

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

REGULAR AUDIT

JANUARY 1, 2007 THROUGH DECEMBER 31, 2008

FISCAL YEARS AUDITED UNDER GAGAS: 2007 & 2008

Caudill & Associates, CPA's

725 5th Street

Portsmouth, OH 45662



Mary Taylor, CPA
Auditor of State

Board of Trustees
Northwest Regional Water District
P. O. Box 158
McDermott, OH 45652-0158

We have reviewed the *Independent Auditor's Report* of the Northwest Regional Water District, Scioto County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2007 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northwest Regional Water District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 18, 2009

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Northwest Regional Water District
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Caudill & Associates, CPA's
725 5th Street
Portsmouth, OH 45662

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northwest Regional Water District
P.O. Box 158
McDermott, Ohio 45652-0158

We have audited the accompanying financial statements of the business-type activities of the Northwest Regional Water District (the "District"), Scioto County, as of December 31, 2008 and 2007, which collectively comprise the District's basic financial statements 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 business-type activities of the District as of December 31, 2008 and 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 28, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board of Trustees
Northwest Water District

The management's discussion and analysis on pages 3 through 7 is not required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
February 28, 2009

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

This discussion and analysis, along with the accompanying financial reports, of Northwest Regional Water District ("The District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets of the District exceeded total liabilities on December 31, 2008 by \$8.03 million and on December 31, 2007 by \$7.64 million. The District's net assets increased by \$391 thousand (5.1%) in 2008 and by \$250 thousand (3.3%) in 2007.

The District's Operating Revenues decreased in 2008 by \$118 thousand (5.2%) and in 2007 they increased by \$146 thousand (7.0%). Operating and Maintenance Expenses (excluding depreciation expense) decreased \$14 thousand (0.8%) in 2008 and in 2007 (excluding depreciation expense) increased \$51 thousand (3.1%). Depreciation expense increased \$4 thousand (0.1%) in 2008 and increased in 2007 by \$23 thousand (7.8%).

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statements of Net Assets** include all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past year and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. They summarize the net changes in cash resulting from operating, investing and financing activities.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

STATEMENTS OF NET ASSETS

Table 1 summarizes the Statements of Net Assets of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", are Capital Assets less accumulated depreciation and outstanding debt that was used to acquire those assets.

Table 1

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>2006</u>	<u>Change</u>
Current and Other Assets	\$1,770,900	\$1,879,124	\$ (108,224)	\$1,636,994	\$242,130
Capital Assets, Net	8,322,591	7,908,498	414,093	7,933,460	(24,962)
Total Assets	<u>10,093,491</u>	<u>9,787,622</u>	<u>305,869</u>	<u>9,570,454</u>	<u>217,168</u>
Long Term Liabilities	1,735,475	1,714,334	21,141	1,853,288	(138,954)
Other Liabilities	324,453	431,137	(106,684)	325,486	105,651
Total Liabilities	<u>2,059,928</u>	<u>2,145,471</u>	<u>(85,543)</u>	<u>2,178,774</u>	<u>(33,303)</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	6,440,769	6,055,208	385,561	5,948,172	107,036
Unrestricted	1,592,794	1,586,943	5,851	1,443,508	143,435
Total Net Assets	<u>\$8,033,563</u>	<u>\$7,642,151</u>	<u>\$391,412</u>	<u>\$7,391,680</u>	<u>\$250,471</u>

The District's Net Assets increased by \$391 thousand (5.1%) in 2008 and \$250 thousand (3.4%) in 2007. This increase is a result of excess revenues over expenses.

Unrestricted net assets increased by \$6 thousand in 2008 and \$143 thousand in 2007. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents decreased \$134 thousand in 2008 and increased by \$228 thousand in 2007 which is primarily due to decreases in operating revenue in 2008, and decreased maintenance and repair expenses and legal and accounting expenses in 2007.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 below summarizes the changes in Revenues, Expenses and Net Assets.

Table 2	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>2006</u>	<u>Change</u>
Operating Revenues	\$2,120,323	\$2,213,096	(\$92,773)	\$2,092,502	\$120,594
Total Operating Revenues	<u>2,120,323</u>	<u>2,213,096</u>	<u>(92,773)</u>	<u>2,092,502</u>	<u>120,594</u>
Operating Expenses					
(Excluding Depreciation)	1,642,769	1,656,545	(13,776)	1,605,766	50,779
Depreciation Expense	323,823	319,460	4,363	296,314	23,146
Total Operating Expenses	<u>1,966,592</u>	<u>1,976,005</u>	<u>(9,413)</u>	<u>1,902,080</u>	<u>73,925</u>
Operating Income	153,731	237,091	(83,360)	190,422	46,669
Non-Operating Revenues	323,910	77,768	246,142	112,458	(34,690)
Non-Operating Expenses	<u>86,227</u>	<u>64,387</u>	<u>21,840</u>	<u>67,849</u>	<u>(3,462)</u>
Changes in Net Assets	391,414	250,472	140,942	235,031	15,441
Net Assets at Beginning of Year	<u>7,642,152</u>	<u>7,391,680</u>	<u>250,472</u>	<u>7,156,649</u>	<u>235,031</u>
Net Assets end of Year	<u>\$8,033,566</u>	<u>\$7,642,152</u>	<u>\$391,414</u>	<u>\$7,391,680</u>	<u>250,472</u>

Operating revenues decreased \$93 thousand in 2008 due to a decrease in consumption and a decrease in tap fees, and contract work and increased by \$120 thousand in 2007 due to the addition of new customers.

Operating expenses decreased about \$9 thousand in 2008 primarily due to decrease in purchased water in 2008 which were slightly offset by increase in depreciation expense of \$4 thousand in 2008.

Non-Operating revenues increased by \$246 thousand in 2008 as the result of the increase in cash during 2008 from a construction grant. Non-Operating expenses increased by \$22 thousand in 2008 because of the costs of construction and decreased in 2007 due to a reduction in long term debt.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007**

CAPITAL ASSETS

The District had \$13.4 million invested in Capital Assets (before depreciation) at the end of 2008 and \$12.4 million at the end of 2007, an increase of \$738 thousand (5.8%) in 2008 and an increase of \$239 thousand (1.9%) in 2007. This increase is due to an ongoing construction project which is being funded through a loan from the Ohio Public Works Commission and through District reserves.

Table 3	2008	2007	Change	2006	Change
Non-Depreciable Capital Assets					
Land	\$119,254	\$119,254	\$0	\$113,254	\$6,000
Constructions in progress	245,767	157,860	87,907	137,482	20,378
Total Non-Depreciable	365,021	277,114	87,907	250,736	26,378
Capital Assets					
Depreciable Capital Assets					
Utility plant - lines	10,428,047	9,849,164	578,883	9,740,931	108,233
Utility plant - towers	991,049	991,049	0	991,049	0
Utility plant - meters	307,891	297,979	9,912	284,313	13,666
Utility plant - office and garage	244,339	228,552	15,787	228,552	0
Office equipment and furniture	65,222	55,106	10,116	39,696	15,410
Radio telemetry system	288,045	288,045	0	288,045	0
Trucks and equipment	752,198	716,887	35,311	641,093	75,794
Totals Before Accumulated Depreciation	13,076,791	12,426,782	650,009	12,213,679	213,103
Accumulated Depreciation	(5,119,221)	(4,795,398)	(323,823)	(4,530,955)	(264,443)
Net Depreciable Capital Assets	7,957,570	7,631,384	326,186	7,682,724	(51,340)
Total Capital Assets	\$8,322,591	\$7,908,498	\$414,093	\$7,933,460	(\$24,962)

For additional information regarding capital assets please see Note C to the Basic Financial Statements.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

DEBT

The District issues long term debt to finance much of its construction. At December 31, 2008 total debt outstanding of \$1,881,821 compared to \$1,853,290 at December 31, 2007. Ohio Water Development Authority debt was issued in October of 2007 for water line extensions. The District did not begin receiving funds until February 2008.

Table 4	2008	2007	Change	2006	Change
Ohio Public Works					
Commission (OPWC)	\$369,456	\$399,628	(\$30,172)	\$430,166	(\$30,538)
Ohio Water Development					
Authority (OWDA)	1,512,365	1,453,662	58,703	1,555,122	(101,460)
Total Long Term Debt	1,881,821	1,853,290	28,531	1,985,288	(131,998)
Less: Current Maturities	146,347	138,956	7,391	132,000	6,956
Net Total Long Term Debt	\$1,735,474	\$1,714,334	\$21,114	\$1,853,288	(\$138,954)

The District's debt is paid from operating revenues generated by the District. For additional information regarding debt please see Note E to the Basic Financial Statements.

CASH

Cash and cash equivalents were \$1,355,699 on December 31, 2008 and \$1,489,362 on December 31, 2007.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Northwest Regional Water District, P.O. Box 158, McDermott, Ohio 45652 or (740) 259-2789.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

STATEMENT OF NET ASSETS

AS OF DECEMBER 31, 2008 AND 2007

ASSETS	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,355,699	\$ 1,489,362
Accounts receivable, net allowance for doubtful accounts	361,899	360,007
Prepaid expenses	53,302	29,755
TOTAL CURRENT ASSETS	1,770,900	1,879,124
NONCURRENT ASSETS		
Capital Assets:		
Non-depreciable capital assets	365,021	277,114
Depreciable capital assets, net	7,957,570	7,631,384
TOTAL NONCURRENT ASSETS	8,322,591	7,908,498
TOTAL ASSETS	\$ 10,093,491	\$ 9,787,622
	2008	2007
LIABILITIES		
CURRENT LIABILITIES		
Notes payable - current portion	\$ 146,347	\$ 138,956
Accounts Payable	55,381	159,843
Accrued Expenses	122,725	132,338
TOTAL CURRENT LIABILITIES	324,453	431,137
LONG-TERM LIABILITIES		
Notes payable - less current portion	1,735,475	1,714,334
TOTAL LONG-TERM LIABILITIES	1,735,475	1,714,334
TOTAL LIABILITIES	2,059,928	2,145,471
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	6,440,769	6,055,208
Unrestricted	1,592,794	1,586,943
TOTAL NET ASSETS	\$ 8,033,563	\$ 7,642,151

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Water	\$ 2,006,589	\$ 2,024,856
Tap fees	28,000	92,950
Service charges	16,320	14,860
Late charges	61,984	61,465
Contract work	7,430	18,965
TOTAL OPERATING REVENUES	2,120,323	2,213,096
OPERATING EXPENSE		
Salaries, wages and benefits	582,762	578,901
Utilities	128,887	119,106
Depreciation expense	323,823	319,460
Purchased water	565,628	610,525
Telemetry	6,421	10,293
Maintenance	108,797	92,414
Truck and equipment expense	60,586	52,785
Billing expense	12,697	22,527
Pension expense	107,763	102,887
Payroll taxes	6,651	6,408
Insurance	37,307	15,006
Office supplies and postage	20,011	32,514
Legal and accounting fees	835	8,321
Travel and auto expense	2,104	2,070
Other expenses	2,320	2,788
TOTAL OPERATING EXPENSES	1,966,592	1,976,005
Operating Income	153,731	237,091
NONOPERATING REVENUES (EXPENSES)		
Loss on Investments	(19,430)	52,768
Intergovernmental	323,910	0
Sale of Capital Assets	0	25,000
Interest expense	(66,797)	(64,387)
Net other income (expense)	237,683	13,381
CHANGES IN NET ASSETS	391,414	250,472
NET ASSETS, BEGINNING OF YEAR	7,642,152	7,391,680
NET ASSETS, END OF YEAR	\$ 8,033,566	\$ 7,642,152

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,118,431	\$ 2,227,507
Cash payments to suppliers for goods and services	(969,140)	(879,320)
Cash payments for employee services and benefits	(811,251)	(688,196)
Net cash provided by operating activities	338,040	659,991
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - OPWC loans	(30,540)	(30,450)
Principal payments - OWDA loans	(113,460)	(101,499)
Proceeds from notes payable - OWDA	172,202	0
Interest payments - OWDA loans	(66,469)	(58,540)
Grants Received	323,910	0
Acquisition of Capital Assets	(737,916)	(294,498)
Net cash used for capital and related financing activities	(452,273)	(484,987)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	(19,430)	52,768
Net increase/(decrease) in cash and cash equivalents	(133,663)	227,772
 Cash and cash equivalents, beginning of year	 1,489,362	 1,261,590
 Cash and cash equivalents, end of year	 \$ 1,355,699	 \$ 1,489,362

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

STATEMENT OF CASH FLOWS - Continued

For the Years Ended December 31, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 153,731	237,091
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	323,823	319,460
Changes in assets and liabilities:		
(Increase)/Decrease in accounts receivable	(1,892)	14,411
(Increase)/Decrease in prepaids	(23,547)	(53)
Increase/(Decrease) in accounts payable	(104,462)	102,210
Increase/(Decrease) in accrued expenses	(9,613)	(13,128)
Total adjustments	184,309	422,900
Net cash provided by operating activities	\$ <u>338,040</u>	\$ <u>659,991</u>

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE A - NATURE OF ORGANIZATION

Northwest Regional Water District (hereafter referred to as NRWD) was created by the Court of Common Pleas of Scioto County in August of 1966 in accordance with the provisions of Section 6119 et.seq of the Ohio Revised Code. The District operates under the direction of a twelve member board of trustees. An appointed staff consisting of an office manager and two clerks are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all parts of the following political subdivisions:

Rush Township	Washington Township
Union Township	Franklin Township
Morgan Township	Jefferson Township
Rarden Village	Brushcreek Township
Otway Village	Camp Creek Township

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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 District follows 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 after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

1. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity," and as amended by GASB Statement No. 39. The financial statements include the fund for which the District is "accountable." Accountability as described in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the District and whether exclusion would cause the District's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the District.

Based on the foregoing criteria, there were no PCU's for the years reported on in the financial statements in accordance with GASB Statement No. 14 or 39.

2. Basis of Presentation - Fund Accounting

The accounts of NRWD are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The fund type which NRWD uses is described below:

Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the NRWD is the Enterprise Fund.

Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Basis of Accounting

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. 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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is 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 fund are included on the statement of net assets. This measurement focus emphasizes the determination of net income.

Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

4. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District adopted a budget and adopted and passed annual appropriation resolutions for the years ended December 31, 2008 and 2007.

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

Estimated Resources - Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of the beginning of the year.

Encumbrances - The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Cash and Cash Equivalents

Cash balances of the District’s enterprise fund are presented as “Cash and Cash Equivalents” on the statement of net assets. Interest income earned by the District totaled (\$19,430) and \$52,768, respectively, for the years ended December 31, 2008 and 2007.

During fiscal year 2008 and 2007, investments were limited to STAROhio, savings accounts, certificates of deposit and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements, savings accounts and non-negotiable certificates of deposit are recorded at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal years 2008 and 2007. STAROhio is an investment pool managed by the State Treasurer’s office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on December 31, 2008 and 2007.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an initial maturity of more than three months are reported as investments.

6. Capital Assets

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. The District has a capitalization threshold of \$1,000. Donated assets are recorded at their estimated fair market value at the time received. Depreciation of capital assets of the District is calculated utilizing the straight-line method. All assets reported in the basic financial statements are at cost less accumulated depreciation. The estimated useful lives by major capital asset class are as follows:

Lines	50 years	Office/garage building	19 years
Tanks/towers/meters	50 years	Trucks and equipment	5-10 years
Radio telemetry system	25 years	Office equipment and furniture	5-10 years

7. Compensated Absences

Compensated absences of the District consist of vacation and sick time to the extent that payment to the employees for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and its employees.

In accordance with provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

Unused sick pay is recorded as a liability based on the Ohio Revised Code Section 124.38. Employees are entitled to 4.6 hours of sick leave for each completed 80 hours up to a maximum of 960 hours and are entitled to a lump sum payment of 1/3 of accumulated sick pay upon retirement or termination if they have more than ten years of service. At December 31, 2008 and 2007, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$116,750 and \$124,344, respectively.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Interest Expense

Interest expense represents the interest portion on loan payments the Ohio Water Development Authority (OWDA).

9. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2008 and 2007, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are provided.

10. Accounts Receivable

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Increases to the allowance are recorded by a provision for bad debt expense. The allowance is maintained by management at a level considered adequate to cover possible losses that are currently anticipated based on past experience, general economic conditions, information about specific account situations, and other factors and estimates which are subject to change over time.

Management considers all accounts receivable to be collected in full and may periodically allocate portions of the allowance for specific problem accounts, with the whole allowance available for any debts that occur. An account is charged off by management as a loss when deemed uncollectible, although most delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Receivables are presented at net on the statement of net assets.

11. Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

12. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The District does not have any restricted net assets.

13. Long Term Obligations

The District records fund obligations not expected to be paid within one year by available financial resources as long-term debt, which consists of OPWC notes and OWDA loans.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE C – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2007 was as follows:

	Ending Balance 12/31/06	Additions	Deletions	Ending Balance 12/31/07
Capital Assets, Not Being Depreciated				
Land	\$113,254	\$6,000	\$0	\$119,254
Construction in progress	137,482	20,378	0	157,860
Total Capital Assets, Not Being Depreciated	250,736	26,378	0	277,114
Capital Assets Being Depreciated				
Utility plant - lines	9,740,931	108,233	0	9,849,164
Utility plant - towers	991,049	0	0	991,049
Utility plant - meters	284,313	13,666	0	297,979
Utility plant - office and garage	228,552	0	0	228,552
Office equipment and furniture	39,696	15,410	0	55,106
Radio telemetry system	288,045	0	0	288,045
Trucks and equipment	641,093	130,811	(55,017)	716,887
Total Capital Assets, Being Depreciated	12,213,679	268,120	(55,017)	12,426,782
Less Accumulated Depreciation:				
Utility plant - lines	(3,314,871)	(197,513)	0	(3,512,384)
Utility plant - towers	(296,096)	(19,821)	0	(315,917)
Utility plant - meters	(159,637)	(8,980)	0	(168,617)
Utility plant - office and garage	(78,580)	(9,098)	0	(87,678)
Office equipment and furniture	(30,839)	(7,223)	0	(38,062)
Radio telemetry system	(248,425)	(7,483)	0	(255,908)
Trucks and equipment	(402,507)	(14,325)	0	(416,832)
Total Accumulated Depreciation	(4,530,955)	(264,443)	0	(4,795,398)
Total Capital Assets Being Depreciated, Net	7,682,724	3,677	(55,017)	7,631,384
Total Capital Assets, Net	\$7,933,460	\$30,055	(\$55,017)	\$7,908,498

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE C – CAPITAL ASSETS (CONT'D)

Capital assets activity for the year ended December 31, 2008 was as follows:

	Ending Balance 12/31/07	Additions	Deletions	Ending Balance 12/31/08
Capital Assets, Not Being Depreciated				
Land	\$119,254	\$0	\$0	\$119,254
Construction in progress	157,860	87,907	0	245,767
Total Capital Assets, Not Being Depreciated	277,114	87,907	0	365,021
Capital Assets Being Depreciated				
Utility plant - lines	9,849,164	578,883	0	10,428,047
Utility plant - towers	991,049	0	0	991,049
Utility plant - meters	297,979	9,912	0	307,891
Utility plant - office and garage	228,552	15,787	0	244,339
Office equipment and furniture	55,106	10,116	0	65,222
Radio telemetry system	288,045	0	0	288,045
Trucks and equipment	716,887	35,311	0	752,198
Total Capital Assets, Being Depreciated	12,426,782	650,009	0	13,076,791
Less Accumulated Depreciation:				
Utility plant - lines	(3,512,384)	(206,266)	0	(3,718,650)
Utility plant - towers	(315,917)	(19,821)	0	(335,738)
Utility plant - meters	(168,617)	(9,199)	0	(177,816)
Utility plant - office and garage	(87,678)	(9,499)	0	(97,177)
Office equipment and furniture	(38,062)	(5,884)	0	(43,946)
Radio telemetry system	(255,908)	(7,402)	0	(263,310)
Trucks and equipment	(416,832)	(65,752)	0	(482,584)
Total Accumulated Depreciation	(4,795,398)	(323,823)	0	(5,119,221)
Total Capital Assets Being Depreciated, Net	7,631,384	326,186	0	7,957,570
Total Capital Assets, Net	\$7,908,498	\$414,093	\$0	\$8,322,591

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivables are presented at net realizable value and consist of amounts due from customers for sewer fees for services rendered and contract amounts billed. Uncollectible accounts receivable are charged to operations during the period they are determined to be uncollectible. Uncollectible water account balances are certified to the County Auditor after administrative collection efforts have been exhausted. The balance at year end, including billed and unbilled accounts, are due as follows:

	<u>2008</u>	<u>2007</u>
Accounts receivable, net allowance for doubtful accounts	\$ 361,899	\$ 360,007

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE E – DEBT

The District has the following notes payable at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
0% note payable OPWC, payable in semi-annual installments of \$2,569, due in 2014, secured by property and equipment	\$28,258	\$33,396
0% note payable OPWC, payable in semi-annual installments of \$10,707, due in 2022, secured by property and equipment	278,371	299,783
7.56% note payable OWDA, payable in semi-annual installments of \$21,895, including interest at 7.56%, due in 2017, secured by property and equipment	255,822	278,632
2% note payable OWDA, payable in semi-annual installments of \$42,559 due in 2018, secured by property and equipment	694,637	764,593
6.39% note payable OWDA, payable in semi-annual installments of \$19,309 due in 2026, secured by property and equipment	397,720	410,439
2.86% note payable OWDA, payable in semi-annual installments of \$5,683 due in 2028, secured by property and equipment	164,186	0
0% note payable OPWC, payable in semi-annual installments of \$922 due in 2023, secured by property and equipment	26,730	28,573
0% note payable OPWC, payable in semi-annual installments of \$705 due in 2025, secured by property and equipment	23,956	25,365
0% note payable OPWC, payable in semi-annual installments of \$368 due in 2025, secured by property and equipment	<u>12,141</u>	<u>12,509</u>
	1,881,821	1,853,290
Less current maturities	<u>(146,347)</u>	<u>(138,956)</u>
Total long-term debt	<u>\$1,735,474</u>	<u>\$ 1,714,334</u>

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE E – DEBT - Continued

The annual requirements to amortize all bonded debt outstanding as of December 31, 2008 are as follows:

	Principal		Interest		Total
2009 \$	146,347	\$	63,085	\$	209,432
2010	150,685		58,747		209,432
2011	155,253		54,179		209,432
2012	160,069		49,363		209,432
2013	165,146		44,286		209,432
2014-2018	717,420		138,133		855,553
2019-2023	269,234		59,160		328,394
2024-2028	117,667		8,587		126,254
Total	\$ 1,881,821	\$	475,540	\$	2,357,361

Long-term debt additions and reductions for the years ended December 31, 2008 and 2007 are as follows:

	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007	Due within One Year
O.W.D.A.	\$ 1,555,122	\$ -	\$ 101,499	\$ 1,453,623	\$ 105,196
Ohio Public Works Commission	430,166	-	30,540	399,626	33,760
	\$ 1,985,288	-	\$ 132,039	\$ 1,853,249	\$ 138,956

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008	Due within One Year
O.W.D.A.	\$ 1,453,623	\$ 172,202	\$ 113,460	\$ 1,512,365	\$ 109,132
Ohio Public Works Commission	399,626	-	30,540	369,086	37,215
	\$ 1,853,249	\$ 172,202	\$ 144,000	\$ 1,881,451	\$ 146,347

NOTE F – DEPOSITS AND INVESTMENTS

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE F – DEPOSITS AND INVESTMENTS - Continued

Interim monies may be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. 3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) and (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer’s investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District’s total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District’s average portfolio.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At year end, the District has \$450 in undeposited cash on hand which is included on the statement of net assets of the District as part of “cash and cash equivalents”.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE F – DEPOSITS AND INVESTMENTS - Continued

Deposits Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. December 31, 2008 and 2007, the carrying amount of the District’s deposits was \$1,266,740 and \$476,472, respectively. The bank balance of the District’s deposits at December 31, 2008 and 2007 was \$1,287,737 and \$480,958 respectively. Of the bank balances at December 31, 2008 and 2007, \$250,000 and \$100,000 was covered by federal depository insurance, \$431,838 and \$380,958, respectively were covered by the Securities Investor Protection Corporation (SIPC), and \$605,899 in 2008, was covered by collateral held by the pledging bank’s trust department but in collateral pools securing all public funds on deposit with specific depository institutions.

Investments are reported at fair value. As of December 31, 2008, the District had the following investments:

	Fair Value	Maturity
STAROhio	\$88,509	30 Days
Total	\$88,509	

As of December 31, 2007, the District had the following investments:

	Fair Value	Maturity
STAROhio	\$86,299	30 Days
Repurchase agreement	926,141	less than 1 year
Total	\$1,012,440	

Interest Rate Risk: Interest Rate Risk is the risk that changes in the interest rate will adversely affect the fair value on an investment. The District does not have an investment policy.

Credit Risk STAROhio carries a rating of AAA by Standard and Poor’s. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The District’s repurchase agreements are unrated.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The following is the District’s allocation as of December 31, 2008 and 2007:

Year	Investment Issuer	Percentage of Investments
2008	STAROhio	100%
	Repurchase agreement	0%
2007	STAROhio	8.43%
	Repurchase agreement	91.57%

Custodial Credit Risk: Custodial Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s investment in the repurchase agreement are exposed to custodial credit risk is that they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the District’s name.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE G – DEFINED BENEFIT RETIREMENT PLAN

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.
- D. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans. The 2008 District contribution rate was 10% of covered payroll for employees and 14% of covered payroll for employers.

The District's contributions to OPERS for the years ended December 31, 2008, 2007, and 2006 were \$61,026, \$57,919, and \$56,507, respectively.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE H – POSTEMPLOYMENT BENEFITS

In addition to the pension benefit obligation described above, the PERS of Ohio provides post employment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate for employees was 14% of covered payroll for the year 2008; 5.5% was the portion used to fund health care, while employee contribution rates were 10%. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The health inflation and significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation was used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) became part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2008 was 8.00%. An annual increase of 4.00% compounded annually was the base portion of the individual pay increase assumptions, which assumed no change in the number of active employees. Additionally, annual pay increases over and above the 4.00% base increase were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB's are advanced-funded on an actuarially determined basis. The number of active contributing participants was 363,503 as of December 31, 2008 and 364,076 as of December 31, 2007. The District contributions actually made to fund postemployment benefits during the years 2008 and 2007 were \$16,547 and \$16,028 respectively. \$12.8 billion represents the actuarial funding value of OPERS' net assets available for OPEB at December 31, 2007. The Actuarial Valuation as of December 31, 2007, reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB at \$29.8 Billion and \$17.0 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2007 and January 1, 2008 which allowed additional funds to be allocated to the health care plan.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2008 and 2007

NOTE I – CONTINGENT LIABILITIES

There were no contingent liabilities as of December 31, 2008.

NOTE J – 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; injuries to employees; and natural disasters. For fiscal years 2008 and 2007, the District contracted with Riffe-Dyer Insurance for real property, building contents, and vehicle insurance coverage.

The District has not had any significant reductions in insurance coverage from coverage in prior years by major category of risk. Settled claims resulting from the above risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE K – COMPLIANCE

The District was in violation of 5705.41D for not properly certifying funds in 2008 and 2007.

Caudill & Associates, CPA's

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Ohio Society of Certified Public Accountants

Kentucky Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Northwest Regional Water District
P.O. Box 158
McDermott, Ohio 45652-0158

We have audited the financial statements of the business-type activities of the Northwest Regional Water District (the District), as of and for the years ended December 31, 2008, and 2007 which collectively comprise the District basic financial statements, and have issued our report thereon dated February 28, 2009. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Northwest Regional Water District
Scioto County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2008-001.

We also noted certain matters that we reported to management of the District in a separate letter dated February 28, 2009.

The District's responses to the findings in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPA's

Caudill & Associates, CPA's

February 28, 2009

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by Ohio Rev. Code Section 5705.41 (D)(1):

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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 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 the "then and now" certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, 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.

100% of the expenditures tested were not properly certified in 2007 and 2008.

We recommend the District implement policies to ensure that all purchases first have monies certified by the Office Manager before purchasing or ordering an item. We also recommend the use of a "then and now" certificate in instances of emergency or absence of proper authority and to begin the use of purchase orders.

District Response:

The District Office Manager plans on using purchase orders and the use of a "then and now" certificate.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-001	ORC Section 5705.71(D)	No	Repeated as Finding 2008-001
2006-002	Failure to review adjustments made to customer accounts by employees	Yes	N/A



Mary Taylor, CPA
Auditor of State

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO 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
JULY 2, 2009**