

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY
Regular Audit
For the Years Ended December 31, 2008 and 2007**

Perry & Associates
Certified Public Accountants, A.C.



Mary Taylor, CPA

Auditor of State

Board of Directors
Morgan-Meigsville Rural Water District
P.O. Box 456
McConnelsville, Ohio 43756

We have reviewed the *Independent Accountants' Report* of the Morgan-Meigsville Rural Water District, Morgan County, prepared by Perry & Associates, Certified Public Accountants, A.C., 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Morgan-Meigsville Rural Water District is responsible for compliance with these laws and regulations.

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

Mary Taylor, CPA
Auditor of State

May 5, 2009

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**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

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Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

INDEPENDENT ACCOUNTANTS' REPORT

March 13, 2009

Morgan-Meigsville Rural Water District
Morgan County
P.O. Box 456
McConnelsville, OH 43756

To the Board of Directors:

We have audited the accompanying financial statements of **Morgan-Meigsville Rural Water District, Morgan County, Ohio**, (the District) as of and for the years ended December 31, 2008 and 2007. 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, 2008 and 2007 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, 2008 and 2007 or their changes in financial position for the years then ended.

Morgan-Meigsville Rural Water District
Morgan County
Independent Accountants' Report
Page 2

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of Morgan-Meigsville Rural Water District, Morgan County, as of December 31, 2008 and 2007, and its 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 March 13, 2009, 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.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

Perry & Associates
Certified Public Accountants, A.C.

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Operating Cash Receipts:		
Charges for Services	\$ 194,687	\$ 188,018
Tap Fees	1,500	4,500
Miscellaneous	590	490
	<u>196,777</u>	<u>193,008</u>
Operating Cash Disbursements:		
Contract labor	26,049	26,550
Insurance	2,872	2,868
Lab fees	990	1,630
Miscellaneous	771	753
Office supplies/equipment	925	1,729
Repair/materials supplies	12,326	12,204
Postage	1,130	1,108
Salaries	8,195	18,571
Medical insurance	-	2,809
Mileage and expense reimbursement	17	-
Gasoline	5,189	4,561
Truck expense	2,334	961
Pension - PERS	1,288	6,122
Payroll taxes	1,364	3,853
Utilities	4,693	4,171
Water purchase	58,136	49,317
Audit	-	5,583
Meter Read	1,200	2,400
Bank Charges	63	30
	<u>127,542</u>	<u>145,220</u>
Total Operating Cash Disbursements		
	<u>69,235</u>	<u>47,788</u>
Operating Income/(Loss)		
Non-Operating Cash Receipts:		
Miscellaneous	663	238
	<u>663</u>	<u>238</u>
Total Non-Operating Cash Receipts		
Non-Operating Cash Disbursements:		
Debt Service		
Principle	6,879	16,434
Interest	8,458	9,197
	<u>15,337</u>	<u>25,631</u>
Total Non-Operating Cash Disbursements		
Net Receipts Over/(Under) Disbursements	<u>54,561</u>	<u>22,395</u>
Cash Balances, January 1	<u>37,711</u>	<u>15,316</u>
Cash Balances, December 31	\$ 92,272	\$ 37,711

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

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Morgan-Meigsville Rural Water District, Morgan County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by a five member Board of Directors appointed by the Morgan County Common Pleas Court Judge. The District provides water utility services to residents of the Morgan District, Bristol District, and Meigsville District.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report expenditures when a commitment is made (i.e., when an encumbrance is approved.)

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Deposits and Investments

Investments are reported assets and are valued at cost. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Budgetary Process

Note: Water and sewer districts that do not levy property taxes must follow most of the 5705 budget requirements, but need not seek approval of a county budget commission for any budgetary actions. These districts must:

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Process (Continued)

HB 262 Requirements	Applicable ORC Sections
Estimated receipts and adopt an operating budget	5705.28(B)(2)(a)
Prepare certificate of estimated resources (but does not require budget commission approval)	5705.36
Must amend estimated resources under the circumstances described in OCS	5705.36
Appropriate at the minimum level of control prescribed by ORC 5705.38. No budget commission approval is required.	5705.38
Cannot appropriate more than estimated resources	5705.28(B)(2)(c)
Must amend appropriations if they intend to spend more than the original appropriation	5705.40
Cannot disburse or encumber more than appropriated	5705.41(B)
Must certify availability of funds	5705.41(D)
May issue blanket or super blanket purchase orders	5705.41(D)

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 Board of Directors 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 cash as of January 1.

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 re-appropriated. The District did not encumber all commitments required by Ohio law.

A summary of 2008 and 2007 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(continued)**

1. Summary of Significant Accounting Policies (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Cash and Investments

The District may invest in certificates of deposits, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof. The District only maintained a checking account. The carrying amount of cash at December 31 was as follows:

	<u>2008</u>	<u>2007</u>
Demand deposits	\$92,272	\$37,711

Deposits:

Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2008 and 2007 follows:

Budgeted vs. Actual Receipts		
	<u>2008</u>	<u>2007</u>
Budgeted Receipts	\$ 196,849	\$ 183,957
Actual Receipts	197,440	193,246
Variance	\$ 591	\$ 9,289

Budgeted vs. Actual Budgetary Basis Expenditures		
	<u>2008</u>	<u>2007</u>
Appropriation Authority	\$ 186,824	\$ 184,957
Budgetary Expenditures	142,879	170,851
Variance	\$ 43,945	\$ 14,106

Contrary to Ohio Rev. Code Section 5705.41(D), the certification of availability of unencumbered appropriations for expenditure was not obtained for 65% of the expenditures during 2007.

The District did not enter estimated revenues or appropriations to the manual accounting system during 2008 and 2007.

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(continued)**

4. Debt

Debt outstanding at December 31, 2008 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Loan	\$ 115,379	6.91%

During 1994, the Ohio Water Development Authority (OWDA) approved a line of credit of up to \$300,000 in an Ohio Water development Authority Loan for the water distribution system project. As of December 31, 2008, the District had \$115,379 in principle payable on the line of credit. The loan will be repaid in semi-annual installments of \$7,689, including interest, over 25 years. The scheduled payment on this loan will be adjusted to reflect revisions in the amount borrowed. The loan payable to Ohio Water development Authority (OWDA) is based on an estimate amortization schedule provided by OWDA. No borrowings were made on the line of credit in 2008 and 2007, respectively.

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

Year Ending	OWDA
December 31:	<u>Loan</u>
2009	\$15,337
2010	15,337
2011	15,337
2012	15,337
2013	15,337
2014-2018	76,685
2014-2018	<u>15,341</u>
Total	<u>\$168,711</u>

Line of Credit

The District took out a line of credit of \$60,000 from First National Bank of McConnelsville to purchase an existing water line in 2001. As of December 31, 2008 the outstanding balance was paid in full.

5. Retirement Systems

The District's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including post retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2008 and 2007, PERS members contributed 10% for 2008 and 9.5% for 2007 of their gross salaries. The District contributed an amount equal to 14% for 2008 and 13.85% for 2007 of participant's gross salaries. The District has paid all contributions required through December 31, 2008.

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(continued)**

6. Risk Management

The District has obtained commercial insurance for the following risks:

- General liability and casualty
- Official's and Employee's Dishonesty Bonds
- Vehicles
- Property

Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

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

March 13, 2009

Morgan-Meigsville Rural Water District
Morgan County
P.O. Box 456
McConnelsville, OH 43756

To the Board of Directors:

We have audited the financial statements of **Morgan-Meigsville Rural Water District, Morgan County**, (the District) as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated March 13, 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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be considered significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

Internal Control Over Financial Reporting (Continued)

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2008-001 and 2008-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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 material weaknesses. We believe the significant deficiency 2008-002 described above is a material weakness.

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 one instance of noncompliance and other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2008-001.

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

Respectfully Submitted,



Perry & Associates
Certified Public Accountants, A.C.

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

**SCHEDULE OF AUDIT FINDINGS
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/Significant Deficiency

Ohio Revised Code § 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The 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 the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.
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 entity may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN COUNTY**

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

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

Ohio Revised Code § 5705.41(D) (Continued)

The District did not properly certify the availability of funds prior to purchase commitment for 4% of expenditures tested during 2008 and 65% in 2007. In addition there was no evidence that the District followed the aforementioned exceptions. Without these certifications, the management of the District lost budgetary control over expenditures.

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, we recommend that the Fiscal Officer certify that the funds are or will be available prior to an obligation being incurred by the District. When prior certification is not possible, "then and now" certification should be used.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2008-002

Significant Deficiency/Material Weakness

Posting Estimated Revenues and Appropriations

The District did not enter estimated revenues and appropriations to the manual accounting system.

By not posting estimated receipts and appropriations to the accounting system, the District lacked a significant management control of monitoring year-to-date total comparison of budgeted amounts versus actual amounts.

We recommend the Fiscal Officer maintain an accounting system and accounting records as set forth in Ohio Admin. Code §117-2-02. We recommend the District implement procedures to ensure estimated receipts and appropriations are accurately posted to the accounting system and reconciled to the amounts approved by the board

Management's Response – We did not receive a response from officials to this finding.

**MORGAN-MEIGSVILLE RURAL WATER DISTRICT
MORGAN 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, <i>Explain</i>
2006-001	ORC 5705.41(D) Not Properly Encumbering	No	Repeated as finding 2008-001
2006-002	Posting Estimated Revenues and Appropriations	No	Repeated as finding 2008-002



Mary Taylor, CPA
Auditor of State

MORGAN-MEIGSVILLE RURAL WATER DISTRICT

MORGAN 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
MAY 19, 2009**