



**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 the Jefferson Regional Water Authority (the Authority) as of and for the year ended December 31, 2002. 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 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 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 presents fairly, in all material respects, the cash balance of the Authority 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 December 3, 2003, 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 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

December 3, 2003

**JEFFERSON REGIONAL WATER AUTHORITY  
MONTGOMERY COUNTY**

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

<b>Operating Cash Receipts:</b>	
Charges for Services	\$532,249
Tap-In Fees	35,565
Miscellaneous	10,207
	<hr/>
Total Operating Cash Receipts	578,021
<b>Operating Cash Disbursements:</b>	
Personal Services	198,418
Contractual Services	217,688
Office Supplies and Materials	134,212
Other	16,849
Debt Service:	
Principal	67,762
Interest	124,721
	<hr/>
Total Operating Cash Disbursements	759,650
Operating Loss	(181,629)
<b>Non-Operating Cash Receipts:</b>	
Interest	7,960
	<hr/>
Net Loss	(173,669)
Cash Balance, January 1	595,215
	<hr/>
<b>Cash Balance, December 31</b>	<b><u><u>\$421,546</u></u></b>

*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, 2002**

**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 a 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, 2002  
(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 2002 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 used 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:

	<u>2002</u>
Demand deposits	<u>\$174,842</u>
Repurchase agreement	<u>246,704</u>
Total deposits and investments	<u><u>\$421,546</u></u>

**Deposits:** Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (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.

**JEFFERSON REGIONAL WATER AUTHORITY  
MONTGOMERY COUNTY**

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

**3. BUDGETARY ACTIVITY**

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

Budgeted vs. Actual Receipts	
Budgeted Receipts	\$593,150
Actual Receipts	585,981
Variance	(\$7,169)

Budgeted vs. Actual Budgetary Basis Expenditures	
Appropriation Authority	\$503,045
Budgetary Expenditures	759,650
Variance	(\$256,605)

Contrary to Ohio law, budgetary expenditures exceeded the Authority's appropriation authority by \$256,605 for the year ended December 31, 2002.

**4. DEBT**

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
FMHA Loan, 1982	\$1,650,000	5.00%
OWDA Loan, 1991	509,482	7.51%
Total	\$2,159,482	

Farmer's Home Administration (FMHA) Loan 1982 - The loan was issued on September 1, 1982, for a period of 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.

**JEFFERSON REGIONAL WATER AUTHORITY  
MONTGOMERY COUNTY**

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

**4. DEBT (Continued)**

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

<u>Year ending December 31:</u>	<u>FHMA Loan 1982</u>	<u>OWDA Loan 1991</u>
2003	\$132,500	\$62,733
2004	130,000	62,733
2005	132,500	62,733
2006	134,750	62,733
2007	131,750	62,733
2008 - 2012	660,250	313,666
2013 - 2017	663,750	188,200
2018 - 2022	663,750	
Total	<u>\$2,649,250</u>	<u>\$815,531</u>

**5. RETIREMENT SYSTEMS**

The Authority's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS 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, PERS members contributed 8.5% of their gross salaries. The Authority contributed an amount equal to 13.55% of participants' gross salaries through December 31, 2002. The Authority has paid all contributions required through December 31, 2002.

**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. LITIGATION**

The Authority is party in a lawsuit. Although the outcome of this suit is not presently determinable, the Authority believes that the resolution of this matter will not materially adversely affect the Authority's financial condition.

**8. SUBSEQUENT EVENTS**

On July 10, 2003 the Authority approved entering into an Ohio Public Works Commission (OPWC) loan for \$270,000, including a \$20,000 Loan Assessment at 0% interest, for 25 years, for phase 3 water tower, booster, and main line construction.



## **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 the Jefferson Regional Water Authority (the Authority) as of and for the year ended December 31, 2002, and have issued our report thereon dated December 3, 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 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 2002-001 through 2002-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated December 3, 2003.

#### **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 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 Authority'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 2002-005 through 2002-006.

**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 2002-005 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 December 3, 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.



**Betty Montgomery**  
Auditor of State

December 3, 2003

JEFFERSON REGIONAL WATER AUTHORITY  
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2002

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

FINDING NUMBER 2002-001

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 appropriations at the legal level of budgetary control. At December 31, 2002, total expenditures exceeded total appropriations at the legal level of control, in the following line items:

<u>Fund</u>	<u>Total Expenditures</u>	<u>Total Appropriations</u>	<u>Variance</u>
Personal Services	\$198,418	\$181,097	(\$17,321)
Contractual Services	217,688	143,748	(73,940)
Materials and Supplies	134,212	40,800	(93,412)
Debt Service	192,483	132,000	(60,483)
Other	16,849	5,400	(11,449)

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 2002-002

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 for 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 (\$3,000 after April 7, 2003) 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.

**FINDING NUMBER 2002-002  
(Continued)**

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. 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. (Effective 9/26/03, HB 95 eliminated the 3 month and \$5,000 requirements.)
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 2002. Failure to certify obligation prior to incurring the obligation could result in 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 of the Authority's funds exceeding 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 2002-003**

**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 unfiled, 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, 2002, had not been filed with the Auditor of State's Office as of the date of this report, and 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 2002-004**

**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) - 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 2002-005**

#### **Financial Records Maintenance and Reporting**

The financial records of the Authority were not maintained or reported in an accurate manner. Further, monthly bank reconciliations were not completed for the entire period. Inaccurate and incomplete financial data may result in users of the financial statements or management making improper decisions which could lead to additional costs for the Authority. To ensure completeness and accuracy of financial reporting the Authority should address the following conditions.

- The financial statements prepared by the Treasurer did not include all revenues, interest earned, payroll expenditures, or debt service expenditures. All financial transactions should be recorded in the accounting system in an accurate and timely manner.
- The Authority has \$3,831 in outstanding checks dated back to 1995. Failure to follow up on checks that have not cleared the bank increases the possibility of errors in the bank reconciliation process and increases the chance of double payments. Procedures should be developed and implemented to follow-up on old outstanding checks.
- Monthly bank reconciliations were not completed for fiscal year 2002. To ensure that the Authority's cash balance is accurately stated, the Authority should complete monthly bank-to-book reconciliations and verify the ledger balance and the cash reconciliation balance agree. Additionally, monthly bank reconciliation's, should be submitted to the Board of Trustees for review and approval.
- The Authority maintains separate accounting systems for payroll, expenditures, and revenues. The Authority should develop and implement an integrated accounting system for all financial transactions, which will generate complete financial reports for monthly review and approval by the Board of Trustees.
- 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 the conditions and implementing the procedures above will provide the Board of Trustees with improved, completeness and accuracy in financial reporting.

### **FINDING NUMBER 2002-006**

#### **Payment of Accrued Vacation Leave**

The Authority paid a salaried employee for 56 hours of accrued vacation leave in addition to the employee's regular wages. The Authority does not have a written policy in place for paying employees for accrued vacation. Further, the board of trustees did not authorize payment of unused accrued vacation leave.

Failure to obtain appropriate authorization for payment of accrued vacation leave could result in funds being misappropriated. The Authority should develop and implement written policies and procedures for payment of accrued leave.

**JEFFERSON REGIONAL WATER AUTHORITY  
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FISCAL YEAR END DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2001-60357-001	ORC 5705.41(B) - expenditures exceeding appropriations	No	Finding repeated in current audit as 2002-001
2001-60357-002	ORC 5705.41(D) - failure to certify funds	No	Finding repeated in current audit as 2002-002



**Auditor of State  
Betty Montgomery**

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**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  
DECEMBER 23, 2003**