



**Auditor of State
Betty Montgomery**

**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

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**Auditor of State
Betty Montgomery**

Noble County Water Authority
Noble County
P.O. Box 127
Belle Valley, Ohio 43717

To the Board of 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 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 cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

November 29, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Noble County Water Authority
Noble County
P.O. Box 127
Belle Valley, Ohio 43717

To the Board of Trustees:

We have audited the accompanying financial statement of Noble County Water Authority, Noble County, Ohio (the Water Authority), as of and for the years ended December 31, 2004 and 2003. This financial statement is the responsibility of the Water 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 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 Water Authority has prepared this financial statement 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 statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Water Authority to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. While the Water Authority 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 Water Authority 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 statement referred to above for the year ended December 31, 2004 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Water Authority as of December 31, 2004, or its changes in financial position or its cash flows for the year then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balance of Noble County Water Authority, Noble County, as of December 31, 2004 and 2003, and its 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 Water Authority to include Management's Discussion and Analysis for the year ended December 31, 2004. The Water Authority 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 November 29, 2005, on our consideration of the Water Authority'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.

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Betty Montgomery
Auditor of State

November 29, 2005

**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

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

	<u>2004</u>	<u>2003</u>
Operating Cash Receipts:		
Charges for Services	\$137,445	\$125,249
Tap Fees	4,900	10,100
	<u>142,345</u>	<u>135,349</u>
Operating Cash Disbursements:		
Repairs and Maintenance	2,023	1,836
Testing and Licenses	1,645	1,990
Office Supplies and Materials	3,509	2,443
Purchased Water	42,466	38,587
	<u>49,643</u>	<u>44,856</u>
Operating Income/(Loss)	<u>92,702</u>	<u>90,493</u>
Non-Operating Cash Receipts:		
Security Deposits	600	875
Interest	1,921	3,320
Other Non-Operating Revenues	1,616	940
	<u>4,137</u>	<u>5,135</u>
Non-Operating Cash Disbursements:		
Contract Services	10,915	22,221
Insurance	1,715	1,233
Utilities	2,593	2,723
Personal Services	41,677	35,582
Refund of Security Deposits		
Debt Service		
Principal	36,630	36,630
Interest	9,000	
Other Non-Operating Cash Disbursements	1,849	1,840
	<u>104,379</u>	<u>100,229</u>
Net Receipts Over/(Under) Disbursements	(7,540)	(4,601)
Cash Balance, January 1	<u>200,507</u>	<u>205,108</u>
Cash Balance, December 31	<u><u>\$192,967</u></u>	<u><u>\$200,507</u></u>

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

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**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 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 for the Noble County Water Authority, Noble County, (the Water Authority) as a body corporate and politic. The Water Authority was established as a separate political subdivision of the State of Ohio under the provisions of Chapter 6119 of the Ohio Revised Code. The Water Authority is directed by an appointed five-member Board of Trustees. Board members are appointed by the Board of Trustees and the Noble County Commissioners. Subdivisions within the Water Authority include all or parts of Jackson, Marion, Olive, Sharon, Elk, Center, Beaver, Wayne, Jefferson, Stock and Noble Townships in Noble County. The Water Authority provides water services to residents of the Water Authority service area.

The Water Authority's management believes this financial statement presents all activities for which the Water Authority is financially accountable.

B. Basis of Accounting

This financial statement follows the basis of accounting the Auditor of State prescribes or permits. This basis 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.

This statement includes adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The accounting basis includes investments as assets. This basis does not report purchases of investments as disbursements or investment sales as receipts. This basis recognizes gains or losses at the time of sale as receipts or disbursements, respectively.

The accounting basis values certificates of deposit at cost.

D. Budgetary Process

Under HB 262, effective for fiscal years ending December 31, 2000 and subsequent, water and sewer districts not levying property taxes must follow most of the Ohio Revised Code Chapter 5705 budget requirements, but need not seek approval of a county budget commission for any budgetary actions. These districts must:

**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY PROCESS (Continued)

HB 262 Requirements	Applicable ORC Section
Estimate receipts and adopt an operating budget	5705.28(B)(2)(a)
Prepare certificate of estimated resources (but does not require budget commission approval).	5705.36
Must amend estimated resources under the circumstances described in the OCS (also see ADAM 97-05).	5705.36
Appropriate at the minimum level of control prescribed by 5705.38(C) (or a lower level). No budget commission approval required.	5705.38
Cannot appropriate more than estimated resources	5705.28(B)(2)(c)
Must amend appropriations if they intend to spend more than the original appropriation.	5705.40
Cannot disburse or encumber more than appropriated.	5705.41(B)
Must certify the availability of funds.	5705.41(D)
May issue blanket or super blanket purchase orders.	5705.41(D)

The Ohio Revised Code requires the Water Authority to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control and appropriations may not exceed estimated resources. 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 Water Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Water Authority did not encumber all commitments required by Ohio law.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property, Plant and Equipment

The accounting basis records acquisitions of property, plant, and equipment as capital outlay disbursements when paid. The accompanying financial statement does not include these assets.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2003	2004
Demand deposits	\$134,273	\$92,729
Certificates of deposit	66,234	100,238
Total deposits	\$200,507	\$192,967

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

Budgeted vs. Actual Receipts		
Fund Type	2004	2003
Budgeted Receipts	\$153,575	\$131,460
Actual Receipts	146,482	140,484
Variance	(\$7,093)	\$9,024

Budgeted vs. Actual Budgetary Basis Expenditures		
Fund Type	2004	2003
Appropriation Authority	\$152,342	\$118,774
Budgetary Expenditures	154,022	145,084
Variance	(\$1,680)	(\$26,310)

The Water Authority had expenditures which exceeded appropriations during 2004 and 2003, contrary to Ohio Rev. Code Section 5705.41 (B). Also, the Water Authority did not obtain prior certification for obligations during 2004 and 2003, contrary to Ohio Rev. Code Section 5705.41 (D).

**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

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

4. DEBT

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
Mortgage Revenue Bonds	\$805,000	4.50%

The Water Authority issued \$814,000 of Water Resource Project Revenue Bonds on September 2001 to finance the construction of its water facilities and lines. The bonds are collateralized by the future revenues of the water facilities of the Water Authority.

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

Year ending December 31:	Mortgage Revenue Bonds
2005	\$46,225
2006	45,775
2007	46,325
2008	45,830
2009	46,335
2010-2014	227,440
2015-2019	225,870
2020-2024	221,060
2025-2029	221,425
2030-2034	220,255
2035-2039	221,155
2040-2041	87,580
Total	\$1,655,275

5. RETIREMENT SYSTEMS

The Water Authority'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 the Ohio Revised Code prescribes.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OPERS members contributed 8.5 percent of their gross salaries. The Water Authority contributed an amount equal to 13.55 percent of participants' gross salaries through. The Water Authority has paid all contributions required through December 31, 2004.

**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

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

6. RISK MANAGEMENT

Commercial Insurance

The Water Authority has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicle

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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*

Noble County Water Authority
Noble County
P.O. Box 127
Belle Valley, Ohio 43717

To the Board of Trustees:

We have audited the financial statement of the Noble County Water Authority, Noble County, Ohio (the Water Authority), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated November 29, 2005, wherein we noted the Water Authority 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 Water Authority's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statement 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. In a separate letter to the Water Authority's management dated November 29, 2005, we reported other matters involving internal control over financial reporting we did not deem as reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Water Authority'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 we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-001 and 2004-002. In a separate letter to the Township's management dated November 29, 2005, we reported other matters related to noncompliance we deemed immaterial.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Noble County Water Authority
Noble 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 management and Board of Trustees. It is not intended for anyone other than these specified parties.

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Betty Montgomery
Auditor of State

November 29, 2005

**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Noncompliance Citation

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

Amounts of less than \$1,000 (which was increased to \$3,000 on 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 Water Authority.

2. Blanket Certificates – 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.

3. Super Blanket Certificate – The Water 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 exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Water Authority did not properly certify the availability of funds prior to purchase commitment for 100% of expenditures tested during 2004 and 2003. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**NOBLE COUNTY WATER AUTHORITY
NOBLE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-001 (Continued)

Noncompliance Citation - Ohio Rev. Code § 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 Water Authority's funds exceeding budgetary spending limitations, we recommend that the Clerk certify that funds are or will be available prior to obligation by the Water Authority. When prior certification is not possible, "then and now" certification should be used.

We recommend the Water Authority certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Water Authority incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code § 5705.41 (B) prohibits a subdivision or taxing unit from expending money unless it has been properly appropriated.

The Water Authority's Enterprise fund had expenditures in excess of approved appropriations at the legal level of control in the following amounts during:

2003

Appropriation Account	Appropriations	Expenditures	Variance
Wages	\$34,196	\$36,136	(\$1,940)
Maintenance	\$5,100	\$6,725	(\$1,625)
Water Purchase	\$30,900	\$38,587	(\$7,687)
Miscellaneous	\$824	\$7,783	(\$6,959)

2004

Appropriation Account	Appropriations	Expenditures	Variance
Water Purchase	\$38,000	\$42,466	(\$4,466)

We recommend the Clerk deny payments for expenditure requests exceeding appropriations. The Clerk may request the Board to approve increased expenditure levels by increasing appropriations and estimated resourced, as necessary.

**NOBLE COUNTY WATER AUTHORITY
NOBLE 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; <i>Explain</i>
2002-001	The Water Authority made expenditures which exceeded appropriations contrary to Ohio Revised Code 5705.41 (B).	No	Not Corrected; Repeated as Finding 2004-002.
2002-002	The Water Authority did not properly encumber contrary to Ohio Revised Code 5705.41 D.	No	Not Corrected; Repeated as Finding 2004-001
2002-003	The Water Authority did not establish a bond resolution account and fund.	No	Not Corrected; Repeated as Management Letter comment.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**NOBLE COUNTY WATER AUTHORITY
NOBLE 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 27, 2005**