



**Auditor of State
Betty Montgomery**

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Enterprise Funds - For the Years Ended December 31, 2005 and 2004.....	5
Notes to the Financial Statement.....	7
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
Schedule of Prior Audit Findings.....	16

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**Auditor of State
Betty Montgomery**

Switzerland of Ohio Water District
Monroe County
51746 Main Street
Jerusalem, Ohio 43747

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 statement 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

May 12, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Switzerland of Ohio Water District
Monroe County
51746 Main Street
Jerusalem, Ohio 43747

To the Board of Trustees:

We have audited the accompanying financial statement of the Switzerland of Ohio Water District, Monroe County, Ohio (the Water District), as of and for the years ended December 31, 2005 and 2004. This financial statement is the responsibility of the Water District'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 District 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 District to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statement presents for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Water 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 Water District has elected not to reformat its statement. Since this Water 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 years ended December 31, 2005 and 2004 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Water District as of December 31, 2005 and 2004, or its changes in financial position or its cash flows for the years then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the combined fund cash balances of the Switzerland of Ohio Water District, Monroe County, as of December 31, 2005 and 2004, 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 Water District to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Water 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 May 12, 2006, on our consideration of the Water 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

May 12, 2006

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES -
ENTERPRISE FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating Cash Receipts:		
Charges for Services	\$456,540	\$407,396
Intergovernmental	214,227	
	<hr/>	<hr/>
Total Operating Cash Receipts	670,767	407,396
	<hr/>	<hr/>
Operating Cash Disbursements:		
Personal Services	100,877	100,911
Insurance	7,628	10,679
Contractual Services	184,033	160,412
Office Supplies	6,343	5,796
Utilities	9,902	9,383
Repair / Maintenance	44,480	41,853
Capital Outlay	285,836	1,132
	<hr/>	<hr/>
Total Operating Cash Disbursements	639,099	330,166
	<hr/>	<hr/>
Operating Income	31,668	77,230
	<hr/>	<hr/>
Non-Operating Cash Receipts:		
Earnings on Investments	841	847
Miscellaneous	8,719	13,038
	<hr/>	<hr/>
Total Non-Operating Cash Receipts	9,560	13,885
	<hr/>	<hr/>
Non-Operating Cash Disbursements:		
Redemption of Principal	39,600	39,100
Interest and Other Fiscal Charges	28,060	30,015
Other Non-Operating Cash Disbursements	6,708	11,318
	<hr/>	<hr/>
Total Non-Operating Cash Disbursements	74,368	80,433
	<hr/>	<hr/>
Net Cash Receipts Over/(Under) Cash Disbursements	(33,140)	10,682
	<hr/>	<hr/>
Fund Cash Balances, January 1	204,305	193,623
	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$171,165</u>	<u>\$204,305</u>

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

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**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2005 AND 2004**

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 Switzerland of Ohio Water District, Monroe County (the Water District), as a body corporate and politic. Each Board member is appointed by the Monroe County Common Pleas Court Judge. There are five Board members. The Water District provides water services to residents of the Water District.

The Water District's management believes this financial statement presents all activities for which the Water District 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. Fund Accounting

The Water District uses fund accounting to segregate cash that is restricted as to use. The Water 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 Water District had the following significant Enterprise Funds:

Operation and Maintenance Fund - This fund receives charges for services from residents to cover the cost of providing the water utility.

First Investment Fund - This fund receives a portion of charges for services to fund future expansion projects and retire outstanding debt issues.

D. Budgetary Process

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

1. Appropriations

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

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2005 AND 2004
(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 cash as of January 1.

3. Encumbrances

The Ohio Revised Code requires the Water District to reserve (encumber) appropriations when commitments are made. The Water 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 accounting basis records acquisitions of property, plant, and equipment as capital outlay disbursements when paid. The accompanying financial statement does not include these assets.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The Water District's accounting basis does not reflect a liability for unpaid leave.

2. EQUITY IN POOLED CASH

The Water District maintains a cash pool all funds use. The carrying amount of cash at December 31 follows:

	2005	2004
Demand deposits	\$171,165	\$204,305

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Water District.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004, follows:

Budgeted vs. Actual Receipts		
Fund Type	2005	2004
Budgeted Receipts	\$439,500	\$432,700
Actual Receipts	680,327	421,281
Variance	\$240,827	(\$11,419)

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Budgeted vs. Actual Budgetary Basis Expenditures		
Fund Type	2005	2004
Appropriation Authority	\$477,430	\$422,160
Budgetary Expenditures	713,467	410,599
Variance	(\$236,037)	\$11,561

Contrary to Ohio law, budgetary expenditures exceeded the Water District's appropriation authority within various function accounts at December 31, 2005 and 2004.

4. DEBT

Debt outstanding at December 31, 2005, was as follows:

	Principal	Interest Rate
Farmers Home Administration Loan #1	\$135,000	5.00%
Farmers Home Administration Loan #2	386,600	5.00%
Total	\$521,600	

The Water District borrowed funds from the Farmers Home Administration (FHA) in January 1973 and March 1989 for the original water system and waterline expansion, respectively. These loans are collateralized solely by the future revenues from the Water District's water operations.

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

Year Ending December 31:	FHA Loan #1	FHA Loan #2
2006	\$36,750	\$29,430
2007	35,250	29,425
2008	38,750	29,395
2009	42,000	29,440
2010		29,355
2011 - 2015		146,870
2016 - 2020		146,715
2021 - 2025		146,655
2026 - 2027		58,620
Total	\$152,750	\$645,905

5. RETIREMENT SYSTEMS

The Water 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 the Ohio Revised Code prescribes.

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

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

5. RETIREMENT SYSTEMS (Continued)

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OPERS members contributed 8.5 percent of their gross salaries. The Water District contributed an amount equal to 13.55 percent of participants' gross salaries. The Water District has paid all contributions required through December 31, 2005.

6. RISK MANAGEMENT

Commercial Insurance

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

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

7. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.



**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***

Switzerland of Ohio Water District
Monroe County
51746 Main Street
Jerusalem, Ohio 43747

To the Board of Trustees:

We have audited the financial statement of the Switzerland of Ohio Water District, Monroe County, Ohio (the Water District), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated May 12, 2006, wherein we noted the Water District prepared its financial statement using accounting practices the Auditor of State established 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 District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statement and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Water District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statement. A reportable condition is described in the accompanying Schedule of Findings as item 2005-003.

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 statement we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Water District's management dated May 12, 2006, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the Water 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 items 2005-001 and 2005-002. In a separate letter to the Water District's management dated May 12, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 12, 2006

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated.

Expenditures exceeded budgeted amounts within the Operation and Maintenance Fund in the following function accounts and by the following amounts:

As of December 31, 2005:

Function Account	Appropriations	Expenditures	Variance
Contractual Services	\$173,000	\$184,033	(\$11,033)
Repair/Maintenance	42,000	44,480	(2,480)
Capital Outlay	55,000	285,836	(230,836)

As of December 31, 2004:

Function Account	Appropriations	Expenditures	Variance
Personal Services	\$97,000	\$100,911	(\$3,911)
Insurance	8,000	10,679	(2,679)
Repair/Maintenance	37,500	41,853	(4,353)

We recommend the Water District monitor all function account level expenditures to ensure they remain within their respective budgeted amounts. The Water District Office Manager may request the Water District Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Rev. Code Section 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 Ohio Rev. Code Sections 5705.41(D)(1) and 5705.41(D)(3), respectively:

Then and Now Certificate - If the fiscal officer can certify that both at the time the contract or order was made and at the time that he/she is completing his/her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2005-002
(Continued)**

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

Amounts of less than \$3,000, may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

Blanket Certificate – Fiscal officers may prepare “blanket” certificates not exceeding an amount established by resolution or ordinance of the legislative authority against any specific line item account and cannot extend beyond the end of the fiscal year. The blanket certificate 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. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

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

No obligations paid by the Water District had a statement attached indicating the purchase was lawfully appropriated or in the process of collection to the credit of the appropriate fund, and free from any previous encumbrance, and there was no evidence of a “Then and Now” certificate being used by the Water District.

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 District’s funds exceeding budgetary spending limitations, we recommend that the Water District Office Manager certify that the funds are or will be available prior to an obligation being incurred by the Water District. When prior certification is not possible, “then and now” certification should be used. Also, only one blanket certification should be used for a particular line item appropriation. The Water District Board should adopt a resolution to indicate an amount that blanket certificates cannot exceed.

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

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-003

Reportable Condition

The Auditor of State provided, through Auditor of State Bulletins 2000-008 and 2002-004, the recommended accounting treatment for on-behalf-of grants and loans including Ohio Public Works Commission (OPWC) funding. For payments made to the contractor of a project by OPWC directly, the State will notify the fiscal officer of the amount disbursed. Upon receipt of this notice, each local government shall record a receipt and expenditure in the appropriate fund equal to the amount disbursed by the OPWC on their behalf.

During 2005, the Water District did not record Ohio Public Works Commission grant transactions on their accounting records or financial statements in the amount of \$214,227 within the Operation and Maintenance Fund. The accompanying financial statement was adjusted to properly reflect the OPWC funding.

We recommend the Water District refer to Auditor of State Bulletins 2000-008 and 2002-004 and follow the recommended accounting treatment for all Ohio Public Works Commission funding expended directly to contractors on behalf of the Water District.

We did not receive a response from the Water District Officials to the findings reported above.

**SWITZERLAND OF OHIO WATER DISTRICT
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 5705.41(B) for actual expenditures exceeding budgeted appropriations.	No	Not Corrected; Reissued as Finding Number 2005-001.
2003-002	Ohio Rev. Code Section 5705.41(D) for no prior certification of the availability of funds prior to the incurring of obligations.	No	Not Corrected; Reissued as Finding Number 2005-002.



**Auditor of State
Betty Montgomery**

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SWITZERLAND OF OHIO WATER DISTRICT

MONROE 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
JUNE 20, 2006**