



Dave Yost • Auditor of State



**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

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# Dave Yost • Auditor of State

Henry County Regional Water and Sewer District  
Henry County  
1857 Oakwood Avenue  
Napoleon, Ohio 43545

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 government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an 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.

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**Dave Yost**  
Auditor of State

December 12, 2011

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Henry County Regional Water and Sewer District  
Henry County  
1857 Oakwood Avenue  
Napoleon, Ohio 43545

To the Board of Trustees:

We have audited the accompanying financial statements of Henry County Regional Water and Sewer District, Henry County, Ohio (the District), as of and for the years ended December 31, 2010 and 2009. 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the District's larger (i.e. major) funds separately. 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 governments 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, 2010 and 2009 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, 2010 and 2009, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances and reserves for encumbrances of Henry County Regional Water and Sewer District, Henry County, Ohio as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 December 12, 2011, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

December 12, 2011



**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
ALL ENTERPRISE FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>Operating Cash Receipts:</b>		
Charges for Services	\$327,018	\$29,570
<b>Operating Cash Disbursements:</b>		
Utilities	16,897	7,458
Repairs and Maintenance	37,297	
Testing and Licenses	6,176	
Other Contractual Services	108,835	31,376
Chemicals and Operating Supplies	22,243	
Office Supplies and Materials	4,530	339
Insurance	5,399	2,300
Capital Outlay	476,627	17,058
Total Operating Cash Disbursements	678,004	58,531
Operating Loss	(350,986)	(28,961)
<b>Non-Operating Cash Receipts:</b>		
Intergovernmental Revenues	235,188	17,058
Proceeds from Sale of Public Debt	307,047	45,491
Total Non-Operating Cash Receipts	542,235	62,549
<b>Non-Operating Cash Disbursements:</b>		
Debt Service - Principal	42,190	17,173
Debt Service - Interest	83,566	17,820
Total Non-Operating Cash Disbursements	125,756	34,993
Net Receipts Over/(Under) Disbursements	65,493	(1,405)
Cash Balances, January 1	3,489	4,894
<b>Cash Balances, December 31</b>	<b>\$68,982</b>	<b>\$3,489</b>
Reserve for Encumbrances, December 31		\$5,984

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

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**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**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 Henry County Regional Water and Sewer District, Henry County, Ohio (the District), as a body corporate and politic. Each political subdivision within the District appoints one member to the Board of Trustees to direct the District. There are five Board members. The District includes all unincorporated areas within the County excluding the Ridgeville District. The District provides water and sewer services to residents of the District.

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.

**D. Fund Accounting**

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following fund type:

**Enterprise Funds**

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The District had the following significant Enterprise Funds:

**Water Fund** - This fund receives charges for services from the McClure residents and Road P customers and operating loan monies from Henry County to operate the water system.

**Sewer Fund** - This fund receives charges for services from the Okolona area residents and McClure residents to cover the costs of providing this utility.

**Filling Home Project Fund** – This fund received OPWC (Ohio Public Works Commission) grant and loan monies to fund a waterline project.

**E. Budgetary Process**

The Ohio Revised Code requires the Board to budget annually.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund 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. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The District did not use the encumbrance method of accounting. Management has posted audit adjustments to the financial statements and budgetary presentations to include material items that should have been encumbered.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

**F. 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 DEPOSITS**

The District maintains a cash pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

	2010	2009
Demand deposits	\$68,982	\$3,489

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$972,476	\$869,253	(\$103,223)

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2010 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$825,265	\$803,760	\$21,505

2009 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
	\$92,119	\$92,119

2009 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
	\$99,508	(\$99,508)

Contrary to Ohio law, the District did not adopt an operating budget for 2009 which caused expenditures to exceed appropriations in all funds in 2009.

**4. DEBT**

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
Sanitary Sewer Mortgage Revenue Bonds	\$1,059,800	5.13%
OPWC Loan #CE836	61,064	4.00%
First Mortgage Waterworks Revenue Bonds	140,000	5.00%
OPWC Loan #CE41H	8,809	0.00%
OWDA loan #5633	198,872	3.34%
OWDA loan #5668	50,030	2.00%
OWDA loan #4259	459,046	2.88%
OWDA loan #4473	153,261	4.99%
OPWC loan #CE271	68,846	0.00%
Total	<u>\$2,199,728</u>	

Effective December 31, 2009 the District assumed the water and sewer debt of the Village of McClure, Henry County as part of an Assumption Agreement whereby the District also gained the Village's utility customers, property and funds. The Sanitary Sewer Mortgage Revenue Bonds, OPWC loan #CE836, First Mortgage Waterworks Revenue Bonds, and OPWC loan #CE41H shown above is the McClure debt assumed by the District. This debt was all incurred by the Village of McClure for the construction or improvement of the water or sanitary sewer systems at the Village of McClure. During 2010, the District made scheduled payments on all but the First Mortgage Waterworks Revenue Bonds.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**4. DEBT (Continued)**

The Ohio Water Development Authority (OWDA) loan #5633 is being used to finance the SR 108 Filling Home Waterline project. As of December 31, 2010, a final amortization schedule has not been prepared as the project is not yet completed and all loan monies have not yet been disbursed.

The Ohio Water Development Authority (OWDA) loan #5668 is being used to finance a McClure Water Connection project. As of December 31, 2010, a final amortization schedule has not been prepared as the project is not yet completed and all loan monies have not yet been disbursed.

The Ohio Water Development Authority (OWDA) loans #4259 and #4473 are being used as interim financing to help the District finance the installation and creation of a lagoon and wastewater collection system for the Okolona area residents. These OWDA loans will be repaid with a \$1,045,000 grant from the United States Department of Agriculture Rural Development. This grant has been approved, but not disbursed or drawn on as of December 31, 2010. As of December 31, 2010, final amortization schedules have not been prepared for the OWDA loans as the loans are either still open with a balloon payment due at an undetermined date or all loan monies have not yet been disbursed.

The Ohio Public Works Commission (OPWC) loan #CE271 was used to connect the District's Road P customers to the District waterline. Repayment of the OPWC loan began in 2007.

Amortization of the above debt, including interest, assumed from the Village of McClure and the District's OPWC loan is scheduled as follows:

Year ending December 31:	Sanitary Sewer Mortgage Revenue Bonds	Ohio Public Works Commission Sewer Loan	First Mortgage Waterworks Revenue Bonds	Ohio Public Works Commission Water Loan	Ohio Public Works Commission Road P Loan
2011	\$74,453	\$9,505	\$55,950	\$1,762	\$4,173
2012	74,395	9,504	27,850	1,762	4,173
2013	74,384	9,505	26,700	1,762	4,173
2014	74,317	9,504	27,550	1,762	4,173
2015	74,391	9,505	27,300	1,761	4,173
2016-2020	371,509	23,761			20,862
2021-2025	371,062				20,861
2026-2030	370,301				6,258
2031-2035	369,463				
2036	73,729				
	<u>\$1,928,004</u>	<u>\$71,284</u>	<u>\$165,350</u>	<u>\$8,809</u>	<u>\$68,846</u>

In addition to the debt noted above the District also has committed to repaying Henry County for an Ohio Water Development Authority loan it issued and paid off in total of \$111,898 for the purpose of forming the District, a 2009 loan of \$5,000 for payment of an environmental report, and a 2010 loan of \$40,000 for general operating expenses. There are currently no agreements or repayment schedules with terms for the repayment of these obligation.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**5. RISK MANAGEMENT**

**Risk Pool Membership**

Prior to 2009, the District belonged 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 was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

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 retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) 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 761 and 725 members as of December 31, 2010 and 2009 respectively. The Government does not participate in this coverage.

The Plan 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 65 and 60 members as of December 31, 2010 and 2009 respectively. The Government 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.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

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: 2010 and 2009:

	<b>2010</b>		<b>2009</b>	
	<b>OPRM</b>	<b>OPHC</b>	<b>OPRM</b>	<b>OPHC</b>
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members' Equity	<u>\$7,191,485</u>	<u>\$300,035</u>	<u>\$6,323,701</u>	<u>\$105,185</u>

You can read the complete audited financial statements for OPRM and OPHC at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**6. SUBSEQUENT EVENTS**

The District has been approved for a \$1,045,000 grant from the United States Department of Agriculture (USDA) for the installation and construction of a lagoon and wastewater collection system for the Okolona area residents. During 2010 and 2009 the District received interim financing for this project through Ohio Water Development Authority (OWDA) loans. A portion of the USDA monies will be used to retire the OWDA loans. The estimated cost of the project is \$2,385,000. As of December 12, 2011, no USDA monies have been disbursed. Community Development Block Grant (CDBG) monies in the amount of \$562,000 have also been approved to help finance the project.





# Dave Yost • Auditor of State

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

Henry County Regional Water and Sewer District  
Henry County  
1857 Oakwood Avenue  
Napoleon, Ohio 45345

To the Board of Trustees:

We have audited the financial statements of Henry County Regional Water and Sewer District, Henry County, Ohio (the District), as of and for the years ended December 31, 2010 and 2009, wherein we noted the District followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 and 2010-003 described in the accompanying schedule of findings to be material weaknesses.

### **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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-002 to 2010-004.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 12, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

December 12, 2011

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

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

**FINDING NUMBER 2010-001**

**Monitoring of Financial Activity - Material Weakness**

Inaccurate posting of transactions impedes the ability of the Board to accurately assess the financial status of the District. We noted examples such as the following in our testing:

- OWDA loan proceeds paid on behalf of the District in the amount of \$164,084 were not posted to the District's financial records in 2010.
- OWDA grant proceeds paid on behalf of the District were not posted to the District's financial records in the amounts of \$235,188 and \$17,058 in 2010 and 2009, respectively.
- Debt proceeds and capital outlay were understated on the financial statements in 2010 by \$77,355.
- Contract service fees in the amount of \$80,000 were paid to the Henry County in 2010, but were incorrectly booked at \$67,849 in the Enterprise Funds.
- Loan proceeds of \$40,000, in 2010, were incorrectly netted against a \$20,000 contract service payment to Henry County, resulting in a \$20,000 understatement of receipts and disbursements, with the remaining \$20,000 incorrectly posted as contract service revenue.

As a result, the District's financial statements did not correctly reflect the financial activity of the District. Twelve audit adjustments were posted to the financial statements and accounting records to correct these and other errors. We recommend the District perform a final review of its financial statements, prior to submission to the Auditor of State.

**FINDING NUMBER 2010-002**

**Noncompliance Citation**

**Ohio Revised Code, § 5705.28(B)(2)(a)**, states a taxing authority of a taxing unit does not levy a tax is required to adopt an operating budget on or before the fifteenth day of July each year for the ensuing fiscal year. Additionally, **Ohio Revised Code, § 5705.38**, states in part on or about the first day of each year, the taxing authority of each subdivision or taxing unit shall pass an appropriation measure, and thereafter during the year it may pass any supplemental appropriation measures as it finds necessary, based on the revised tax budget or the official certificate of estimated resources or amendments of the certificate. **Ohio Revised Code, § 5705.38(C)**, further requires appropriation measures to be classified so as to set forth separately the amounts appropriated for each office, department, and division, and within each, the amount appropriated for personal services. Also, **Ohio Revised Code, 5705.41(B)**, states no subdivision or taxing unit is to expend money unless it has been appropriated.

The District did not pass an operating budget or appropriation measure for 2009. This resulted in expenditures exceeding appropriations in all funds in 2009. In 2010 the District passed an appropriation measure, however it was at the fund level.

**FINDING NUMBER 2010-002  
(Continued)**

We recommend the District officials review Auditor of State Bulletin 99-014 entitled Compliance with Budgetary Requirements and the Ohio Compliance Supplement and adopt appropriations at the function level for each fund prior to the start of each fiscal year.

**FINDING NUMBER 2010-003**

**Noncompliance Citation/Material Weakness**

**Ohio Revised Code, § 5705.41(D)(1)**, prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the clerk is attached thereto. The fiscal officer must certify 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. Further, contracts and order for expenditures lacking prior certification shall be null and void.

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

1. **"Then and Now" certificate** – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the clerk is completing the certification ("now"), 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 District can authorize the drawing of a warrant for the payment of the amount due. The District 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 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 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.
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 clerk 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.

**FINDING NUMBER 2010-003  
(Continued)**

The District had \$5,684 in outstanding purchase commitments at December 31, 2009 which were not certified at year end. The accompanying financial statements and budgetary presentation have been adjusted to reflect these amounts as outstanding encumbrances at year end.

In addition, none of the District's transactions were certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund 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 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, we recommend the Fiscal Officer certify 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.

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

**FINDING NUMBER 2010-004**

**Noncompliance Citation**

The District's Waterworks Mortgage Revenue Bonds No. R-1 indicates principal and interest payments are to be made on the first day of October in installments as per the amortization schedule. The corresponding amortization schedule shows a principal payment of \$21,000 and an interest payment of \$7,000 due in 2010.

The District did not pay the principal or interest due in 2010. This is debt the District assumed responsibility for from the Village of McClure, Henry County.

We recommend the District make payments as required and investigate as to whether any late charges or fines have been assessed due to the noncompliance with the debt issuance payment requirements.

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**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT  
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	ORC § 5705.28(B)2(a), lack of passing budget or appropriations and ORC 5705.41(B), expenditures exceeding appropriations	No	Not Corrected. Repeated as Finding 2010-002 in this report.
2008-002	ORC § 5705.41(D), lack of prior certification	No	Not Corrected. Repeated as Finding 2010-003 in this report.
2008-003	Material errors in financial reporting.	No	Not Corrected. Repeated as Finding 2010-001 in this report.

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# Dave Yost • Auditor of State

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT**

**HENRY COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 27, 2011**