



**Auditor of State
Betty Montgomery**

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Swan creek Water District
Fulton County
5565 County Road D
Delta, OH 43515-9619

To the Board of Trustees:

We have audited the accompanying financial statements of Swan creek Water District, Fulton County (the District) as of and for the years ended December 31, 2002 and 2001. 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 audits.

We conducted our audits 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 audits 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 combined fund cash balances of the District as of December 31, 2002 and 2001, and its combined 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 our report dated March 10, 2003 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 audits.

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

March 10, 2003

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
Operating Cash Receipts:		
Charges for Services	\$30,370	\$28,587
Total Operating Cash Receipts	30,370	28,587
Operating Cash Disbursements:		
Personal Services	22,121	22,814
Utilities	12,445	
Other Contractual Services	28,574	33,997
Office Supplies and Materials	492	1,960
Insurance	1,500	2,244
Capital Outlay	235,953	342,612
Total Operating Cash Disbursements	301,085	403,627
Operating Loss	(270,715)	(375,040)
Non-Operating Cash Receipts:		
Loan Proceeds	270,564	372,311
Special Assessments	105,047	13,105
Other Non-Operating Revenues	1,027	2,672
Total Non-Operating Cash Receipts	376,638	388,088
Non-Operating Cash Disbursements:		
Debt Service	92,348	
Other Non-Operating Cash Disbursements	5,583	36,961
Total Non-Operating Cash Disbursements	97,931	36,961
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	7,992	(23,913)
Transfers-In	13,106	
Transfers-Out	(13,106)	
Net Receipts Over/(Under) Disbursements	7,992	(23,913)
Fund Cash Balances, January 1	73,154	97,067
Fund Cash Balances, December 31	\$81,146	\$73,154

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

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**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Swan creek Water District, Fulton 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 Trustees. The Board members are appointed by Swan creek Township; the only subdivision covered by the District. The District provides water services to residents of the District.

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.

STAR Ohio is recorded at share values reported by the mutual fund.

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 Enterprise Fund Type.

Enterprise Funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The District had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Road 2 Project Fund - This fund received loan proceeds from the Ohio Water Development Authority to fund a water line construction project.

Debt Retirement Phase V Fund - This fund received special assessments to pay principal and interest on OWDA loan related to the Phase V Project.

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

E. 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.

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. 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 District invests in STAR Ohio.

The District maintains a cash and investments pool used by all funds. The carrying amount of cash and investments at December 31 was as follows:

	<u>2002</u>	<u>2001</u>
Demand deposits	\$36,863	\$6,788
STAR Ohio	44,283	66,366
Total deposits and investments	<u>\$81,146</u>	<u>\$73,154</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the District.

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

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

Budgeted vs. Actual Receipts		
Fund Type	2002	2001
Budgeted Receipts		\$435,000
Actual Receipts	\$420,114	416,675
Variance	\$420,114	(\$18,325)

Budgeted vs. Actual Budgetary Basis Expenditures		
Fund Type	2002	2001
Appropriation Authority	\$708,040	\$306,000
Budgetary Expenditures	412,122	440,588
Variance	\$295,918	(\$134,588)

Contrary to Ohio law, budgetary expenditures exceeded the District's appropriation authority for the Enterprise Fund by \$134,588 for the year ended December 31, 2001. Also contrary to Ohio law, the District did not pass an operating budget or estimated receipts for fiscal year 2001 which resulted in appropriations in excess of estimated resources.

4. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
Swanecreek Township Loan	\$10,000	0.00%
Swanecreek Township Loan	41,403	0.00%
OWDA Loan 2116	187,809	5.88%
OWDA Loan 3310	170,389	6.39%
OWDA Loan 3342	427,604	6.39%
OWDA Loan 3633	234,101	5.65%
Total	\$1,071,306	

The District obtained loans from the Ohio Water Development Authority for planning and construction of water lines.

The District obtained start up loans from Swanecreek Township in 1997 for the purpose of conducting a feasibility study for the formation of the Water District, legal and engineering expenses, constructing, maintaining, repairing and operating a water system. The loans agreements allow the repayment as it is permissible and practicable.

Amortization of the above debt (for which amortization schedules have been finalized), including interest, is scheduled as follows:

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

<u>Year ending December 31:</u>	<u>OWDA Loan 2116</u>	<u>OWDA Loan 3342</u>	<u>OWDA Loan 3310</u>	<u>OWDA Loan 3363</u>
2003	\$232,701	\$14,400	\$6,927	
2004		34,821	13,855	
2005		34,821	13,855	
2006		34,821	13,855	\$234,101
2007		34,821	13,855	
2008 - 2012		174,104	69,275	
2013 - 2017		174,104	69,275	
2018 - 2022		174,104	69,275	
2023 - 2027		174,104	69,275	
Total	<u>\$232,701</u>	<u>\$850,100</u>	<u>\$339,447</u>	<u>\$234,101</u>

5. RETIREMENT SYSTEMS

The District's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS 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 and 2001, OPERS members contributed 8.5% of their gross salaries. The District contributed an amount equal to 13.55% of participants' gross salaries. The District has paid all contributions required through December 31, 2002.

6. RISK MANAGEMENT

The District belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association with over 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to § 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage's, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverage's and reinsures these coverage's 100%, rather than using a risk pool of member funds to pay individual and collective losses. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

7. RELATED PARTY TRANSACTIONS

The Board of Trustees of Swancreek Water District (the District) is appointed by the Swancreek Township Board of Trustees (the Township).

During 1997 the Township loaned the District \$51,402 for the purpose of conducting a feasibility study, for construction, maintenance, repair, and operation of a water system. As of December 31, 2002, the District owes the Township \$51,402.

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

The Township currently does not charge the District rent for use of the Township building offices.

The District has an *employment services agreement* with the Township. The agreement allows the District to utilize the services of Township employees for the purpose of performing District business. The District agrees to pay for such services. Total service billed in 2002 and 2001 were \$1,594 and \$3,450 respectively.

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**Auditor of State
Betty Montgomery**

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

Swanecreek Water District
Fulton County
5565 County Road D
Delta, OH 43515-9619

To the Board of Trustees:

We have audited the accompanying financial statements of Swanecreek Water District, Fulton County (the District) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated March 10, 2003. We conducted our audits 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 audits 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 2002-40126-001 and 2002-40126-002. We also noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated March 10, 2003.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 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 District in a separate letter dated March 10, 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.

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

Betty Montgomery
Auditor of State

March 10, 2003

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-40126-001

Noncompliance Citation

Ohio Revised Code § 5705.28(B)(2)(a) states that the taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget pursuant to division (A) of this section. Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission. Further Ohio Revised Code § 5705.28 (2)(c) states the total appropriations from each fund of a taxing unit that does not levy a tax shall not exceed the total estimated revenue available for expenditures from the fund, and appropriations shall be made from each fund only for the purposes for which the fund is established.

There is no evidence the District adopted an operating budget or estimated revenue for fiscal year 2002. This also resulted in appropriations exceeding estimated revenue (since none were authorized).

We recommend the District adopt an operating budget before the fifteenth day of July for the following fiscal year, and estimated revenue should be certified by the Board around the first of the year. Also, Appropriations adopted by the Board must not exceed the estimated revenue certified by the Board.

FINDING NUMBER 2002-40126-002

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The District had expenditures exceed appropriations by \$134,588 in fiscal year 2001. Expenditures in excess of appropriations could result in deficit spending.

We recommend management carefully monitor budget to actual activity throughout the year, and consider taking appropriate steps to prevent expenditures from exceeding appropriations (i.e., modify appropriations or limit expenditures).

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40126-001	OWDA Debt Covenant Violation	Yes	



**Auditor of State
Betty Montgomery**

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SWANCREEK WATER DISTRICT

FULTON 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
APRIL 8, 2003**