



Auditor of State
Betty Montgomery

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

North Hills Water District
Summit County
253 West Aurora Road
Northfield, Ohio 44067

To the Board of Trustees:

We have audited the accompanying financial statements of the North Hills Water District, Summit County, Ohio, (the District) as of and for the year ended December 31, 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 fund cash balances 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 October 21, 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.

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 cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

October 21, 2003

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**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>General</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Local Taxes	\$67,155	\$0	\$67,155
Intergovernmental	9,845		9,845
Charges for Services	8,000		8,000
Earnings on Investments	10,159		10,159
Developer Fees/Deposits	37,500		37,500
Miscellaneous	11,243		11,243
	<u>143,902</u>	<u>0</u>	<u>143,902</u>
Cash Disbursements:			
Current:			
Salaries and Benefits	25,101		25,101
Repairs and Supplies	42,134		42,134
Insurance and Bonds	5,639		5,639
Administrative Contracts	1,875		1,875
Utilities	1,005		1,005
Other Expenses	11,998		11,998
Legal Expenses	750		750
Workers Compensation	95		95
Capital Outlay	107,920		107,920
	<u>196,517</u>	<u>0</u>	<u>196,517</u>
Total Cash Disbursements	<u>196,517</u>	<u>0</u>	<u>196,517</u>
Total Receipts Over/(Under) Disbursements	(52,615)	0	(52,615)
Fund Cash Balances, January 1	<u>669,358</u>	<u>12,877</u>	<u>682,235</u>
Fund Cash Balances, December 31	<u>\$616,743</u>	<u>\$12,877</u>	<u>\$629,620</u>

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

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**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The North Hills Water District, Summit 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 is directed by a seven-member Board of Trustees appointed by Northfield Center and Sagamore Hills Townships. An appointed Clerk-Treasurer is responsible for fiscal control of the resources of the District. The District provides construction of water lines and major repair and servicing of hydrants within the Townships.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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

C. 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.

Certificates of deposit are valued at cost.

D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Debt Service Fund

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The District had the following Debt Service Fund:

Bonded Debt Fund - This fund was used to accumulate resources for the principal and interest on two bond issues: the Water Supply and Distribution Facilities Bond for the District's 1974 Water System Construction Bond Issue, and the Water System Improvement Bond for the District's 1988 System Improvement Bond issue, both of which have been paid in full.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 fund function 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. The County Budget Commission must also approve the annual appropriation measure. 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.

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.

A summary of 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 cash and investments pool used by all funds. The carrying amount of cash at December 31 was as follows:

	2002
Demand deposits	<u>\$29,620</u>
Certificates of deposit	<u>600,000</u>
Total deposits	<u><u>\$629,620</u></u>

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the District.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

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

3. BUDGETARY ACTIVITY

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

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$78,729	\$143,902	\$65,173
Debt Service	0	0	0
Total	\$78,729	\$143,902	\$65,173

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$742,094	\$196,517	\$545,577
Debt Service	0	0	0
Total	\$742,094	\$196,517	\$545,577

4. NONCOMPLIANCE

Contrary to Ohio Rev. Code Section 5705.28, the District did not adopt a tax budget for fiscal year 2002.

Contrary to Ohio Rev. Code Section 5705.34, the District did not certify the amounts and rates to the County Fiscal Officer by the required date for fiscal year 2002.

Contrary to Ohio Rev. Code Sections 5705.36 and 5705.39, the District did not certify to the County Fiscal Officer the total amount from all sources available for expenditure or obtain an amended certificate for fiscal year 2002. By not obtaining the required certificates, the District had appropriations in excess of estimated resources.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the District.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

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

6. RETIREMENT SYSTEM

The District's appointed officials 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 2002, OPERS members contributed 8.5% of their gross salaries. The District contributed an amount equal to 13.55% of participants' gross salaries. The District has paid all contributions required through December 31, 2002.

7. RISK MANAGEMENT

Commercial Insurance

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Public Official's liability
- Employer's liability



**Auditor of State
Betty Montgomery**

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

North Hills Water District
Summit County
253 West Aurora Road
Northfield, Ohio 44067

To the Board of Trustees:

We have audited the accompanying financial statements of North Hills Water District, Summit County, Ohio, (the District) as of and for the year ended December 31, 2002, and have issued our report thereon dated October 21, 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 through 2002-003.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated October 21, 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. 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 2002-004 and 2002-005.

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. The reportable conditions described above are considered to be material weaknesses.

We also noted other matters involving 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 October 21, 2003.

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

October 21, 2003

**NORTH HILLS WATER DISTRICT
SUMMIT 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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NONCOMPLIANCE CITATIONS

FINDING NUMBER 2002-001

Ohio Rev. Code Section 5705.28 requires the District to adopt a tax budget for the next succeeding year on or before July 15 of each year.

The Board did not adopt an annual tax budget for 2002.

To avoid jeopardizing its share of local government monies, we recommend the District adopt a tax budget on or before July 15 of each year as required.

FINDING NUMBER 2002-002

Ohio Rev. Code Section 5705.34 requires each taxing authority to pass an ordinance or resolution authorizing the necessary tax levies and, to certify such levies to the County Fiscal Officer before October 1st of each year, unless a later date is approved by the Tax Commissioner.

The District adopted resolutions authorizing the necessary tax levies on September 25, 2002. The District, however, failed to certify the amounts and rates of its tax levies to the County Fiscal Officer.

We recommend that the District certify the necessary tax levies to the County Fiscal Officer as required.

FINDING NUMBER 2002-003

Ohio Rev. Code Section 5705.36 requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units certify to the County Fiscal Officer the total amount from all sources which is available for expenditure from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. **Ohio Rev. Code Section 5705.39** requires that total appropriations from each fund shall not exceed total estimated fund resources from each fund as certified by the County Board of Commission. This section also provides that no appropriation measure is to become effective until the County Fiscal Officer files a certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

The District did not provide evidence that it certified the Total Amount from All Sources Available for Expenditures to the County Fiscal Officer for 2002. As a result, estimated resources approved by the Budget Commission did not include the prior year unencumbered fund balance and appropriations exceeded estimated resources in the General Fund by \$663,365. Had the prior year unencumbered fund balance been included in estimated resources, appropriations would not have exceeded estimated resources. In addition, the District did not provide a Certificate from the County Fiscal Officer stating that Total Appropriations from Each Fund Do Not Exceed the Official Estimate of Resources. By not certifying to the County Fiscal Officer when necessary, the District increases the likelihood that appropriations will exceed available resources which could result in negative fund balances.

We recommend the District prepare and maintain evidence that it certified the Total Amount Available for Expenditures to the County Fiscal Officer. In addition, the District should obtain and maintain the Certificate from the County Fiscal Officer stating the Total Appropriations From Each Fund Do No Exceed the Official Estimate of Resources.

MATERIAL WEAKNESSES

FINDING NUMBER 2002-004

Board Minutes

During review of the minute record for the audit period, the following weaknesses were noted:

- The meeting date indicated on the approved Board minutes did not agree with the actual date the meeting had been held for 2 of 8 meetings.
- Board minutes were not approved by the Board for 5 of 8 meetings.
- Pertinent information was not always included in the minutes. For example, details such as the time a Board member arrived at the meeting, if it was after roll call; votes; appropriation details; and resolution details were not specified/included to document the intent of the Board.

We recommend the Board implement the following to improve accountability over the minute records:

- All Board minutes should be approved at the Board's next meeting and entered into public record.
- All pertinent information documenting the Board's intent should be included in the official minutes. Minutes should contain sufficient facts and information to allow the public to understand and appreciate the rationale or intent behind the Board's decisions.

Implementing the above listed procedures will help ensure the minute records will reflect accurate and pertinent information.

FINDING NUMBER 2002-005

Financial Records

For the year ended December 2002, the District's accounting records were maintained in a manner such that interim financial activity and annual financial statements were not available in a timely fashion. Supporting documentation for both payments and deposits was not always available. Also, when supporting documentation was available, it sometimes did not agree with the related transaction. Bank reconciliations were not performed correctly or on a timely basis. Providing current and reliable financial information is essential to the Board for management and future planning.

The posting of financial activity should be performed accurately and in a timely fashion, and bank reconciliations should be performed monthly, including reconciliations between the bank and book balances.

**MATERIAL WEAKNESSES
(Continued)**

**FINDING NUMBER 2002-005
(Continued)**

Financial Records (Continued)

To help ensure that accurate financial information is provided, at a minimum, we recommend that the Clerk-Treasurer and the Board develop, implement and monitor the following control procedures for assurance as to the timeliness and reliability of financial information:

- a. Review and approve monthly financial statement information in a timely manner.
- b. Review information such as long outstanding bank reconciliation items of more than six months or unusual or significant accounting entries.
- c. Establish and adhere to policies and procedures governing the basic provisions applicable to all local public offices pursuant to the Ohio Admin. Code Section 117-2. These policies and procedures include such things as internal controls, accounting and reporting records and annual financial reports.
- d. Review account reconciliations timely, including clearance of reconciling items on bank account reconciliations to help ensure accounts are reconciled accurately and in a timely manner.
- e. Develop and implement monitoring procedures to help ensure that all transactions are properly recorded and also recorded in the proper period.
- f. Develop and implement monitoring procedures to help ensure that all financial activity for the period is reflected in the financial statements.
- g. Develop and implement procedures regarding payment of financial obligations to help avoid overpayment of bills and help eliminate late payments, fines and penalties.
- h. Review and formally approve financial reports documenting the District's financial activity during regularly scheduled meetings. This review and approval should be documented in the minute record.
- i. Maintain a complete record of official proceedings to include detailed minute records, all resolutions and financial reports in a central location so they are available for public inspection.

These procedures will help improve the timeliness and accuracy of financial information provided to the Board and also improve the financial recordkeeping of the District. In addition, the District should consider utilizing a computerized accounting system to eliminate posting errors and create uniform financial reports and statements.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-60977-001	Ohio Rev. Code Section 117.38, failure to file year end financial reports with the Auditor of State.	Yes	Corrected.
2001-60977-002	Ohio Rev. Code Section 5705.28, failure to adopt a tax budget.	No	Repeated as Finding Number 2002-001.
2001-60977-003	Ohio Rev. Code Section 5705.34, failure to authorize the necessary tax amounts and rates.	No	Repeated as Finding Number 2002-002.
2001-60977-004	Ohio Rev. Code Sections 5705.36 and 5705.39, failure to certify total amount from all sources available for expenditure and appropriations exceeding actual resources.	No	Repeated as Finding Number 2002-003.
2001-60977-005	Ohio Rev. Code Section 5705.41 (B), disbursements exceeded appropriations at the legal level of control.	No	Partially corrected noncompliance not as significant. Repeated in current audit Management Letter.
2001-60977-006	Ohio Rev. Code Section 5705.41(D), failure to certify funds.	Yes	Corrected.
2001-60977-007	Inadequate Board minute approval and documentation.	No	Repeated as Finding Number 2002-004.
2001-60977-008	Financial records were not timely or complete.	No	Repeated as Finding Number 2002-005.



**Auditor of State
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NORTH HILLS WATER DISTRICT

SUMMIT 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 4, 2004**