

**Morgan-Meigsville Rural Water District
Morgan County**

For the Years ended December 31, 2004 and 2003



**Auditor of State
Betty Montgomery**

Board of Directors
Morgan-Meigsville Rural Water District
P. O. Box 456
McConnelsville, Ohio 43756

We have reviewed the *Independent Auditor's Report* of the Morgan-Meigsville Rural Water District, Morgan County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2003 through 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 *Independent Auditor's Report* 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 *Independent Auditor's Report* 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 Morgan-Meigsville Rural 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

August 9, 2005

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**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

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WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Morgan-Meigsville Rural Water District
McConnelsville, Ohio

We have audited the accompanying financial statements of Morgan-Meigsville Rural Water District as of and for the years ended December 31, 2004 and 2003. 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 described more fully in Note 1, the District prepared these financial statements using accounting practices the auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United State of America. Although we cannot reasonable determine the effects on the financial statements of the variances between these regulatory accounting practices and the accounting principles generally accepted in the United States of America, we presume they are material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Morgan-Meigsville Rural Water District combined funds as of December 31, 2004 and 2003, and their changes in financial position.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 24, 2005, on our consideration of Morgan-Meigsville Rural Water District's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in conjunction with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 24, 2005

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES-
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
CASH RECEIPTS:		
Charges for services	\$ 144,469	\$ 144,990
Interest	147	214
Tap fees	8,400	5,150
All other revenue	1,017	2,306
TOTAL CASH RECEIPTS	154,033	152,660
CASH DISBURSEMENTS:		
Contract labor	12,412	9,450
Insurance	2,975	3,344
Lab fees	1,370	780
Miscellaneous	691	775
Office supplies/equipment	556	329
Repair/material supplies	24,187	23,591
Postage	1,258	1,295
Salaries	32,668	29,962
Medical insurance	5,954	6,423
Mileage and expense reimbursement	975	1,279
Gasoline	3,366	2,629
Truck expense	523	47
Tractor expense	272	1,597
Pension - PERS	6,067	6,764
Payroll taxes	4,861	5,448
Utilities	4,198	3,486
Water purchase	25,037	23,935
Audit	-	5,700
Bank charges	96	2,256
Debt service:		
Principal	14,992	16,800
Interest	12,575	13,594
TOTAL CASH DISBURSEMENTS	155,033	159,484
EXCESS OF RECEIPTS OVER(UNDER) CASH DISBURSEMENTS	(1,000)	(6,824)
FUND CASH BALANCES, JANUARY 1	9,573	16,397
FUND CASH BALANCES, DECEMBER 31	\$ 8,573	\$ 9,573

See notes to financial statements.

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Morgan-Meigsville Rural Water District, Morgan 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 five member Board of Directors appointed by the Morgan County Common Pleas court Judge. The District provides water utility services to residents of the Morgan Township, Bristol Township, and Meigsville Township.

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 cash 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. Budgetary presentations report expenditures when a commitment is made (i.e., when an encumbrance is approved.) These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Deposits and Investments

Investments are reported assets and are valued at cost. 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.

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:

Governmental Funds

General Fund

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

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Directors must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year-end. The District currently does not pass an appropriation measure.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget commission must also approve estimated resources. The District currently does not obtain a certificate of estimated resources.

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. The District does not use encumbrances.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the District.

2. Equity in Pooled Cash and Investments

The District maintains cash used by the General fund. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2004	2003
Demand deposits	\$ 8,573	\$ 9,573

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

2. Equity in Pooled Cash and Investments (Continued)

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. Debt

Debt outstanding at December 31, 2004 and 2003 was as follows:

	2004		2003	
	<u>Principal</u>	<u>%</u>	<u>Principal</u>	<u>%</u>
OWDA Loan	\$ 140,488	6.91	\$ 145,754	6.91
First National Bank	31,091	6.00	34,091	6.00
First National Bank	<u>6,526</u>	5.50	<u>13,252</u>	6.00
Total	<u>\$ 178,105</u>		<u>\$ 193,097</u>	

During 1994, the Ohio Water Development Authority (OWDA) approved a line of credit of up to \$300,000 in an Ohio Water development Authority Loan for the water distribution system project. As of December 31, 2004, the District had \$140,488 in principle payable on the line of credit. The loan will be repaid in semi-annual installments of \$7,689, including interest, over 25 years. The scheduled payment on this loan will be adjusted to reflect revisions in the amount borrowed. The loan payable to Ohio Water development Authority (OWDA) is based on an estimate amortization schedule provided by OWDA. No borrowings were made on the line of credit in 2004 and 2003, respectively.

On November 26, 2002, the District borrowed \$20,132 to purchase a new truck. As of December 31, 2004 and 2003, the outstanding principal was \$6,526 and \$13,252. The loan will be repaid in 36 monthly payments of \$610, including interest at 5.50%.

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

<u>Year Ending</u> <u>December 31:</u>	<u>OWDA</u> <u>Loan</u>	<u>First National Bank</u> <u>Loan</u>
2005	\$ 15,337	\$ 7,240
2006	15,337	-
2007	15,337	-
2008	15,337	-
2009	15,337	-
Subsequent years	<u>153,374</u>	<u>-</u>
Total	<u>\$230,059</u>	<u>\$7,240</u>

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

4. Line of Credit

The District took out a line of credit of \$60,000 from First National Bank of McConnelsville to purchase an existing water line in 2001. As of December 31, 2004 and 2003, the outstanding principal was \$31,091 and \$34,091 respectively. The entire outstanding principal must be paid on December 28, 2006. The minimum monthly payments are the accrued unpaid interest on the outstanding principal at 6.00%.

5. Retirement Systems

The District's 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 2004 and 2003, PERS members contributed 8.5% of their gross salaries. The District contributed an amount equal to 13.55% of participant's gross salaries. The District has paid all contributions required through December 31, 2004.

6. Risk Management

The District has obtained commercial insurance for the following risks:

- General liability and casualty
- Official's and Employee's Dishonesty Bonds
- Vehicles
- Property

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENT PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.**

Board of Directors
Morgan-Meigsville Rural Water District
McConnelsville, Ohio

We have audited the financial statements of Morgan-Meigsville Rural Water District as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated June 24, 2005, wherein we noted the District 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 State 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 Financing Reporting

In planning and performing our audit, we considered Morgan-Meigsville Rural Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial matters concerning the internal control structure and its operation that we have reported to the management of Morgan-Meigsville Rural Water District in a separate letter dated June 24, 2005.

Compliance

As part of obtaining reasonable assurance about whether Morgan-Meigsville Rural Water District's combined 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 five instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings as items 2004-1 to 2004-5.

Independent Auditor's Report on Compliance and Internal Control
Page 2

This report is intended for the information of the Board of Directors and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 24, 2005

SCHEDULE OF FINDINGS

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY
DECEMBER 31, 2004**

1. AUDITOR'S RESULTS

<i>(d)(1)(I)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(II)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	YES

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

<u>Finding #</u>	<u>Description of Noncompliance</u>
2004-1.	The District's fiscal officers currently do not certify to the county auditor the total amount from all sources, which are available for expenditures as required per Ohio Revised Code Section 5705.36. The District should do this on or about the first day of each fiscal year and retain a copy of the certificate.
2004-2.	The District's Board of Directors does not currently pass an appropriation measure as required per Ohio Revised Code Section 5705.38. The District should do this on or about the first day of each fiscal year.
2004-3.	Because the District's Board of Directors does not currently certify revenue with the county auditor or passes an appropriation measure, the District is also in violation of Ohio Revised Code Section 5705.39, which states that the total appropriation from each fund shall not exceed the total estimated revenue. The District should not appropriate more than the estimated revenue when they do certify revenue with the county auditor and pass appropriation measures.
2004-4.	The District is in violation of Ohio Revised Code Section 5705.41(B), which states no subdivision or taxing unit is to expend money unless it has been appropriated. The District should pass an appropriation measure as discussed in finding 2004-2.
2004-5.	The District is in violation of Ohio Revised Code Section 5705.41(D), which states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer 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. The district should pass an appropriation measure and use purchase orders and fiscal certificates for all expenditures.

**MORGAN MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-1	ORC 5705.28 Ohio Attorney General Opinion 99-020	No	Partially Corrected. The District prepares an internal budget that is certified by the County budget commission but does not obtain a certificate of estimated resources or pass an appropriation measure. Cited for these in current report.



**Auditor of State
Betty Montgomery**

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MORGAN-MEIGSVILLE RURAL WATER DISTRICT

MORGAN 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
AUGUST 23, 2005**