

***NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Trustees
North Hills Water District
253 West Aurora Road
Northfield, Ohio 44067

We have reviewed the *Report of Independent Accountants* of the North Hills Water District, Summit County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2003 to December 31, 2004. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 North Hills Water District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 5, 2005

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**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2003 & 2004**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Trustees
North Hills Water District
Summit County, Ohio

We have audited the accompanying financial statements of the North Hills Water District, Summit County, Ohio (the District) as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 Controller General of the United States. Those standards require that we plan and perform the audit 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 described more fully in Note 1, the District has presented these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the District to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The District has elected not to reformat its statements. Since this District does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the North Hills Water District, Summit County, as of December 31, 2004 and 2003, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the year ended December 31, 2004. The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2005, 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 grant agreements and other matters. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
July 31, 2005

NORTH HILLS WATER DISTRICT
Summit County, Ohio
Combined Statement of Cash, Investments and Fund
Cash Balances - All Fund Types
As of December 31, 2004

Cash and Cash Equivalents	<u><u>\$ 504,714</u></u>
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CASH BALANCES BY FUND CLASS

Governmental Fund Types:

General Fund	\$ 491,837
Debt Service Fund	<u>12,877</u>
Total Governmental Fund Types	<u><u>504,714</u></u>

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

NORTH HILLS WATER DISTRICT
Summit County, Ohio
Combined Statement of Cash, Investments and Fund
Cash Balances - All Fund Types
As of December 31, 2003

Cash and Cash Equivalents	<u><u>\$ 609,785</u></u>
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CASH BALANCES BY FUND CLASS

Governmental Fund Types:

General Fund	\$ 596,908
Debt Service Fund	<u>12,877</u>
Total Governmental Fund Types	<u><u>609,785</u></u>

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

NORTH HILLS WATER DISTRICT
Summit County, Ohio
Combined Statement of Receipts, Disbursements and Changes In
Fund Cash Balances - All Governmental Fund Types
For the Year Ended December 31, 2004

	Governmental Fund Types		Total (Memorandum Only)
	General	Debt Service	
<u>Cash Receipts:</u>			
Taxes	\$ 70,125	\$ -	\$ 70,125
Intergovernmental	459,630	-	459,630
Charges for Services	5,395	-	5,395
Developer Fees/Deposits	34,425	-	34,425
Earnings on Investments	6,868	-	6,868
Miscellaneous	874	-	874
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	577,317	-	577,317
<u>Cash Disbursements:</u>			
Salaries and Benefits	22,851	-	22,851
Repairs and Supplies	54,641	-	54,641
Insurance and Bonds	4,448	-	4,448
Utilities	983	-	983
Other Expenses	4,701	-	4,701
Legal Expenses	3,579	-	3,579
Reimbursement of deposits	6,946	-	6,946
Capital Outlay	584,239	-	584,239
	<hr/>	<hr/>	<hr/>
Total Expenditures	682,388	-	682,388
<i>Excess of Revenues Over (Under) Expenditures</i>	(105,071)	-	(105,071)
Beginning Balance January 1, 2004	<hr/> 596,908	<hr/> 12,877	<hr/> 609,785
Ending Balance December 31, 2004	<u>\$ 491,837</u>	<u>\$ 12,877</u>	<u>\$ 504,714</u>

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

NORTH HILLS WATER DISTRICT
Summit County, Ohio
Combined Statement of Receipts, Disbursements and Changes In
Fund Cash Balances - All Governmental Fund Types
For the Year Ended December 31, 2003

	Governmental Fund Types		Total (Memorandum Only)
	General	Debt Service	
<u>Cash Receipts:</u>			
Taxes	\$ 67,567	\$ -	\$ 67,567
Intergovernmental	8,558	-	8,558
Charges for Services	8,274	-	8,274
Developer Fees/Deposits	24,029	-	24,029
Earnings on Investments	6,746	-	6,746
Miscellaneous	1,929	-	1,929
Total Cash Receipts	117,103	-	117,103
 <u>Cash Disbursements:</u>			
Salaries and Benefits	20,431	-	20,431
Repairs and Supplies	53,619	-	53,619
Insurance and Bonds	4,177	-	4,177
Utilities	787	-	787
Other Expenses	5,573	-	5,573
Legal Expenses	881	-	881
Office Supplies	2,877	-	2,877
Office Equipment	1,995	-	1,995
Capital Outlay	46,598	-	46,598
Total Expenditures	136,938	-	136,938
Excess of Revenues Over (Under) Expenditures	(19,835)	-	(19,835)
Beginning Balance January 1, 2003	616,743	12,877	629,620
Ending Balance December 31, 2003	\$ 596,908	\$ 12,877	\$ 609,785

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

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 & 2004**

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 for the purpose of exercising 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. 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 included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

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 disbursement 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.)

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

C. **INVESTMENTS AND INACTIVE FUNDS**

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments are valued at purchase cost. Interest earned is recognized and recorded when received. See Note 2 for further description.

D. **FUND ACCOUNTING**

The District maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund: The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Debt Service Fund: The Debt Service Fund is used for the payment of principal and interest on the District's general obligation debt. The fund is currently inactive. The remaining balance will be transferred to the General Fund when the District obtains permission from the Summit County Court of Common Pleas.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 & 2004**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – (continued)

E. **BUDGETARY PROCESS**

1. **Budget**

A budget of estimated cash receipts and disbursements is prepared by the Finance Director, approved by the Board of Trustees, and submitted to the county auditor, as secretary of the County Budget Commission, by July 15 of each year, for the period January 1 to December 31 of the following year.

2. **Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must approve estimated resources.

3. **Appropriations**

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

The legal level of budgetary control is at the object level in all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Trustees.

4. **Encumbrances**

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated

F. **PROPERTY, PLANT AND EQUIPMENT**

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

G. **TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to consolidation.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 & 2004**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments.

The carrying amounts of the District's cash and investments at December 31, 2003 and 2004 were as follows:

		2003		2004	
Demand Deposits	\$	9,785	\$	74,714	
Certificates of Deposit		600,000		430,000	
	\$	609,785	\$	504,714	

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2003 follows:

Budgeted vs. Actual Receipts 2003			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 141,393	\$ 117,103	\$ (24,290)
Total	\$ 141,393	\$ 117,103	\$ (24,290)

Budgeted vs. Actual Budgetary Basis Disbursements 2003			
Fund Type	Appropriation Authority	Actual Disbursements	Variance
General	\$ 732,595	\$ 136,938	\$ 595,657
Total	\$ 732,595	\$ 136,938	\$ 595,657

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 & 2004**

3. BUDGETARY ACTIVITY (continued)

Budgetary activity for the year ended December 31, 2004 follows:

Budgeted vs. Actual Receipts 2004						
Fund Type		Budgeted Receipts		Actual Receipts		Variance
General	\$	752,260	\$	226,734	\$	(525,526)
Total	\$	752,260	\$	226,734	\$	(525,526)
Budgeted vs. Actual Budgetary Basis Disbursements						
Fund Type		Appropriations		Actual Disbursements		Variance
General	\$	1,288,951	\$	331,805	\$	957,146
Total	\$	1,288,951	\$	331,805	\$	957,146

4. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35 percent of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2003.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amounts of these homestead and rollback reductions is reimbursed to the District by the State of Ohio and are reflected in the accompanying financial statements as Intergovernmental Receipts.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

The County Treasurer collects property tax on behalf of all taxing districts within the county. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2003 & 2004**

5. RISK MANAGEMENT

The District is exposed to various risks of loss related torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees and natural disasters. During both fiscal years, the District obtained commercial insurance for the following risks:

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

6. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Ohio. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects the amount to be immaterial.

7. LEGAL COMPLIANCE

Pursuant to Section 117.11(A) of the Revised Code, we performed tests of compliance with provisions of local, state, and /or federal laws, as applicable. The auditor's report on the District's compliance with the Ohio Revised Code and internal control structure comments are included in a separate part of this presentation.

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Board of Trustees
North Hills Water District
Summit County, Ohio

We have audited the financial statements of North Hills Water District, Summit County, Ohio (the District) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated July 31, 2005, wherein we noted the District prepared its financial statements using accounting practices the Auditor of State established rather than accounting principles generally accepted in the United States of America. 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.

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 an opinion 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. A reportable condition is described in the accompanying Schedule of Findings as item 03/04-NHills-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud 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 on 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 consider the reportable condition described above to be a material weakness.

We also noted certain additional internal control matters that we reported to management of the District in a separate letter dated July 31, 2005.

COMPLIANCE AND OTHER MATTERS

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 grant agreements, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 03/04-NHills-001.

We also noted certain additional matters that we reported to management of the District in a separate letter dated July 31, 2005.

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

Charles E. Harris & Associates, Inc.
July 31, 2005

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
For the Years Ended December 31, 2003 & 2004**

SCHEDULE OF FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 03/04-NHills-001

Noncompliance Citation

Clerk's Certificate and Expenditures

Ohio Revised Code Section 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached. The fiscal officer must certify that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to the basic requirement stated above, one of which is provided for in section 5705.41(D)(1) of the Revised Code.

"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 he is completing his 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 District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within thirty days, there is no legal liability on the part of the District.

Amounts less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

The District did not certify all expenditures. Purchase orders with the Fiscal Officer's certificate were only prepared for some line items. The ones issued were predominantly blanket purchase orders. The purchase orders issued were not encumbered. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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 of the District's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5704.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. When the District uses a "then and now" certification the purchase order should be so noted.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
For the Years Ended December 31, 2003 & 2004**

SCHEDULE OF FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 03/04-NHills-002

Material Weakness

Ohio Administrative Code Section 117-2-02 Accounting and reporting records.

- (A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office 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 by rule 117-2-03 of the Administrative Code.
- (B) All local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of the operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:
- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transactions.
 - (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
 - (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expense into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
 - (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records for payroll:
 - a) W-2's, W-4's and other withholding records and authorizations
 - b) Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
For the Years Ended December 31, 2003 & 2004**

SCHEDULE OF FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 03/04-NHills-002 (continued)

Material Weakness (continued)

- (C) The District has computerized financial records starting in 2004. But they do not do the following:
- (1) Purchase orders are not issued for all expenditures, and therefore there are no fiscal officer “certificates” attached to expenditures without purchase orders. Also, purchase orders are not pre-numbered and in most cases not numbered at all.
 - (2) The District does not encumber what purchase orders they issue. Therefore, they do not know at any one time what is still available to expend.
 - (3) The District does not issue receipts for revenue received.
 - (4) The District has only one employee, the Finance Director, and the Board members are paid a monthly fee for attending meetings. While the District prepared W-2’s for the Finance Director and Board members, no payroll journal was prepared listing gross pay less each required or voluntary deduction and net pay for each pay period .

Recommendation

- (A) Purchase orders must be issued with the Finance Director signing the “certificate” at the time the commitment. The purchase order should be completely filled out noting line item account number, vendor providing service or product, item or service being provided, and the amount. The exception is a blanket purchase order where vendor is not known. Super blanket purchase orders can be issued for items like utilities for the entire year. These purchase orders should then be encumbered against its line item. See Ohio Revised Code Section 5705.41(D) for description of blanket purchase orders.)

A copy of the purchase order should be attached to the invoice along with a copy of the check paying the invoice. These payments would then be filed in numerical order by check number.

- (B) Pre-numbered receipts should be issued for all revenue, with a copy of the receipt attached to any document received pertaining to the revenue. The receipts would then be filed in numerical order.
- (C) A payroll register should be used on QuickBooks to verify all payroll payments.

These above procedures will provide easy access to source documents for all financial transactions.

The encumbering of purchase orders against their respective line items will prevent the over-expending of a line item, since the “certificate” of the fiscal officer states that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Then, with the amount appropriated against each line item less payments and outstanding purchase orders will provide the amount still available to be expended and provide further information to management of their financial position.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY, OHIO
For the Years Ended December 31, 2003 & 2004**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Ohio Rev. Code Section 5705.28, failure to adopt a tax budget.	Yes	Corrected
2002-002	Ohio Rev. Code Section 5705.34, failure to authorize the necessary tax amount and rates.	Yes	Corrected
2002-003	Ohio Rev. Code Sections 5705.36 & 5705.39, failure to certify total amount from all sources available for expenditure and appropriations exceeding actual resources.	Yes	Corrected
2002-004	Inadequate Board minute approval and documentation.	Yes	Corrected
2002-005	Financial records were not timely or complete.	No	Partially corrected. Repeat parts in 03/04-NHills-002



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 10, 2005**