



Mary Taylor, CPA  
Auditor of State



**GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

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Mary Taylor, CPA  
Auditor of State

Germano Water and Sewer District  
Harrison County  
90670 Mill Road  
Jewett, Ohio 43986

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your District to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

August 13, 2010

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Germano Water and Sewer District  
Harrison County  
90670 Mill Road  
Jewett, Ohio 43986

To the Board of Trustees:

We have audited the accompanying financial statements of Germano Water and Sewer District, Harrison County, (the District) as of and for the years ended December 31, 2009 and 2008. 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

While the District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Districts to reformat their statements. The District has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2009 and 2008, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of Germano Water and Sewer District, Harrison County, as of December 31, 2009 and 2008, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2010, 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.

The Auditor of State had billed the District for audit services provided for fiscal years 2009, 2008, 2007, 2006, 2005 and 2004. As of the date of this report, the District has been billed \$3,508 and has yet to pay \$3,508.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 13, 2010



**GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

|  | <b>2009</b>    | <b>2008</b>    |
|--|----------------|----------------|
| <b>Operating Cash Receipts:</b>          |                |                |
| Charges for Services                     | \$22,297       | \$21,185       |
| Total Operating Cash Receipts            | 22,297         | 21,185         |
| <b>Operating Cash Disbursements:</b>     |                |                |
| Personal Services                        | 1,803          | 1,661          |
| Utilities                                | 2,967          | 3,294          |
| Testing and Licenses                     | 1,904          | 973            |
| Other Contractual Services               | 2,519          | 1,250          |
| Chemicals and Operating Supplies         |                | 1,588          |
| Office Supplies and Materials            | 1,812          |                |
| Insurance                                | 2,375          | 2,375          |
| Total Operating Cash Disbursements       | 13,380         | 11,141         |
| Operating Income/(Loss)                  | 8,917          | 10,044         |
| <b>Non-Operating Cash Receipts:</b>      |                |                |
| Earning on investments                   | 45             | 65             |
| Miscellaneous                            | 9              |                |
| Total Non-Operating Cash Receipts        | 54             | 65             |
| <b>Non-Operating Cash Disbursements:</b> |                |                |
| Debt Service                             | 2,460          | 14,141         |
| Other Non-Operating Cash Disbursements   | 26             | 166            |
| Total Non-Operating Cash Disbursements   | 2,486          | 14,307         |
| Net Receipts Over/(Under) Disbursements  | 6,485          | (4,198)        |
| Cash Balances, January 1                 | 1,410          | 5,608          |
| <b>Cash Balances, December 31</b>        | <b>\$7,895</b> | <b>\$1,410</b> |

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

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**GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges for the Germano Water and Sewer District, Harrison County, (the District) as a body corporate and politic. The District is directed by a four-member Board of Trustees. Board members are appointed by the German Township Trustees. The District provides water services to residents of the District.

The District participates in the Ohio District Risk Management Plan public entity risk pool. Note 5 to the financial statements provide additional information for this entity. This organization is:

Ohio District Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio Districts ("Members").

The District's management believes these financial statements present all activities for which the District is financially accountable.

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Deposits and Investments**

The District's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

**D. Budgetary Process**

The Ohio Revised Code requires the Board to budget annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. The District did not use the encumbrance method of accounting as required by Ohio law.

A summary of 2009 and 2008 budgetary activity appears in Note 3.

**E. Property, Plant, and Equipment**

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

|                                | 2009    | 2008    |
|--------------------------------|---------|---------|
| Demand deposits                | \$2,377 | \$895   |
| STAR Ohio                      | 5,518   | 515     |
| Total deposits and investments | \$7,895 | \$1,410 |

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

| Budgeted vs. Actual Receipts |          |          |
|------------------------------|----------|----------|
|                              | 2008     | 2009     |
| Actual Receipts              | \$21,250 | \$22,351 |
| Budgeted Receipts            | 19,000   | 21,000   |
| Variance                     | \$2,250  | \$1,351  |

| Appropriation Authority vs. Actual Budgetary Expenditures |           |          |
|---|-----------|----------|
|   | 2008      | 2009     |
| Appropriation Authority                                   | \$21,750  | \$21,750 |
| Budgetary Expenditures                                    | 25,448    | 15,866   |
| Variance  | (\$3,698) | \$5,884  |

**GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**3. BUDGETARY ACTIVITY - (Continued)**

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded the District's appropriation authority by \$3,698 for the year ended December 31, 2008. Also, the District failed to certify the availability of funds, contrary to Ohio Revised Code Section 5705.41(D).

**4. DEBT**

Debt outstanding at December 31, 2009 was as follows:

|   | Principal | Interest Rate |
|---|-----------|---------------|
| Ohio Water Development Authority (OWDA) Loan # 1584 | \$15,241  | 9.06%         |
| Capmark Loan  | 4,500     | 5.00%         |
| Total   | \$19,741  |               |

The OWDA Loan # 1584 was issued to construct wells and water line extensions. The loan was issued in 1988 at 9.06% for 25 years with the first payment due date of July 1, 1988 and last payment due date of January 1, 2013. Water utility customer receipts will be used to repay this loan.

The Capmark Loan issued was used to purchase a truck for the District. The loan will be repaid through water utility customer receipts.

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

|                          | OWDA Loan # | Capmark Loan |
|--------------------------|-------------|--------------|
| Year ending December 31: | 1584        | Capmark Loan |
| 2010                     | \$5,270     | \$4,725      |
| 2011                     | 5,270       |              |
| 2012                     | 5,270       |              |
| 2013                     | 2,635       |              |
| Total                    | \$18,445    | \$4,725      |

**5. RISK MANAGEMENT**

The District belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk Management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retain 15% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had over 650 members as of December 31, 2008. The District participates in this coverage.

**GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**5. RISK MANAGEMENT - (Continued)**

In August, 2007, OGRMP formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 40 members as of December 31, 2008. The District does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2008 and 2007 (the latest information available), and include amounts for both OPRM and OPHC:

|                 | <b>2008</b>        | <b>2007</b>        |
|-----------------|--------------------|--------------------|
| Assets          | \$10,471,114       | \$11,136,455       |
| Liabilities     | <u>(5,286,781)</u> | <u>(4,273,553)</u> |
| Members’ Equity | <u>\$5,184,333</u> | <u>\$6,862,902</u> |

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan’s website, [www.ohioplan.org](http://www.ohioplan.org).



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Germano Water and Sewer District  
Harrison County  
90670 Mill Road  
Jewett, Ohio 43986

To the Board of Trustees:

We have audited the financial statements of the Germano Water and Sewer District, (the District) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated August 13, 2010, wherein we noted the District prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-001 and 2009-002.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated August 13, 2010.

We intend this report solely for the information and use of management, the Board of Trustees, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 13, 2010



**GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009 AND 2008**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2009-001**

**Noncompliance Citation**

**Ohio Revised Code Section 5705.41(B)** prohibits a subdivision from making expenditures unless it has been properly appropriated.

The Water Operating Fund had disbursements which exceeded appropriations by \$3,698 or 17% during 2008.

The Secretary/Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Secretary/Treasurer may request the Board of Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**FINDING NUMBER 2009-002**

**Noncompliance Citation**

**Ohio Revised Code Section 5705.41(D)** provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the Fiscal Officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's Fiscal Officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a Fiscal Officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively of the Ohio Revised Code.

- 1. Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the Fiscal Officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the District may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000 the Fiscal Officer may authorize payment through a Then and Now Certificate without affirmation of the District Board of Trustees if such expenditure is otherwise valid.

- 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 end of the current fiscal year. The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**FINDING NUMBER 2009-002  
(Continued)**

- 3. Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line item appropriation 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 may be outstanding a particular time for any line item appropriation.

The District did not certify or record the amount against the applicable appropriation accounts for 100% of tested expenditures in 2008 and 2009. The District did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the Secretary/Treasurer should certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

The District should certify purchases to which section Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code Section 5705.41(D) requires to authorize disbursements. The Secretary/Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Secretary/Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials' Response:**

We did not receive a response from officials to the findings reported above.

**GERMANO WATER AND SEWER DISTRICT  
HARRISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2009 AND 2008**

| <b>Finding Number</b> | <b>Finding Summary</b>  | <b>Fully Corrected?</b> | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b> |
|-----------------------|---|-------------------------|--|
| 2007-001              | Finding for Recovery – Repaid Under Audit   | Yes                     | Corrected.   |
| 2007-002              | Ohio Revised Code Section 5705.41(B)<br>Expenditures exceeded appropriations      | No                      | Reported again as Finding Number 2009-001.   |
| 2007-003              | Ohio Revised Code Section 5705.41(D)<br>Expenditures were not properly certified. | No                      | Reported again as Finding Number 2009-002.   |

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**Mary Taylor, CPA**  
Auditor of State

**GERMANO WATER AND SEWER DISTRICT**

**HARRISON 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  
NOVEMBER 16, 2010**