



Mary Taylor, CPA  
Auditor of State



**SWITZER WATER ASSOCIATION  
MONROE COUNTY**

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# Mary Taylor, CPA

Auditor of State

Switzer Water Association  
Monroe County  
51111 State Route 556  
Clarington, Ohio 43915

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statement due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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 statement in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statement presents are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statement you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 3, 2007

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Switzer Water Association  
Monroe County  
51111 State Route 556  
Clarington, Ohio 43915

To the Board of Trustees:

We have audited the accompanying financial statement of the Switzer Water Association, Monroe County, Ohio (the Association), as of and for the years ended December 31, 2005 and 2004. This financial statement is the responsibility of the Association'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Association has prepared this financial statement 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 statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Association to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. While the Association 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 Association has elected not to reformat its statement. Since this Association 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 statement referred to above for the years ended December 31, 2005 and 2004 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Association as of December 31, 2005 and 2004, or its changes in financial position or its cash flows for the years then ended.

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Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balances of the Switzer Water Association, Monroe County, as of December 31, 2005 and 2004, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Association 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 statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2007, on our consideration of the Association'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 did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control 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.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 3, 2007



**SWITZER WATER ASSOCIATION  
MONROE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Cash Receipts:</b>		
Charges for Services	\$214,302	\$200,336
Miscellaneous	12,720	7,436
	<u>227,022</u>	<u>207,772</u>
<b>Operating Cash Disbursements:</b>		
Personal Services	31,353	37,640
Utilities	11,716	11,145
Repairs and Maintenance	25,198	23,618
Gasoline, Oil and Fuel	7,713	7,347
Cost of Merchandise Sold	60,061	55,832
Chemicals and Operating Supplies	23,049	28,747
Office Supplies and Printing	2,227	2,613
Insurance	1,634	684
Legal Fees		158
Capital Outlay	11,094	6,132
	<u>174,045</u>	<u>173,916</u>
Operating Income	<u>52,977</u>	<u>33,856</u>
<b>Non-Operating Cash Receipts:</b>		
Intergovernmental Revenues	22,044	
Miscellaneous		830
Interest Earnings	3,449	8,599
	<u>25,493</u>	<u>9,429</u>
<b>Non-Operating Cash Disbursements:</b>		
Debt Service	47,136	47,136
Other Non-Operating Cash Disbursements	803	1,072
	<u>47,939</u>	<u>48,208</u>
Net Receipts Over/(Under) Disbursements	30,531	(4,923)
Cash Balance, January 1	<u>181,476</u>	<u>186,399</u>
<b>Cash Balance, December 31</b>	<b><u>212,007</u></b>	<b><u>181,476</u></b>

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

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**SWITZER WATER ASSOCIATION  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2005 AND 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Switzer Water Association, Monroe County (the Association), is a not-for-profit corporation and was incorporated in 1971 under authority of Ohio Rev. Code Section 1702.01. The Association is governed by 7 Trustees which are elected by the Board of Trustee members to varying terms. The Association provides water services to members of the Association.

The Association's management believes this financial statement presents all activities for which the Association is financially accountable.

**B. Basis of Accounting**

This financial statement follows the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements basis of accounting. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Deposits and Investments**

The accounting basis includes investments as assets. This basis does not report purchases of investments as disbursements or investment sales as receipts. This basis recognizes gains or losses at the time of sale as receipts or disbursements, respectively.

Money market mutual funds are recorded at share values the mutual fund reports.

**D. Budgetary Process**

The United States Department of Agriculture Rural Development requires the Association to budget annually.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**E. Property, Plant and Equipment**

The accounting basis records acquisitions of property, plant, and equipment as capital outlay disbursements when paid. The accompanying financial statement does not include these assets.

**2. CASH AND INVESTMENTS**

The Association's investments are only limited to those investments approved by the Board.

**SWITZER WATER ASSOCIATION  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**2. CASH AND INVESTMENTS (Continued)**

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

	2005	2004
Demand deposits	\$37,330	\$17,154
Savings	71,338	63,743
Total deposits	108,668	80,897
American Funds:		
The Income Fund of America	14,151	13,684
American High-Income Trust	5,762	5,561
The Bond Fund of America	6,944	6,813
Intermediate Bond Fund of America	12,233	12,037
U.S. Government Securities Fund	6,259	6,120
Delaware Large Cap Value Fund	57,990	56,364
Total investments	103,339	100,579
Total deposits and investments	\$212,007	\$181,476

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation.

**Investments:** Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2004, follows:

Budgeted vs. Actual Receipts		
	2005	2004
Budgeted Receipts	\$224,000	\$216,700
Actual Receipts	252,515	217,201
Variance	\$28,515	\$501

Budgeted vs. Actual Expenditures		
	2005	2004
Budgeted Expenditures	\$223,711	\$216,136
Actual Expenditures	221,984	222,124
Variance	\$1,727	(\$5,988)

**SWITZER WATER ASSOCIATION  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**4. DEBT**

Debt outstanding at December 31, 2005, was as follows:

	Principal	Interest Rates
Farmers Home Administration Loans	\$389,959	5 - 7.125%

The Association borrowed funds from the Farmers Home Administration in August 1974 through July 1991 for the original water system and waterline expansion, respectively. These loans are collateralized solely by the future revenues from the Association's water operations.

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

Year ending December 31:	Farmers Home Administration Loans
2006	\$47,136
2007	47,136
2008	47,136
2009	47,136
2010	47,136
2011 - 2015	213,912
2016 - 2020	97,020
2021 - 2025	95,700
2026 - 2030	76,884
2031	14,436
Total	\$733,632

**5. RETIREMENT SYSTEM**

All of the Association's regular employees contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants. For 2005, employees contributed 6.2 percent of their gross salaries. The Association contributed an amount equal to 6.2 percent of participant's gross salaries.

**6. RISK MANAGEMENT**

**Commercial Insurance**

The Association has obtained commercial insurance for the following risks:

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

**7. CONTINGENT LIABILITIES**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Switzer Water Association  
Monroe County  
51111 State Route 556  
Clarington, Ohio 43915

To the Board of Trustees:

We have audited the financial statement of the Switzer Water Association, Monroe County, Ohio (the Association), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated August 3, 2007, wherein we noted the Association followed accounting practices the Auditor of State prescribes 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statement and not to opine 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 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 Association's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-001 and 2005-002.

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 the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Association's management dated August 3, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Association's financial statement is free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Association's management dated August 3, 2007, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 3, 2007



**SWITZER WATER ASSOCIATION  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Reportable Condition**

An entity may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the entity provides, and should consider the degree of automation and other factors.

Utility billing records should include cash receipt records, recording cash received and date received on each account. This information should be used to post payments to individual customer accounts.

Customer payment stubs were bundled for all collections received in the month; however, the stubs did not appear to be in any order within the bundle. The amount and date paid were not always indicated on the payment stubs. There were several deposits slips within each bundle of stubs; however, they were only for customer payments collected by the Association's bank. Deposits made by the Association Secretary/Treasurer for customer payments paid to the Association's Utility Clerk in person and through the mail, were separately deposited approximately once every week. Several utility collection reports were run during each month; however, the report dates did not correspond to deposit dates.

Maintaining the utility records in this manner made it difficult to determine if customer's were accurately credited for payments made, were billed in accordance with Association Board approved rates, delinquent fees were accurately charged, and utility collection records reconcile to bank deposits and posting to the Association's cash ledger.

We recommend customer payment stubs for collections by the Association's bank be kept bundled with the representative deposit slip. The date deposited should be used as the collection date, these payments should be input into the Association's utility computer system in one batch, and a corresponding collection report should be printed. We recommend customer payment stubs for collections paid to the Association's Utility Clerk through the mail and in person should be marked with the date and amount collected, bundled by the date collected, input into the Association's utility computer system in one batch, a corresponding collection report should be printed, and the date deposited should be reflected.

**FINDING NUMBER 2005-002**

**Reportable Condition**

An entity should maintain an accounting system and accounting records sufficient to enable the entity to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, and prepare financial statements.

The Association maintained checking, savings and two investment accounts during the period. No monthly bank reconciliations or outstanding check lists were prepared and no balance was reflected upon the cash journal. As a result, the Association's monthly and annual financial statements were not always accurate. This also resulted in our initially declaring the Association's financial statements unauditible and expending additional time assisting the Association with reconciling efforts.

We recommend the Association prepare monthly bank reconciliations and outstanding check lists. The checking, savings, and investment account activity should reconcile to the cash journal balance each month.

**SWITZER WATER ASSOCIATION  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b></p>
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**FINDING NUMBER 2005-002 (Continued)**

**Reportable Condition (Continued)**

**Officials' Response**

We did not receive a response from Officials to the findings reported above.



**Mary Taylor, CPA**  
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**SWITZER WATER ASSOCIATION**

**MONROE 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  
OCTOBER 2, 2007**