



**Auditor of State  
Betty Montgomery**



HARRISON GERMANO WATER SEWER DISTRICT  
HARRISON COUNTY

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Harrison Germano Water Sewer District  
Harrison County  
90670 Mill Road  
Jewett, Ohio 43986-9728

To the Board of Trustees:

We have audited the accompanying financial statements of the Harrison Germano Water Sewer District, Harrison County, (the District) as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the District prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of Harrison Germano Water Sewer District, Harrison County, as of December 31, 2003 and 2002, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The District has been billed for audit services provided for fiscal years 1996, 1997, 1998, 1999, 2000 and 2001. As of June 14, 2003, the District has been billed a total of \$4,535 and has yet to pay \$4,535.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Harrison Germano Water Sewer District  
Harrison County  
Independent Accountants' Report  
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This report is intended solely for the information and use of the audit committee, management, 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

June 14, 2004

**HARRISON GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>Operating Cash Receipts:</b>		
Charges for Services	\$20,113	\$19,789
Interest	165	295
Miscellaneous		6,500
	20,278	26,584
<b>Operating Cash Disbursements:</b>		
Purchased Services		
Utilities	1,600	2,613
Repairs and Maintenance	2,721	334
Testing and Licenses	594	1,008
Other Contractual Services	1,756	1,760
Office Supplies and Materials	2,919	2,123
Insurance	2,068	3,066
Miscellaneous	3,230	6,564
	14,888	17,468
Operating Income/(Loss)	5,390	9,116
<b>Non-Operating Cash Disbursements:</b>		
Debt Service		
Principal	6,229	4,015
Interest	5,604	3,045
	11,833	7,060
Net Receipts Over/(Under) Disbursements	(6,443)	2,056
Cash Balances, January 1	21,687	19,631
<b>Cash Balances, December 31</b>	<b>\$15,244</b>	<b>\$21,687</b>

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

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**HARRISON GERMANO WATER SEWER DISTRICT  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Harrison Germano Water Sewer District, Harrison 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 three-member Board of Trustees. Board members are appointed for by German Township. The District provides water services to residents of the 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 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.

Money market funds (including Star Ohio) are recorded at share values reported by the mutual fund.

**D. Budgetary Process**

The Ohio Revised Code requires the District to adopt an annual budget.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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.

**HARRISON GERMANO WATER SEWER DISTRICT  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. The District did not use the encumbrance method of accounting.

A summary of 2003 and 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.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2003	2002
Demand deposits	\$1,366	\$1,076
STAR Ohio	13,878	20,611
Total deposits and investments	\$15,244	\$21,687

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

Investments in Star Ohio are not evidenced by securities that exist in physical or book entry form.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

Budgeted vs. Actual Receipts		
	2003	2002
Budgeted Receipts	\$0	\$0
Actual Receipts	20,278	26,584
Variance	\$20,278	\$26,584

Budgeted vs. Actual Budgetary Basis Expenditures		
	2003	2002
Appropriation Authority	\$0	\$0
Budgetary Expenditures	26,721	24,528
Variance	(\$26,721)	(\$24,528)

**HARRISON GERMANO WATER SEWER DISTRICT  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio Revised Code § 5705.38, the District did not pass an appropriation measure for 2003 or 2002. As a result, the District was in violation of Ohio Revised Code § 5705.41(B) for expenditures exceeding appropriations. Also, the District failed to adopt a certificate of estimated resources, or a tax budget, which are violations of Ohio Revised Code §§ 5705.36 and 5705.28, respectively. The Water District did not certify the availability of funds, contrary to Ohio Revised Code § 5705.41(D).

**4. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
General Obligation Notes	\$22,500	9.06%
Ohio Water Development Loan	\$31,521	5.00%
Total	\$54,021	

The Ohio Water Development Authority loan proceeds were used to construct wells and water line extensions. The general obligation notes proceeds were used to purchase equipment. The debts will be repaid through user fees.

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

Year ending December 31:	OWDA Loan	General Obligation Notes
2004	\$2,635	\$4,125
2005	5,270	3,975
2006	5,270	3,825
2007	5,270	3,675
2008	5,270	3,525
2009 - 2013	23,717	8,100
Total	\$47,432	\$27,225

**6. RISK MANAGEMENT**

**Commercial Insurance**

The District has obtained commercial insurance for the following risks:

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

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## **Auditor of State Betty Montgomery**

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

Harrison Germano Water Sewer District  
Harrison County  
90670 Mill Road  
Jewett, Ohio 43986-9728

To the Board of Trustees:

We have audited the accompanying financial statements of the Harrison Germano Water Sewer District, Harrison County, (the District) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated June 14, 2004 in which we noted the District has not paid for audit services provided for the period from January 1, 1996 through December 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2003-001 through 2003-004.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 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 a matter involving the internal control over financial reporting that did not require inclusion in this report that we have reported to management of the District in a separate letter dated June 14, 2004.

Harrison Germano Water Sewer District  
Harrison County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 14, 2004

HARRISON GERMANO WATER SEWER DISTRICT  
HARRISON COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002

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

Finding Number	2003-001
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Ohio Revised Code § 5705.28(B)(2)(a) requires authorities that do not levy a tax to adopt an operating budget on or before July 15<sup>th</sup> of each year. This operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses, and any amount required for debt. The operating budget is not required to be filed with the county auditor or the budget commission. The District failed to adopt an operating budget for 2003 or 2002.

The District should estimate receipts and should adopt an operating budget for each year. Budgeted expenditures should be limited by the amount of estimated receipts and the District should use the budget throughout the year to improve control over finances.

Finding Number	2003-002
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Ohio Revised Code § 5705.36 states that on or about the first day of each fiscal year, the fiscal officers of the subdivision are to prepare a certificate of estimated resources, detailing all sources which are available for expenditure.

The District failed to prepare a certificate of estimated resources showing the total amount from all sources available for expenditures and the balances existing at the end of the year for 2003 or 2002. Failure to prepare the certificate could result in appropriations exceeding the amounts of available resources. The District should use a calendar with all applicable budgetary dates as a reminder to prepare all applicable documents by the required dates.

Finding Number	2003-003
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Ohio Revised Code § 5705.38 requires that on or about the first day of each fiscal year, an appropriation measure be passed. Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

As the District failed to pass any appropriations; all expenditures were not appropriated and were not in compliance with Ohio Revised Code §§ 5705.38 and 5705.41(B).

The District should pass an appropriation measure for each year with such approval noted in the minute record. The District Clerk should then monitor expenditures by comparing the expenditures to appropriations and should approach the Board of Trustees to request amendments to the original appropriations as necessary to guard against overspending.

Finding Number	2003-004
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Ohio Revised Code § 5705.41 (D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. This section also provides two "exceptions" to the above requirement:

**HARRISON GERMANO WATER SEWER DISTRICT  
HARRISON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
  
- B. If the amount involved is less than \$1,000 (\$3,000 after April 7, 2003), the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the City Council, if such expenditure is otherwise valid.

The District did not certify or record the amount against the applicable appropriation accounts for 100% of tested expenditures of 2003 and 2002. The District did not utilize the certification exceptions described above for those expenditures lacking prior or simultaneous certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. The District should obtain approved purchase orders which include the fiscal officer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized prior to making the commitment.



HARRISON GERMANO WATER SEWER DISTRICT  
HARRISON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2001

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>
2001-61241-001	ORC 5705.41(D), failed to certify the availability of funds	No	Reissued as Finding 2003-004





**Auditor of State  
Betty Montgomery**

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**HARRISON GERMANO WATER SEWER DISTRICT**

**HARRISON 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  
JULY 13, 2004**