss (30,126)

Cash Balance, January 1 421,546

Cash Balance, December 31 **\$391,420**

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

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**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Jefferson Regional Water Authority, Montgomery County, (the Authority), 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 Authority is directed by a nine-member Board of Trustees elected, for three-year term, by the members of the district. The board has complete authority over all aspects of the operation. The Authority provides water services to residents of the Authority.

The Authority's management believes these financial statements present all activities for which the Authority 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. Deposits and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The money market index account and repurchase agreement sweep account are valued at cost.

D. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function or 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. Appropriations lapse at year end.

2. Estimated Resources

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

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

Contrary to Ohio law, the Authority did not use the encumbrance method of accounting.

A summary of 2003 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.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Authority's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Authority invests in a money market index and sweep accounts.

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

| | 2003 |
|----------------------|-------------|
| Demand deposits | \$180,218 |
| Repurchase agreement | 211,202 |
| Total deposits | \$391,420 |

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by the financial institution's public entity deposit pool.

Investments: The Authority's financial institution transfers securities to the Authority's agent to collateralize repurchase agreements. The securities are not in the Authority's name.

3. BUDGETARY ACTIVITY

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

| Budgeted vs. Actual Receipts | |
|-------------------------------------|-------------|
| Fund Type | 2003 |
| Budgeted Receipts | \$677,032 |
| Actual Receipts | 588,148 |
| Variance | (\$88,884) |

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | 2003 |
|-------------------------|-------------|
| Appropriation Authority | \$677,032 |
| Budgetary Expenditures | 618,274 |
| Variance | \$58,758 |

Contrary to Ohio law, budgetary expenditures in the Contractual Services and Debt Service accounts exceeded the Authority's appropriation authority by \$27,054 and \$61,934, respectively for the year ended December 31, 2003.

4. DEBT

Debt outstanding at December 31, 2003 was as follows:

| | Principal | Interest Rate |
|-----------------|------------------|----------------------|
| FMHA Loan, 1982 | \$1,600,000 | 5.00% |
| OWDA Loan, 1991 | 485,010 | 7.51% |
| Total | \$2,085,010 | |

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

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

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

| Year ending December 31: | FMHA Loan 1982 | OWDA Loan 1991 |
|---------------------------------|---------------------------|---------------------------|
| 2004 | \$130,000 | \$62,733 |
| 2005 | 132,500 | 62,733 |
| 2006 | 134,750 | 62,733 |
| 2007 | 131,750 | 62,733 |
| 2008 | 133,750 | 62,733 |
| 2009 - 2013 | 657,250 | 313,666 |
| 2014 - 2018 | 666,750 | 125,466 |
| 2019 - 2022 | 530,000 | 0 |
| Total | \$2,516,750 | \$752,797 |

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

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

5. RETIREMENT SYSTEMS

The Authority's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003, OPERS members contributed 8.5% of their gross salaries. The Authority contributed an amount equal to 13.55% of participants' gross salaries through December 31, 2003. The Authority has paid all contributions required through December 31, 2003.

6. RISK MANAGEMENT

Commercial Insurance

The Authority has obtained commercial insurance for the following risks:

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

7. SUBSEQUENT EVENTS

On January 22, 2004, the Authority approved entering into an Ohio Public Works Commission (OPWC) revised loan for \$270,000 for 20 years for the waterline improvement and extension project. Additionally, on February 12, 2004, the Authority approved entering into an Ohio Water Development Authority (OWDA) loan for \$251,000 for the South Union Road Improvement and Extension Project.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Trustees:

We have audited the accompanying financial statement of Jefferson Regional Water Authority (the Authority) as of and for the year ended December 31, 2003, and have issued our report thereon dated November 16, 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 Authority's financial statement is 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 2003-001 through 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated November 16, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying schedule of findings as items 2003-005 through 2003-006.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2003-005 to be 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 Authority in a separate letter dated November 16, 2004.

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



Betty Montgomery
Auditor of State

November 16, 2004

JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003

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

FINDING NUMBER 2003-001

The Farmers Home Administration Loan (FMHA) 1982 Debt Covenant states that “there shall be set aside and deposited in the Reserve Account the sum of \$10,833 each month until there is accumulated in such fund the sum of \$130,000, after which no further deposits need be made into said account except to replace withdrawals.”

The Authority is not compliant with the (FMHA) - 1982 Loan Debt Covenant as it failed to establish a Reserve Account. The Authority should establish a reserve account in the amount of \$130,000 as required by the debt covenant.

FINDING NUMBER 2003-002

Ohio Rev. Code Section 117.38 requires cash basis entities to file unaudited financial reports with the Auditor of State’s Office within 60 days of fiscal year end. Any public office which does not file the report by the required date shall be subject to a penalty of twenty-five dollars for each day the report remains unfilled, not to exceed seven hundred and fifty dollars. Further, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The Authority’s financial report for year ended December 31, 2003, had not been filed with the Auditor of State’s Office, as of the date of this report. Additionally, the required public notice was not published.

The Authority should develop and implement procedures to provide that financial reports are prepared and filed timely, and the required notice is published to provide notice that the report is available for public inspection. Additionally, timely reporting should provide improved information for financial decision making purposes.

FINDING NUMBER 2003-003

Ohio Rev. Code Section 5705.41 (B) prohibits expenditure of monies unless the funds have been properly appropriated. This Section also prohibits expenditures from exceeding appropriation at the legal level of budgetary control. At December 31, 2003, total expenditures exceeded total appropriations at the legal level of control, in the following line items:

| <u>Account</u> | <u>Total Appropriation</u> | <u>Total Expenditures</u> | <u>Variance</u> |
|----------------------|--------------------------------|-------------------------------|-----------------|
| Contractual Services | \$142,694 | \$169,748 | (\$27,054) |
| Debt Service | 132,000 | 193,934 | (61,934) |

The Authority should monitor budgetary reports throughout the year to ensure budgetary expenditures do not exceed appropriations at the legal level of control. In Instances where it appears appropriations are insufficient to meet projected needs, the Authority’s Board of Trustees should pass a resolution to amend appropriations.

FINDING NUMBER 2003-004

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Authority can authorize the drawing of a warrant from the payment of the amount due. The Authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$1,000 (HB 454, effective April 7, 2003, increased the limit to \$3,000) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Authority.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. (HB 95, effective September 25, 2003, eliminated the \$5,000 and 3 month restrictions). The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The Authority may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The Authority failed to certify funds for all expenditure transactions tested during 2003. Failure to certify obligations prior to incurring the obligations could result in misappropriation of monies and deficit spending by the Authority. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

To improve controls over disbursements and to help reduce the possibility that Authority funds will exceed budgetary spending limitations, we recommend that the Authority's Treasurer certify that the funds are or will be available prior to the obligation by the Authority. When prior certification is not possible, "then and now" certification should be used.

FINDING NUMBER 2003-005

Monthly Bank-to-Book Cash Reconciliations

The Authority did not complete monthly bank-to-book reconciliations for the entire 2003 fiscal year. To ensure that the Authority's cash balance is properly stated, the Authority should monthly complete reconciliations and make certain that the ledger and the cash reconciliations agree. Additionally, monthly bank reconciliation's, should be submitted to the Board of Trustees for review and approval.

Additionally, procedures should be developed and implemented to follow up on old outstanding checks and re-issuances of checks including the use of "stop payments". The Authority has \$3,948 in outstanding checks dating back to 1995. The Authority has stated that these checks have been either voided or a stop payment order issued, but the checks have not been removed from the Authority's financial system.

Finally, the Board of Trustees should take an active role in monitoring the financial records of the Authority to provide for increased accuracy and usefulness of the information.

Resolving these conditions and implementing the procedures above will provide the Board of Trustees and management with improved, completeness and accuracy in financial reporting for proper decision making.

FINDING NUMBER 2003-006

Unapproved Expenditure and Wire Transfer of Authority Monies

During October 2003, the Authority received a faxed invoice for an amount due from Eve Berry, President of the Nautilus Group, Inc. for fees for services rendered to the Authority. The Nautilus Group, Inc. prepared a grant writing proposal for the Authority for the Improvement and Extension Project that was approved by the Board of Trustees. The invoice displayed the total amount due less an advance of \$8,000. The advance occurred during January 2002, of which the Authority's Treasurer, wire transferred \$8,000 from the Authority's bank account to Eve Berry, without the Board of Trustees approval. Further, there was no written contract between the Nautilus Group, Inc. and the Authority for a grant writing proposal.

The Authority should obtain a written contract for all proposals that are approved by the Board of Trustees. Additionally, no monies should be expended or directly wired from the Authority's bank account without the approval or review of the Board of Trustees. This action could cause a misappropriation of Authority funds. Implementing these procedures will provide the Board of Trustees and management with improved, completeness and accuracy in cash management for proper decision making.

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 2003**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|---------------------|---|
| 2002-001 | ORC Sec. 5705.41(B) – Expenditures exceeded appropriations | No | Repeat Finding 2003-003 |
| 2002-002 | ORC Sec. 5705.41(D) – Failure to certify funds | No | Repeat Finding 2003-004 |
| 2002-003 | ORC Sec. 117.38 – Failure to file unaudited financial report | No | Repeat Finding 2003-002 |
| 2002-004 | FMLA 1982 Debt Covenant – Failure to establish a Reserve Account | No | Repeat Finding 2003-001 |
| 2002-005 | Financial records maintenance and reporting | Partially Corrected | Repeat Finding 2003-005 |
| 2002-006 | Payment of Accrued vacation leave | No | Action did not occur in fiscal year 2003 however a policy was not established. Moved to Management letter |



**Auditor of State
Betty Montgomery**

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

**JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 31, 2005**