



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 19, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Cover Letter | 1 |
| Independent Accountants' Report..... | 3 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balances - For the Years Ended December 31, 2005, 2004 and 2003 | 5 |
| Notes to the Financial Statements | 6 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 11 |
| Schedule of Findings | 13 |

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**Auditor of State
Betty Montgomery**

District 2 Joint Fire District
Gallia County
P.O. Box 208
47 Old Hannan Trace Road
Crown City, Ohio 45623

To the Board or Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements 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 statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the December 31, 2005, 2004 and 2003 statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

December 21, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

District 2 Joint Fire District
Gallia County
P.O. Box 208
47 Old Hannan Trace Road
Crown City, Ohio 45623

To the Board of Trustees:

We have audited the accompanying financial statements of the District 2 Joint Fire District, Gallia County, (the District) as of and for the years ended December 31, 2005, 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 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 District has 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 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 2005, 2004 and 2003, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 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 years ended December 31, 2005, 2004 and 2003 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, 2005, 2004 and 2003, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the District 2 Joint Fire District, Gallia County, as of December 31, 2005, 2004, and 2003, and its combined 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 years ended December 31, 2005, 2004 and 2003. 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 December 21, 2006, 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 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.



Betty Montgomery
Auditor of State

December 21, 2006

**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 and 2003**

| | 2005 | 2004 | 2003 |
|--|---------------------|---------------------|---------------------|
| Cash Receipts: | | | |
| Local Taxes | \$26,023 | \$24,813 | \$0 |
| Intergovernmental | 17,036 | 21,150 | 25,000 |
| Interest | 478 | 359 | 85 |
| Miscellaneous | 500 | 2,302 | 923 |
| Refunds and Reimbursements | 3,862 | 0 | 0 |
| Total Cash Receipts | 47,899 | 48,624 | 26,008 |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 22,273 | 24,926 | 8,347 |
| Debt Service: | | | |
| Redemption of Principal | 8,676 | 8,291 | 78,000 |
| Interest | 3,049 | 3,433 | 0 |
| Total Cash Disbursements | 33,998 | 36,650 | 86,347 |
| Total Cash Receipts Over/(Under) Cash Disbursements | 13,901 | 11,974 | (60,339) |
| Other Financing Receipts/(Disbursements): | | | |
| Proceeds from Sale of Public Debt: | | | |
| Sale of Notes | 0 | 0 | 78,000 |
| Total Other Financing Receipts/(Disbursements) | 0 | 0 | 78,000 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 13,901 | 11,974 | 17,661 |
| Fund Cash Balances, January 1 | 29,635 | 17,661 | 0 |
| Fund Cash Balances, December 31 | \$43,536 | \$29,635 | \$17,661 |
| Reserves for Encumbrances, December 31 | \$0 | \$0 | \$0 |

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

**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004, AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the District 2 Joint Fire District, Gallia County (the District), as a body corporate and politic. A five-member Board of Trustees governs the District. The Board consists of two Township Trustees representing Ohio and Guyan Townships (one appointed by each represented Township Board of Trustees), and three firefighters, which are elected by the Fireman for a two year term, (with no limit to how many terms they can serve). A Clerk-Treasurer is appointed by the District's Board (with no term limits). The District provides fire protection and rescue services for the communities of Ohio and Guyan Townships.

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 the Auditor of State prescribes or permits, which 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. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash

The accounting basis values certificates of deposit at cost.

D. Budgetary Process

The District 2 Joint Fire District was officially created as authorized voters on November 4, 2003. This vote formally established the District and allowed the Fire District to start receiving taxes beginning in 2004. At this point, the District became a "subdivision" as defined in Ohio Rev. Code Section 5705.01. Although Guyan Township passed their funding on to District in 2003, the District did not perform nor was the District required by Ohio Law to perform budgetary procedures at that time. The Ohio Revised Code required the District to budget each fund annually beginning January 1, 2004.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Board of Trustees 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.

**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004, AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

2. 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.

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 2005 and 2004 budgetary activity appears in Note 3.

E. Property, Plant, and Equipment

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. EQUITY IN POOLED CASH

The District maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits. The carrying amount of cash at December 31 follows:

| | 2005 | 2004 | 2003 |
|-----------------|----------|----------|----------|
| Demand deposits | \$43,536 | \$29,635 | \$17,661 |

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending 2005 and 2004 follows:

| 2005 Budgeted vs. Actual Receipts | | |
|-----------------------------------|--------------------|----------|
| Budgeted Receipts | Actual Receipts | Variance |
| \$47,123 | \$47,899 | \$776 |

**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004, AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures | | |
|---|---------------------------|----------|
| Appropriation Authority | Budgetary Expenditures | Variance |
| \$44,458 | \$33,998 | \$10,460 |

| 2004 Budgeted vs. Actual Receipts | | |
|-----------------------------------|--------------------|------------|
| Budgeted Receipts | Actual Receipts | Variance |
| \$108,482 | \$48,624 | (\$59,858) |

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures | | |
|---|---------------------------|----------|
| Appropriation Authority | Budgetary Expenditures | Variance |
| \$45,015 | \$36,650 | \$8,365 |

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board of Trustees adopts rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State then pays the District amounts equaling the homestead and rollback deductions. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the District.

Tangible personal property tax owners assess that property. The property owners must file a tangible property list to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

5. DEBT

Debt outstanding at December 31, 2005 was as follows:

| | Principal | Interest Rate |
|--------------------------|-----------|---------------|
| General Obligation Notes | \$61,033 | 4.45% |
| Total | \$61,033 | |

The District issued general obligation note on November 21, 2003, to acquire a fire truck originally purchased by Ohio and Guyan Township prior to the creation of the District. The note was issued for \$78,000 and will be paid off in the spring of 2011.

**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004, AND 2003
(Continued)**

5. DEBT (Continued)

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

| <u>Year ending December 31:</u> | <u>General Obligation Notes</u> |
|---------------------------------|---|
| 2006 | \$11,695 |
| 2007 | 11,695 |
| 2008 | 11,695 |
| 2009 | 11,695 |
| 2010 | 11,695 |
| 2011 | 11,568 |
| Total | <u>\$70,043</u> |

Grantors may impose audit requirements on amounts they pay to the District. Grantors may require the District to refund any disallowed costs. Management cannot presently determine any which may be disallowed. However, based on the amount of grant money actually received during 2005, 2004 and 2003, management believes any would be immaterial.

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**Auditor of State
Betty Montgomery**

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

District 2 Joint Fire District
Gallia County
P.O. Box 208
47 Old Hannan Trace Road
Crown City, Ohio 45623

To the Board of Trustees:

We have audited the financial statements of the District 2 Joint Fire District, Gallia County, (the District) as of and for the years ended 2005, 2004, and 2003, and have issued our report thereon dated December 21, 2006, 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 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 District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as item 2005-001 and 2005-002.

District 2 Joint Fire District
Gallia County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the management and the Board of Trustees. It is not intended for 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 21, 2006

**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005, 2004 AND 2003**

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) 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 District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to 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 District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

3. Super Blanket Certificate – The District 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 line item appropriation.

One hundred percent of the transactions tested during 2005, 2004 and 2003 were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to certify the availability of funds can result in deficit spending. In addition, the lack of tracking outstanding encumbrances could result in the District materially misstating outstanding encumbrances at year end.

**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005, 2004 AND 2003
(Continued)**

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|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
|--|

FINDING NUMBER 2005-001 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

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 Clerk-Treasurer 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 5705.41(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.

Client Response:

Purchase orders are now being utilized by the District.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Admin. Code Section 117-2-02 (A) requires public offices to 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.

Per Ohio Admin. Code Section 117-2-02(D), accounting records that can help achieve these objectives include the following:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

Using these accounting records will provide the District with information required to monitor compliance with the budget and prepare annual reports in the format required by the Auditor of State.

**DISTRICT 2 JOINT FIRE DISTRICT
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005, 2004 AND 2003
(Continued)**

| |
|---|
| <p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p> |
|---|

FINDING NUMBER 2005-002 (Continued)

Noncompliance Citation - Ohio Admin. Code Section 117-2-02(A) (Continued)

During 2005, 2004 and 2003, the District did not maintain a cash journal, receipts ledger or appropriation ledger. Although the number of transactions was limited, the District did not classify receipts by source or disbursements by purpose. As a result, the December 31, 2005, 2004 and 2003 audited financial statements have been adjusted to reflect the classification identified on the Districts receipts and expenditures. Although the District records provided the information to classify receipts and disbursements, the records did not provide ongoing information on unrealized budgetary receipts and remaining uncommitted balances of appropriations. This could allow errors and/or irregularities to occur and remain undetected for an extended period of time.

We recommend the District maintain a cash journal, receipts ledger and appropriation ledger.

Client Response:

The District now maintains a cash journal, receipts ledger, and appropriation ledger in accordance with the Ohio Administrative Code.



Mary Taylor, CPA
Auditor of State

DISTRICT 2 JOINT FIRE DISTRICT

GALLIA 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
JANUARY 25, 2007**