WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

INITIAL AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005 AND FOR THE SEVEN MONTHS ENDED DECEMBER 31, 2004

Auditor of State
Betty Montgomery

Mary Taylor, CPA
Auditor of State

January 17, 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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WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Western Guernsey Regional Water District
Guernsey County
61786 Shaw Road
Cambridge, Ohio 43725

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Western Guernsey Regional Water District, Guernsey County (the District), as of and for the year ended December 31, 2005 and as of and for the seven month period ended December 31, 2004, as listed in the table of contents. 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western Guernsey Regional Water District, as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the year then ended and the seven month period then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District was organized as a governmental entity on June 1, 2004 and, therefore, the District's financial statements are prepared following statements issued by the Governmental Accounting Standards Board.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

December 13, 2006

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
AND FOR THE SEVEN MONTHS ENDED DECEMBER 31, 2004
(UNAUDITED)

The discussion and analysis of the Western Guernsey Regional Water District's financial performance provides an overall review of the Western Guernsey Regional Water District's financial activities for the seven month period ended December 31, 2004 and for the year ended December 31, 2005. Readers should also review the basic financial statements and notes to enhance their understanding of the Western Guernsey Regional Water District's financial performance.

Highlights

Western Guernsey Regional Water District finished its first seven months operating as a political subdivision in 2004. Western Guernsey Regional Water District took over 100% of the assets and liabilities of Western Guernsey Services Co., Inc. (a non profit organization).

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how Western Guernsey Regional Water District did financially during the seven month period ended December 31, 2004 and the year ended December 31, 2005. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting considers all of the District's revenues and expenses regardless of when cash is received or paid.

These statements report Western Guernsey Regional Water District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of Western Guernsey Regional Water District has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
AND FOR THE SEVEN MONTHS ENDED DECEMBER 31, 2004
(UNAUDITED)

Table 1 provides a summary of the District's Net Assets for 2005 and the last seven months of 2004.

Table 1
Net Assets

	2005	2004
Assets		
Current and Other Assets	$ 273,509	$ 262,883
Capital Assets, Net	254,945	265,245
Total Assets	528,454	528,128
Liabilities		
Current Liabilities	71,786	76,729
Noncurrent Liabilities	369,377	401,111
Total Liabilities	441,163	477,840
Net Assets		
Invested in Capital Assets, Net of Related Debt	(146,166)	(166,198)
Restricted	87,239	90,807
Unrestricted	146,218	125,679
Total Net Assets	$ 87,291	$ 50,288

The District's increase in total net assets of $37,003 from 2004 to 2005, is mainly due to the payment made for a GMAC loan.

Table 2 shows the change in net assets for the year ended December 31, 2005 and the last seven months of 2004, as well as revenue and expense.

Table 2
Revenues and Expenses

		2005		2004
Operating Revenues:				
Charges for Services	$	$560,305	$	$340,105
Non-Operating Revenues:				
Interest		3,157		1,213
Miscellaneous		6,436		1,580
Gain on Disposal of Asset		5,740		0
Total Revenues		575,638		342,898
Operating Expenses:				
Contract Services		288,941		158,367
Professional Fees		4,638		18,117
Advertising		0		206
Bank Charges		24		24
Wages		88,277		57,816
Employee Benefits		13,313		8,734
Postage and Other Supplies		5,583		3,769
Group Insurance		18,220		9,382
Insurance		8,773		253
Small Tools and Supplies		14,691		10,222
Ground Maintenance		1,020		993
Outside Services		7,302		5,771
Depreciation		29,203		16,255
Dues and Subscriptions		1,101		647
Vehicle Expense		10,595		6,149
Phone and Utilities		18,926		9,107
Licenses and Permits		2,828		2,610
Repairs		3,987		1,569
Miscellaneous		1,469		45
Non-Operating Expenses:				
Interest Expense		19,744		13,101
Total Expenses		538,635		323,137
Change in Net Assets		37,003		19,761
Net Assets Beginning of Year		50,288		30,527
Net Assets End of Year	**$**	**87,291**		**50,288**

Operating revenues consisted of user charges for water consumption. Operating expenses reflect the cost of providing these services. Comparison of the 2005 and 2004 Statement of Revenues, Expenses, and Change in Net Assets is not practical since 2004 figures consist only of activity from June 1, 2004 through December 31, 2004, whereas 2005 figures are for the entire fiscal year.

Capital Assets and Debt Administration

Capital Assets

Table 3 provides a summary of the District's capital assets for 2004 and 2005.

Table 3
Capital Assets

	2005	2004
Buildings & Improvements	$ 52,430	$ 56,198
Infrastructure	109,156	120,939
Machinery & Equipment	47,100	54,402
Vehicles	33,413	20,508
Office Equipment	346	698
Land	12,500	12,500
Total	$ 254,945	$ 265,245

During the period ended December 31, 2004, Western Guernsey Regional Water District invested $1,546 in new equipment. Depreciation expense during 2004 amounted to $16,255.

During fiscal year 2005, Western Guernsey Regional Water District invested $18,903 in new equipment and a vehicle. Accumulated depreciation during 2005 amounted to $29,203.

Debt

Western Guernsey Regional Water District did not incur any new debt during the seven months ended December 31, 2004, nor the year ended December 31, 2005.

Contacting the Western Guernsey Regional Water District's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the Western Guernsey Regional Water District's finances and to show the Western Guernsey Regional Water District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Charlene Hastings, Clerk, Western Guernsey Regional Water District, 61786 Shaw Road, Cambridge, Ohio 43725-9441.

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2005

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$9,090
Segregated Accounts:	
Indebt Service	31,737
Capital Improvement	55,502
Short Term Investment - Restricted	54,000
Accounts Receivable	107,874
Inventories	15,306
Total Current Assets	273,509
Noncurrent Assets:	
Capital Assets	
Buildings and Improvements	109,714
Infrastructure	1,111,205
Machinery and Equipment	106,141
Vehicle	45,576
Office Equipment	16,002
Less: Accumulated Depreciation	(1,146,193)
	242,445
Land	12,500
Total Noncurrent Assets	254,945
Total Assets	528,454
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Current Portion, Long Term Debt	31,734
Accounts Payable	22,227
Accrued Liabilities	13,275
Customer Deposits	4,550
Total Current Liabilities	71,786
Noncurrent Liabilities	
Long-Term Debt, Net of Current Portion	369,377
Total Liabilities	441,163
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	(146,166)
Restricted for Debt Service	31,737
Restricted for Capital Improvements	55,502
Unrestricted	146,218
Total Net Assets	87,291
Total Liabilities and Net Assets	$528,454

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

Operating Revenue:	
Charges for Services	$560,305
Operating Expenses:	
Contract Services	288,941
Professional Fees	4,638
Bank Charges	24
Wages	88,277
Employee Benefits	13,313
Postage and Office Supplies	5,583
Group Insurance	18,220
Insurance	8,773
Small Tools and Supplies	14,691
Ground Maintenance	1,020
Outside Services	7,302
Depreciation	29,203
Dues and Subscriptions	1,101
Vehicle Expense	10,595
Phone and Utilities	18,926
Licenses and Permits	2,828
Repairs	3,987
Miscellaneous	1,469
Total Operating Expenses	518,891
Operating Income	41,414
Non-Operating Revenues (Expenses):	
Rental Income	3,520
Hydrant Assessments	900
Miscellaneous	2,016
Interest Earned	3,157
Gain on Disposal of Asset	5,740
Interest Expense	(19,744)
Total Non-Operating Revenues (Expenses)	(4,411)
Increase in Net Assets	37,003
Net Assets, Beginning of Period	50,288
Net Assets, End of Period	$87,291

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$549,512
Cash paid to supplies and employees	(494,021)
Net cash provided by operating activities	55,491
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	3,157
Net cash provided by investing activities	3,157
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of property and equipment	(18,903)
Gain on Disposal of Capital Asset	5,740
Payments of long-term debt	(30,332)
Interest paid	(21,456)
Net cash used for capital and related financing activities	(64,951)
Net decrease in cash	(6,303)
Cash, beginning of period	102,632
Cash, end of period	$96,329

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 41,414
Adjustments to reconcile net loss to net cash provided by operating activites:	
Depreciation	29,203
Rental Income	3,520
Hydrant Assessments	900
Miscellaneous	2,016
(Increase) Decrease in Assets:	
Accounts Receivable	(16,929)
Increase (Decrease) in Liabilities:	
Accounts Payable	(2,756)
Accrued Payroll Taxes	(1,577)
Customer Deposits	(300)
Net cash provided by operating activities	$55,491

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2004

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$11,825
Segregated Accounts:	
Debt Service	27,179
Capital Improvement	63,628
Short Term Investment - Restricted	54,000
Accounts Receivable	90,945
Inventories	15,306
Total Current Assets	262,883
Noncurrent Assets:	
Capital Assets	
Buildings and Improvements	109,714
Infrastructure	1,111,205
Machinery and Equipment	105,588
Vehicle	43,632
Office Equipment	16,002
Less: Accumulated Depreciation	(1,133,396)
	252,745
Land	12,500
Total Noncurrent Assets	265,245
Total Assets	528,128
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Current Portion, Long Term Debt	30,332
Accounts Payable	24,983
Accrued Liabilities	16,564
Customer Deposits	4,850
Total Current Liabilities	76,729
Noncurrent Liabilities	
Long-Term Debt, Net of Current Portion	401,111
Total Liabilities	477,840
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	(166,198)
Restricted for Debt Service	27,179
Restricted for Capital Improvements	63,628
Unrestricted	125,679
Total Net Assets	50,288
Total Liabilities and Net Assets	$528,128

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE SEVEN MONTHS ENDED DECEMBER 31, 2004

Operating Revenue:	
Charges for Services	$340,105
Operating Expenses:	
Contract Services	158,367
Professional Fees	18,117
Advertising	206
Bank Charges	24
Wages	57,816
Employee Benefits	8,734
Postage and Office Supplies	3,769
Group Insurance	9,382
Insurance	253
Small Tools and Supplies	10,222
Ground Maintenance	993
Outside Services	5,771
Depreciation	16,255
Dues and Subscriptions	647
Vehicle Expense	6,149
Phone and Utilities	9,107
Licenses and Permits	2,610
Repairs	1,569
Miscellaneous	45
Total Operating Expenses	310,036
Operating Income	30,069
Non-Operating Revenues (Expenses):	
Rental Income	680
Hydrant Assessments	900
Interest Earned	1,213
Interest Expense	(13,101)
Total Non-Operating Revenues (Expenses)	(10,308)
Increase in Net Assets	19,761
Net Assets, Beginning of Period	30,527
Net Assets, End of Period	$50,288

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF CASH FLOWS
FOR THE SEVEN MONTHS ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$311,836
Cash paid to suppliers and employees	(291,262)
Net cash provided by operating activities	20,574
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	1,213
Net cash provided by investing activities	1,213
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of property and equipment	(1,546)
Net cash used for capital and related financing activites	(1,546)
Net increase in cash	20,241
Cash, beginning of period	82,391
Cash, end of period	$102,632

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	30,069
Adjustments to reconcile net loss to net cash provided by operating activites:		
Depreciation		16,255
Rental Income		680
Hydrant Assessments		900
(Increase) Decrease in Assets:		
Accounts Receivable		(29,949)
Increase (Decrease) in Liabilities:		
Accounts Payable		3,178
Accrued Payroll Taxes		(659)
Customer Deposits		100
Net cash provided by operating activities	$	20,574

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

Western Guernsey Regional Water District (the "District") was organized under the provisions of Section 6119 of the Ohio Revised Code on June 1, 2004. Prior to that date, the District was operated as a not-for-profit corporation known as Western Guernsey Services Company. The District furnishes water service to customers in the rural areas of Guernsey County, Ohio. Customers are billed on a monthly basis for water used and are included in accounts receivable until paid.

Basis of Presentation

The financial statements of Western Guernsey Regional Water District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* the Water District applies GASB guidance as applicable to proprietary funds and Financial Accounting Statements Standards Board (FASB) Interpretations, Accounting Principles Board Opinions (APBO), and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The District's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

Measurement Focus and Basis of Accounting

Transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net assets. Net assets (i.e., equity) is segregated into invested in capital assets, net of related debt, restricted for purpose, and unrestricted components. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The District uses the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Bad debts expense has been minimal and, as a result, accounts receivable do not include an allowance for doubtful accounts.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of water meters and repair parts. Inventory is stated at the lower of cost or market value based on the first-in, first-out method (FIFO).

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation for financial reporting purposes is based on the following policies:

Description	Estimated Life	Method
Buildings and Improvements	10-40 years	Straight line
Infrastructure	10-40 years	Straight line
Machinery and Equipment	5-10 years	Straight line
Vehicles	5-10 years	Straight line and accelerated
Office Equipment	5-10 years	Straight line and accelerated

Long-Term Obligations

The District records obligations not expected to be financed within one year by available financial resources as long-term debt, which consisted of GMAC Commercial Mortgage Corporation notes.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation of the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Accumulated Leave

All full time permanent employees are entitled to vacation leave, with pay, after the completion of one full year of employment. Vacation leave must be taken by the employee during the year following that in which it was accrued however in special cases the Board may permit an employee to carry over vacation leave to the following year. In no case is any employee allowed to carry over more than one year’s accrued vacation for longer than two years. At the time of separation, an employee is entitled to compensation at their current rate of pay for the pro-rated portion of any earned but unused vacation leave for the current year and for any unused vacation leave from a prior period accrued to the employee’s credit with the approval of the Board.

All employees earn sick leave at the rate of 4.6 hours for each 80 hours in active pay status. Employees with a minimum of ten years of service may receive 25% of their accumulated sick leave, not to exceed thirty days, upon retirement through PERS.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2004 and 2005 the District's employees had not accrued any significant leave balances.

Revenue and Expenses

Operating revenues and expenses result from providing water conveyance services. Operating revenues consist of user charges for water services based on water consumption. Operating expenses include the cost of these water services, including administrative expenses. Revenues and expenses which do not meet these definitions are reported as Non-Operating Revenues or Expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: EQUITY IN POOLED CASH AND INVESTMENTS

State statute outlines allowable deposits and investments for the District. The District may invest in certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

Cash on Hand

At the end of each year, the District had $105 in undeposited cash on hand which is included as part of "Cash and Cash Equivalents."

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2004, the District's deposits was $156,633, and the bank balance was $163,533. At December 31, 2005, the District's deposits was $150,329, and the bank balance was $155,881. Of the bank balances, all amounts were covered by FDIC insurance.

The District has no deposit policy for custodial credit risk beyond the requirements of State statue. Ohio law requires that deposits be insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 3: SEGREGATED ACCOUNTS

The District is required by loan covenants with GMAC to segregate amounts for debt service and capital reserve. These balances are maintained in bank accounts separate from the general account.

NOTE 4: RECEIVABLES

Receivables at December 31, 2004 consisted of $90,945 in water service billings due from water system users during Janaury and February 2005. Receivables at December 31, 2005 consisted of $107,874 in water service billings due from water system users during January and February 2006. Also, there was a receivable at December 31, 2005 for an insurance claim due to the District that was received in January 2006.

NOTE 5: LONG-TERM DEBT OBLIGATIONS

The District had the following long-term debt obligations as of December 31, 2005:

Note payable - GMAC Commercial Mortgage Corp., issued in May, 1981, collateralized by all properties considered part of the water system. Annual payments of $35,913 include interest at 5%. Final payment due May, 2013.	$ 229,945
Note payable - GMAC Commercial Mortgage Corp., issued in June, 1971, collateralized by all properties considered part of the water system. Annual payments of $15,876 include interest at 5%. Final payment due May, 2021.	171,166
Total Long-Term Obligations	401,111
less: current portion	31,734
Long-Term Debt, net of current portion	$ 369,377

The balances of the 1981 Note Payable and the 1971 Note Payable were $253,267 and $178,175, respectively. No principal payments were due or paid during the seven months ended December 31, 2004 on either debt issue. During the year ended December 31, 2005, principal payments amounted to $23,322 on the 1981 Note Payable and $7,009 on the 1971 Note Payable. As of December 31, 2004 the current portion the above notes totaled $30,322.

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

	GMAC Loans	
Year ending December 31:	Principal	Interest
2006	$31,734	$20,056
2007	33,320	18,469
2008	34,986	16,803
2009	36,735	15,054
2010	38,572	13,217
2011-2015	146,638	37,276
2016-2020	65,864	13,516
2021	13,262	663
Total	$401,111	$135,054

NOTE 6: CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2005 was as follows:

	Balance 1/1/05	Additions	Deletions	Balance 12/31/05
Nondepreciable Capital Assets				
Land	$ 12,500	$	$	$ 12,500
Depreciable Capital Assets				
Buildings & Improvements	109,714			109,714
Infrastructure	1,111,205			1,111,205
Machinery & Equipment	105,588	553		106,141
Vehicles	43,632	18,350	(16,406)	45,576
Office Equipment	16,002			16,002
Total Depreciable Capital Assets	1,386,141	18,903	(16,406)	1,388,638
Less Accumulated Depreciation				
Buildings & Improvements	(53,516)	(3,768)		(57,284)
Infrastructure	(990,266)	(11,783)		(1,002,049)
Machinery & Equipment	(51,186)	(7,855)		(59,041)
Vehicles	(23,124)	(5,445)	16,406	(12,163)
Office Equipment	(15,304)	(352)		(15,656)
Total Accumulated Depreciation	(1,133,396)	(29,203)	16,406	(1,146,193)
Depreciable Capital Assets, Net of Accumulated Depreciation	252,745	(10,300)		242,445
Total Capital Assets	$ 265,245	$ (10,300)	$	$ 254,945

NOTE 6: CAPITAL ASSETS (Continued)

Capital Asset activity for the seven month period ended December 31, 2004 was as follows:

	Balance 5/31/04	Additions	Deletions	Balance 12/31/04
Nondepreciable Capital Assets				
Land	$ 12,500	$	$	$ 12,500
Depreciable Capital Assets				
Buildings & Improvements	109,714			109,714
Infrastructure	1,111,205			1,111,205
Machinery & Equipment	105,588			105,588
Vehicles	42,086	1,546		43,632
Office Equipment	16,002			16,002
Total Depreciable Capital Assets	1,384,595	1,546		1,386,141
Less Accumulated Depreciation				
Buildings & Improvements	(51,340)	(2,176)		(53,516)
Infrastructure	(984,030)	(6,236)		(990,266)
Machinery & Equipment	(46,628)	(4,558)		(51,186)
Vehicles	(27,663)	(3,080)	7,619	(23,124)
Office Equipment	(15,099)	(205)		(15,304)
Total Accumulated Depreciation	(1,124,760)	(16,255)	7,619	(1,133,396)
Depreciable Capital Assets, Net of Accumulated Depreciation	259,835	(14,709)	7,619	252,745
Total Capital Assets	$ 272,335	$ (14,709)	$ 7,619	$ 265,245

NOTE 7: OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

NOTE 7: OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the years ended December 31, 2004 and 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2004 and 2005 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional and combined plans for the periods ended December 31, 2005 and 2004 were $8,430 and $5,990 respectively; 90.81 percent has been contributed for 2005 and 100 percent for 2004.

NOTE 8: POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 and 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109 at December 31, 2005, and 355,287 at December 31, 2004. Actual District contributions for 2005 and 2004 which were used to fund postemployment benefits were $3,531 and $2,509, respectively. The actual contribution and the actuarially required contribution amounts are the same.

NOTE 8: POSTEMPLOYMENT BENEFITS (Continued)

The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $29.5 billion and $18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Significant risk of losses is covered by commercial insurance. The District has not significantly reduced this coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

NOTE 10: CHANGE IN ACCOUNTING PRINCIPLES

During 2004, the District implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). This Statement addresses disclosures related to common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also have been disclosed.

During 2005, the District also implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. Under provisions of this Statement, a capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this Statement had no impact on the District's financial statements or disclosures.

NOTE 11: COMPLIANCE

The District did not formally adopt an operating budget or follow the other budgetary processes outlined by Ohio Rev. Code Section 5705.28(B)(2)(a).

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*

Western Guernsey Regional Water District
Guernsey County
61786 Shaw Road
Cambridge, Ohio 43725

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Western Guernsey Regional Water District, Guernsey County (the District) as of and for the year ended December 31, 2005 and as of and for the seven months ended December 31, 2004 and have issued our report thereon dated December 13, 2006. 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 basic financial statements 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 District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2005-002.

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. 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. We consider reportable condition 2005-002 listed above to be a material weakness. In a separate letter to the District's management dated December 13, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the District's basic 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 District's management dated December 13, 2006 we reported other matters related to noncompliance we deemed immaterial.

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.

Betty Montgomery
Auditor of State

December 13, 2006

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-001

Finding for Recovery Repaid Under Audit

Ohio Attorney General Opinion No. 82-006 addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of *State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951)*, provides that the primary object of an expenditure of public funds should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states that the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co., 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex rel. Village of Linndale v. Masten (1985), 18 Ohio St. 3d 228.

On December 10, 2005, the District expended public funds in the amount of $722.12 for the purchase of meals and beverages for a Christmas party attended by District officials and employees and their spouses. This amount included the purchase of alcoholic beverages in the amount of $107.57. The District's Board neither enacted an ordinance or resolution memorializing what proper public purpose such expenditures serve, nor adopted a policy permitting this type of expenditure. The following District officials/ employees attended the Christmas party: Brian Bookman, Kevin Kelly, Gary Linkhorn, John White, and William Wycoff.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended has been issued against Western Guernsey Regional Water District Board members Brian Bookman, Kevin Kelly, Gary Linkhorn, John White, and William Wycoff, and their surety, The Ohio Farmers Insurance Company, jointly and severally, in the amount of seven hundred twenty two dollars and twelve cents ($722.12) in favor of the District.

Official's Response

The District previously operated as a not for profit agency and was not aware this type of expenditure was improper. This finding for recovery was repaid on November 15, 2006.

FINDING NUMBER 2005-002

Noncompliance Citation and Material Weakness

Ohio Rev. 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 budget is not required to be filed with the county auditor or the county budget commission.

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

FINDING NUMBER 2005-002 (Continued)

Noncompliance Citation and Material Weakness – Ohio Rev. Code § 5705.28(B)(2)(a) (Continued)

According to Ohio Rev. Code § 5705.28(B)(2)(b), although a taxing unit that does not levy a tax is not a taxing unit for purposes for Ohio Rev. Code Chapter 5705, a water district is still required to follow these Ohio Rev. Code sections: 5705.36, 5705.38, 5705.40, 5705.41, 5705.43, 5705.44 and 5705.45. These sections separately require the District to, in part: certify beginning balances on or about the first day of each fiscal year, certify revenue available for appropriation, adopt appropriations within available resources, certify the availability of funds prior to incurring obligations, and limit expenditures to appropriations for each fund. However, documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.

Concerning the prior certification of the availability of funds prior to incurring obligations, 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" Certificates** – 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 subdivision (District) can authorize the drawing of a warrant for the payment of the amount due. The subdivision 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 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 current 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.

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

FINDING NUMBER 2005-002 (Continued)

Noncompliance CItation and Material Weakness – Ohio Rev. Code § 5705.28(B)(2)(a) (Continued)

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.

The District did not comply with the aforementioned budgetary laws for the periods ended December 31, 2004 and 2005.

We recommend the District's management review the above requirements of the Ohio Revised Code and implement procedures to assure compliance with these requirements for future periods. Budgeted amounts of receipts and disbursements should be integrated into the District accounting system to allow for meaningful comparisons between the budget versus actual figures.

Official's Response

The District intends to implement procedures to assure compliance with budgetary laws.

Mary Taylor, CPA
Auditor of State

WESTERN GUERNSEY REGIONAL WATER DISTRICT

GUERNSEY 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 23, 2007

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