



Dave Yost • Auditor of State

**BUCKEYE WATER DISTRICT
COLUMBIANA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Buckeye Water District
Columbiana County
P.O. Box 105
Wellsville, OH 43968

To the Board of Trustees:

We have audited the accompanying statement of fund net assets and statement of revenues, expenses and changes in net assets of Buckeye Water District, Columbiana County, Ohio (the District), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 opinions.

For the year ended December 31, 2011, the District revised its financial presentation to the requirements of accounting principles generally accepted in the United States of America and to the requirements of Governmental Accounting Standard No 34, *Basic Financial Statements and Managements' Discussion and Analysis – for State and Local Governments*.

Accounting principles generally accepted in the United States of America require that the historical or estimates cost of capital assets be reported net of accumulated depreciation expense. When the District was formed, many of its original assets were acquired from Columbiana County and from the Village of Wellsville. However the documentation to verify the existence, cost and accumulated depreciation of these assets is incomplete and these assets are not reflected in the District's financial statements. We cannot reasonably determine the effect that this omission has on amounts reported as capital assets, net assets and expenses.

In our opinion, except for the effect, on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Buckeye Water District, Columbiana County as of December 31, 2011 and the changes in financial position and where applicable, cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Government Accounting Standards Board consider it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink, appearing to read "David Yost". The signature is written in a cursive style with a large, looping initial "D".

David Yost
Auditor of State

January 31, 2012

Buckeye Water District
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

This discussion and analysis of the Buckeye Water District's (the District) financial performance provides an overall review of the District's financial activities for the year ended December 31, 2011. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Overview of the Financial Statements

The District's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standard Board (GASB). The financial information of the District is accounted for in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets greater than or equal to \$5,000 for all items are capitalized and are depreciated over their useful lives. See the notes to the financial statements for a summary of the District's significant accounting policies.

Following this management's discussion and analysis are the basic financial statements of the District together with the notes, which are essential to a full understanding of the data contained in the financial statements. Included in the financial statements for the District are the following:

- Statement of Net Assets – This statement presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets.
- Statement of Revenues, Expenses and Changes in Net Assets - This statement includes all operating and nonoperating revenues and expenses for the District and shows the change in the District's net assets during the most recent year.
- Statement of Cash Flows — This statement reports cash and cash equivalent activities for the year resulting from operating, capital and investing activities. A reconciliation of operating income with cash provided from operations is included.

Financial Highlights

In 2005, the District was named as a co-defendant in a civil suit filed in the Columbiana County Common Pleas Court, involving a contract dispute. In February 2008, a judgment was granted in favor of the plaintiff. The award amount was \$9.7 million plus interest. On appeal, the Court of Appeals reduced this judgment to \$4.85 million, and such judgment (as reduced) is now final. In January 2011, Columbiana County Common Pleas Court issued a judgment freezing the District's bank accounts. On appeal, the Columbiana County Common Pleas Court released the operating account to allow the District to continue its day-to-day operations. In December 2011, the District filed an appeal with the Seventh Appellate District's Court of Appeals to stay the garnishment judgment.

Due to the economic recession, water sales are down from 2010 as residents are cutting back on their water usage. 2011 also saw a rise in water turn offs and shut offs as residents are unable to pay their bills. The District actively seeks grants in order to maintain and improve the services the customers expect while still maintaining the costs of those services.

Buckeye Water District
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Financial Position

The analysis below focuses on the District's financial position and the results of operations for 2011 compared to 2010:

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Assets			
Current and Other Assets	\$4,856,476	\$5,000,553	(\$144,077)
Capital Assets, Net	<u>31,810,856</u>	<u>33,880,033</u>	<u>(2,069,177)</u>
<i>Total Assets</i>	<u>36,667,332</u>	<u>38,880,586</u>	<u>(2,213,254)</u>
Liabilities			
Current and Other Liabilities	6,035,618	6,020,191	15,427
Long-Term Liabilities	<u>25,713,530</u>	<u>26,485,726</u>	<u>(772,196)</u>
<i>Total Liabilities</i>	<u>31,749,148</u>	<u>32,505,917</u>	<u>(756,769)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	5,623,432	6,963,278	(1,339,846)
Restricted for Debt	1,894,750	1,894,750	0
Unrestricted (Deficit)	<u>(2,599,998)</u>	<u>(2,483,359)</u>	<u>(116,639)</u>
<i>Total Net Assets</i>	<u><u>\$4,918,184</u></u>	<u><u>\$6,374,669</u></u>	<u><u>(\$1,456,485)</u></u>

The largest portion of the District's net assets reflects investments in capital assets (e.g. land, construction in progress, buildings, improvements, equipment, vehicles and infrastructure), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

The District's financial position decreased from 2010 to 2011 as indicated by the decrease in total net assets of \$1,456,485 which can be mainly attributed to litigation expenses.

Table 2 shows the change in net assets for the year ended June 30, 2011. Since it is the first year the District has prepared a statement of activities following generally accepted accounting principles, revenue and expense comparisons to 2010 are not available. In future years, when prior-year information is available, a comparative analysis of data will be presented.

Buckeye Water District
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

	2011
Revenues	
Operating Revenue	\$3,515,649
Non-operating Revenue	32,672
<i>Total Revenue</i>	3,548,321
Expenses	
Operating Expenses	4,119,911
Interest & Fiscal Charges	884,895
<i>Total Expenses</i>	5,004,806
<i>Change in Net Assets</i>	(1,456,485)
Net Assets Beginning of Year	6,374,669
Net Assets End of Year	\$4,918,184

The District carefully invests its cash and equivalents in a variety of investment types with the primary focus being safety of principal, but with an attention to investment opportunities to increase yield. The District pays close attention to daily interest rates and long-term financial trends.

The District's expenses exceeded its revenues by \$1,456,485. The District has implemented several cost savings measures. The District reduced personnel costs by monitoring overtime, implementing the two man truck rule and not replacing three employees. The District was also able to realize a savings in utility costs by re-evaluating the electric billing. These cost savings were partially offset by an increase in legal fees and a six percent increase in healthcare premiums.

Capital Assets and Debt Administration

Capital Assets

The table below shows 2011 balances compared to 2010.

	2011	2010
Land	\$468,990	\$468,990
Construction in Progress	87,927	0
Building and Improvements	15,439,056	16,153,013
Equipment and Machinery	5,691,276	6,532,613
Vehicles	152,119	213,505
Water Tank	724,154	810,681
Infrastructure:		
Water Lines	9,247,334	9,701,231
Totals	\$31,810,856	\$33,880,033

Buckeye Water District
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

All capital assets are reported net of depreciation. The decrease was due to an additional year of depreciation being taken. The District has been very aggressive in pursuing funding to assist in the financing of infrastructure projects. See Note 5 to the basic financial statements for additional information on the District's capital assets.

Debt

Table 4 below summarizes the District's long-term obligations outstanding.

	<u>2011</u>	<u>2010</u>
OPWC Loans	\$748,066	\$800,618
OWDA Loans	10,771,114	11,309,029
Revenue Bonds	14,742,300	14,903,100
Intergovernmental Payable	17,739	23,652
Compensated Absences	<u>221,970</u>	<u>216,540</u>
Total	<u>\$26,501,189</u>	<u>\$27,252,939</u>

The District continues to monitor its outstanding debt. See Note 6 to the basic financial statements for additional information on the District's long-term obligations.

Current Issues

In conclusion, the Buckeye Water District is in a period posing both significant challenges and opportunities. Management is committed to working with all stakeholders to craft solutions that will most effectively use the available resources to continue to provide excellent water to the customers of the District.

Contacting the District's Management

This financial report is designed to provide our citizens and creditors with a general overview of the District's finances and to demonstrate accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Anthony D'Angelo, Fiscal Officer, at Buckeye Water District, 1925 Clark Avenue, P.O. Box 105, Wellsville, Ohio 43968 or email at tdangelo@buckeyewater.com.

Buckeye Water District
Statement of Fund Net Assets
 December 31, 2011

Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$2,366,409
Accounts Receivable	394,023
Prepaid Items	50,074
Materials and Supplies Inventory	151,220
<i>Total Current Assets</i>	<i>2,961,726</i>
 <i>Noncurrent Assets:</i>	
<i>Restricted Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	1,894,750
Nondepreciable Capital Assets	556,917
Depreciable Capital Assets, Net	31,253,939
<i>Total Noncurrent Assets</i>	<i>33,705,606</i>
<i>Total Assets</i>	<i>36,667,332</i>
 Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	47,275
Accrued Wages	23,050
Intergovernmental Payable	41,519
Judgments Payable	4,842,753
Accrued Interest Payable	299,275
Compensated Absences Payable	12,043
OPWC Loans Payable	52,552
OWDA Loans Payable	549,151
Mortgage Revenue Bonds	168,000
<i>Total Current Liabilities</i>	<i>6,035,618</i>
 <i>Long-Term Liabilities:</i>	
Compensated Absences Payable (net of current portion)	209,927
OPWC Loans Payable (net of current portion)	695,514
OWDA Loans Payable (net of current portion)	10,221,963
Mortgage Revenue Bonds Payable (net of current portion)	14,574,300
Intergovernmental Payable (net of current portion)	11,826
<i>Total Long-Term Liabilities</i>	<i>25,713,530</i>
<i>Total Liabilities</i>	<i>31,749,148</i>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	5,623,432
<i>Restricted for:</i>	
Debt	1,894,750
Unrestricted (Deficit)	(2,599,998)
<i>Total Net Assets</i>	<i>\$4,918,184</i>

See accompanying notes to the basic financial statements

Buckeye Water District
*Statement of Revenues, Expenses and
 Changes in Fund Net Assets
 For the Year Ended December 31, 2011*

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Operating Revenues	
Charges for Services	\$3,434,862
Tap-In Fees	65,248
Other	15,539
	<hr/>
<i>Total Operating Revenues</i>	<i>3,515,649</i>
	<hr/>
Operating Expenses	
Salaries and Wages	627,891
Fringe Benefits	311,879
Contracted Services	768,853
Materials and Supplies	251,119
Depreciation Expense	2,157,104
Miscellaneous	3,065
	<hr/>
<i>Total Operating Expenses</i>	<i>4,119,911</i>
	<hr/>
<i>Operating Loss</i>	<i>(604,262)</i>
	<hr/>
Non-Operating Revenues (Expenses)	
Interest and Fiscal Charges	(884,895)
Interest	13,823
Other	18,849
	<hr/>
<i>Total Non-Operating Revenues (Expenses)</i>	<i>(852,223)</i>
	<hr/>
<i>Change in Net Assets</i>	<i>(1,456,485)</i>
	<hr/>
<i>Net Assets Beginning of Year</i>	<i>6,374,669</i>
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<i>Net Assets End of Year</i>	<i>\$4,918,184</i>
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See accompanying notes to the basic financial statements

Buckeye Water District
Statement of Cash Flows
For the Year Ended December 31, 2011

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Sales	\$3,413,516
Other Cash Receipts	15,539
Cash Payments to Employees for Services	(954,533)
Cash Payments for Goods and Services	(1,021,266)
Other Cash Payments	(3,065)
	<hr/>

<i>Net Cash Provided by Operating Activities</i>	<u>1,450,191</u>
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Cash Flows from Noncapital Financing Activities

Other Cash Receipts	<u>18,849</u>
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Cash Flows from Capital Activities

Acquisition of Capital Assets	(87,927)
Principal Payments - OWDA Loans	(537,915)
Principal Payments - OPWC Loans	(52,552)
Principal Payments - Revenue Bonds	(160,800)
Principal Payments - Intergovernmental Payable	(5,913)
Interest Payments - OWDA Loans	(222,054)
Interest Payments - Revenue Bonds	(670,640)
	<hr/>

<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(1,737,801)</u>
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Cash Flows from Investing Activities

Interest on Investments	<u>13,823</u>
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<i>Net Decrease in Cash and Cash Equivalents</i>	(254,938)
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<i>Cash and Cash Equivalents Beginning of Year</i>	<u>4,516,097</u>
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<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$4,261,159</u></u>
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Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating Loss	(\$604,262)
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Adjustments:

Depreciation	2,157,104
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Increase in Assets:

Accounts Receivable	(86,594)
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Prepaid Items	(24,267)
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Increase (Decrease) in Liabilities:

Accounts Payable	6,279
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Accrued Wages	(1,841)
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Intergovernmental Payable	(1,658)
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Compensated Absences Payable	<u>5,430</u>
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<i>Net Cash Provided by Operating Activities</i>	<u><u>\$1,450,191</u></u>
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See accompanying notes to the basic financial statements

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Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 1 - Description of the Entity

The Buckeye Water District, Columbiana County, Ohio, (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 was formed in 1996 pursuant to Chapter 6119 of the Ohio Revised Code. The District is directed by a 9-member Board of Directors comprised of three members appointed by the Columbiana County Board of Commissioners, three members appointed by the Township Trustees of the townships which comprise part of the District and three members are appointed by the Mayor or Village Council of the Village of Wellsville. Subdivisions within the District are: the Village of Wellsville, Madison, Yellow Creek, Salem, and Middletown Townships and the unincorporated portions of Saint Clair and Liverpool Townships. The District provides water services to residents of the District.

In accordance with the Statements of the Governmental Accounting Standards Board, including GASB No. 14 "The Financial Reporting Entity" as amended by GASB No. 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", the accompanying financial statements include all funds and activities over which the District is financially accountable.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Basis of Presentation

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

The District uses enterprise accounting to maintain its financial records during the year. Enterprise accounting focuses on the determination of operating income, change in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

The District uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The operations of the District are reported as a single enterprise fund.

Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The District's financial statements are prepared using the accrual basis of accounting. On the accrual basis, revenue is recorded on exchange transactions when the exchange takes place.

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include capital contributions. Expenses are recognized at the time they are incurred.

Cash and Investments

During 2011, investments were limited to repurchase agreements. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

Materials and Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011 are recorded as prepaid items by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions. Restricted assets represent amounts set aside to satisfy bond indenture requirements for current and future debt payments.

Capital Assets

Capitalized assets utilized by the District are reported on the statement of net assets. The District maintains a capitalization threshold of \$5,000 for all capital assets. Property and equipment are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. The cost of maintenance and repairs is expensed as incurred; significant betterments are generally capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Donated capital assets are recorded at fair market values as of the date received.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25 years
Equipment and Machinery	5 - 10 years
Vehicles	5 years
Water Tank	15 years
Infrastructure	25 years

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The City's infrastructure consists of waterlines and includes infrastructure acquired by the District since 1996. For 2011, infrastructure capital assets were calculated without the infrastructure assets acquired by transfer agreements.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are for consumer water consumption. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District. All revenues and expenses not meeting these definitions are reported as non-operating.

Estimates

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

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The District records a liability for all accumulated unused vacation time when earned for all employees.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the District has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination payments in the next twenty years). The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the District's termination policy.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 3 – Change in Financial Statement Presentation and Basis of Accounting

For the year end 2011, the District has presented financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the District has changed its basis of accounting from a cash basis to the accrual basis for its financial statements. This change required that certain adjustments be recorded to the December 31, 2010 net assets as previously reported to reflect the prior year's effect of adopting these new accounting principles. These adjustments had the following effect on net assets as they were previously reported.

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Net Assets, December 31, 2010	\$4,516,097
Adjustments:	
Receivables	307,429
Inventory	151,220
Prepaid Items	25,807
Capital Assets, Net of	
Accumulated Depreciation	33,880,033
Current Liabilities	(5,252,978)
Long-Term Liabilities	<u>(27,252,939)</u>
Restated Net Assets, December 31, 2010	<u><u>\$6,374,669</u></u>

Note 4 – Deposits and Investments

State statutes require the classification of monies held by the District into three categories.

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debenture, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage of short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. These securities must be obligation of or guaranteed by the United States and mature or be redeemable within 5 year of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the carrying amount of the District's deposits was \$1,309,251 and the bank balance was \$1,340,965. Of the bank balance \$838,747 was covered by Federal depository insurance and the remaining balance of \$502,218 was covered by pledged collateral with securities held by the pledging financial institution's trust department or agent. Although the securities were held by the pledging financial institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

Investments

As of December 31, 2011, the District had one overnight repurchase agreement with an AAA rating from Standard & Poor's.

Interest Rate Risk State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in repurchase agreements to 30 days and the market value of the securities must exceed the principal value of the agreement by 2 percent and be marked to market daily. The District had no investment policy that would further limit investment choices.

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended December 31, 2011 was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Capital Assets not being depreciated:				
Land	\$468,990	\$0	\$0	\$468,990
Construction in Progress	0	87,927	0	87,927
Total Capital Assets being depreciated	468,990	87,927	0	556,917
Capital Assets being depreciated:				
Building and Improvements	17,848,902	0	0	17,848,902
Equipment and Machinery	8,895,199	0	0	8,895,199
Vehicles	504,248	0	0	504,248
Water Tank	1,297,897	0	0	1,297,897
Infrastructure				
Waterlines	11,347,446	0	0	11,347,446
Total Capital Assets being depreciated	\$39,893,692	\$0	\$0	\$39,893,692

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Less Accumulated Depreciation				
Building and Improvements	(\$1,695,889)	(\$713,957)	\$0	(\$2,409,846)
Equipment and Machinery	(2,362,586)	(841,337)	0	(3,203,923)
Vehicles	(290,743)	(61,386)	0	(352,129)
Water Tank Infrastructure	(487,216)	(86,527)	0	(573,743)
Waterlines	(1,646,215)	(453,897)	0	(2,100,112)
Total Accumulated Depreciation	(6,482,649)	(2,157,104)	0	(8,639,753)
Total Capital Assets being Depreciated, net	33,411,043	(2,157,104)	0	31,253,939
Total Capital Assets, net	\$33,880,033	(\$2,069,177)	\$0	\$31,810,856

Note 6 - Long-term Obligations

The original issue date, maturity date, interest rate and original issuance amount for each of the District's bonds and loans follows:

	Issue Date	Maturity Date	Interest Rate	Original Issue Amount
<i>Ohio Public Works Commission Loans</i>				
Wellsville Water Treatment Plant Improvements	2003	2023	0.00 %	\$268,028
State Route 39 Water Main Feeder	2003	2026	0.00	783,000
<i>Ohio Water Development Loans</i>				
Transmission Main, Pump Station and Intake	2006	2029	2.00	11,659,333
Salineville Waterline Extension	2009	2040	0.00	662,137
Dairy Lane Waterline	1993	2014	6.02	317,372
<i>Revenue Bonds</i>				
2002 Series	2002	2042	4.50	1,498,000
2008 Series	2008	2048	4.50	13,800,000
<i>Intergovernmental Payable</i>				
Columbiana County	2001	2014	0.00	257,291

Changes in long-term obligations during the year ended December 31, 2011, consisted of the following:

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	Balance 12/31/10	Increase	Decrease	Balance 12/31/11	Amounts Due in One Year
Ohio Public Works Commission Loans					
Wellsville Water Treatment Plant Improvements	\$174,218	\$0	\$13,402	\$160,816	\$13,402
State Route 39 Water Main Feeder	626,400	0	39,150	587,250	39,150
<i>Total Ohio Public Works Commission Loans</i>	<u>800,618</u>	<u>0</u>	<u>52,552</u>	<u>748,066</u>	<u>52,552</u>
Ohio Water Development Loans					
Transmission Main, Pump Station and Intake	10,708,341	0	493,908	10,214,433	503,823
Salineville Waterline Extension	504,695	0	22,071	482,624	22,071
Dairy Lane Waterline	95,993	0	21,936	74,057	23,257
<i>Total Ohio Water Development Loans</i>	<u>11,309,029</u>	<u>0</u>	<u>537,915</u>	<u>10,771,114</u>	<u>549,151</u>
Revenue Bonds					
2002 Series	1,366,700	0	19,900	1,346,800	20,800
2008 Series	13,536,400	0	140,900	13,395,500	147,200
<i>Total Revenue Bonds</i>	<u>14,903,100</u>	<u>0</u>	<u>160,800</u>	<u>14,742,300</u>	<u>168,000</u>
Other Long-Term Obligations					
Intergovernmental Payable	23,652	0	5,913	17,739	5,913
Compensated Absences Payable	216,540	15,463	10,033	221,970	12,043
<i>Total Other Long-Term Obligations</i>	<u>240,192</u>	<u>15,463</u>	<u>15,946</u>	<u>239,709</u>	<u>17,956</u>
<i>Total</i>	<u><u>\$27,252,939</u></u>	<u><u>\$15,463</u></u>	<u><u>\$767,213</u></u>	<u><u>\$26,501,189</u></u>	<u><u>\$787,659</u></u>

In 1996, the Water District entered into a transfer agreement with Columbiana County for the ownership and operation of the water distribution system (the System) for the Townships of Saint Clair, Liverpool, Madison and Yellow Creek, together with certain easements and real property rights and improvements thereon. Columbiana County financed the construction and maintenance of certain portions of the System through the Ohio Public Works Commission. The District assumed all obligations of the System. All proceeds were received by Columbiana County and Columbiana County is responsible for the debt retirement. The District makes bi-annual payments to Columbiana County equal to Columbiana County's bi-annual debt retirement. The total amount owed to Columbiana County as of December 31, 2011 is \$17,739. This amount has been recorded on the District's books as a long-term liability.

The District has pledged future revenues, net of operating expenses, to repay OPWC and OWDA loans, revenue bonds and intergovernmental payables. The debt is payable solely from net revenues through 2048. Annual principal and interest payments on the debt issues are expected to require 105 percent of net revenues. The total principal and interest remaining to be paid on the debt is \$41,153,751. Principal and interest paid for the current year and total net revenues were \$1,649,874 and \$1,566,665, respectively.

The District has entered into a contractual agreement for a construction loan from the Ohio Water Development Authority (OWDA). Under the terms of this agreement, OWDA will reimburse, advance or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and then add them to the total amount of the final loan. This loan will not have an accurate repayment schedule until the loans are finalized and, therefore, are not included in the schedule of future annual debt service requirements. The balance of this loan as of December 31, 2011 is \$10,214,433.

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Year	OPWC Loans	OWDA Loans		Revenue Bonds		Intergovernmental Loan
		Principal	Interest	Principal	Interest	Principal
2012	\$52,552	\$45,328	\$4,458	\$168,000	\$655,844	\$5,913
2013	52,551	46,728	3,058	175,400	647,951	5,913
2014	52,551	48,214	1,572	183,400	639,697	5,913
2015	52,551	22,071	0	191,700	631,071	0
2016	52,551	22,071	0	200,100	622,066	0
2017-2021	262,757	110,356	0	1,145,000	2,960,289	0
2022-2026	222,553	110,356	0	1,426,800	2,665,746	0
2027-2031	0	110,356	0	1,777,900	2,298,699	0
2032-2036	0	41,201	0	2,215,900	1,841,279	0
2037-2041	0	0	0	2,761,000	1,271,281	0
2042-2046	0	0	0	3,092,800	599,229	0
2047-2048	0	0	0	1,404,300	32,292	0
Total	<u>\$748,066</u>	<u>\$556,681</u>	<u>\$9,088</u>	<u>\$14,742,300</u>	<u>\$14,865,444</u>	<u>\$17,739</u>

Note 7 – Defined Benefit Pension Plan

Plan Description – The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2011, member and employer contribution rates were consistent across all three plans.

The District’s 2011 contribution rate was 14.0 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2011, and 5 percent from March 1 through December 31, 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2011, and 4.23 percent from March 1 through December 31, 2011. Employer contribution rates are actuarially determined.

The District's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$56,725, \$67,253, and \$52,091, respectively. For 2011, 88.2 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. The District did not have contributions to the Member-Directed Plan for 2011.

Note 8 - Postemployment Benefits

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

28, 2011, and 5 percent from March 1 through December 31, 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2011, and 4.23 percent from March 1 through December 31, 2011.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010 and 2009 were \$32,339, \$38,340, and \$52,091, respectively. For 2011, 88.20 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Note 9 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. During 2011, the District obtained commercial insurance through Cooper Insurance Agency, Inc. for all insurance. The coverage and deductibles are as follows:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Automobile Liability	\$1,000,000	\$0
General Liability	3,000,000 aggregate	0
Property Liability	\$31,372,735	2,500
Inland Marine	\$803,182	500

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has not been a significant reduction in coverage from the prior year.

Workers' compensation coverage is provided by the State of Ohio. The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 10 – Employee Benefits

Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. District employees are paid for earned, unused vacation leave at the time of termination of employment.

Buckeye Water District
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Sick leave is earned at the rate of one and one quarter days per month of service. Upon retirement, employees are paid up to 120 days of the accumulated sick leave.

Insurance Benefits

The District provides medical/surgical insurance and prescription drug insurance through the Anthem Insurance and vision, life and dental insurance through Companion Life Insurance to all eligible employees.

Note 11 – Management Agreement

On April 25, 2007 the District entered into a management agreement with the Village of Salineville (the Village). The Village is the owner and operator of a certain water supply treatment facility and a water distribution system (Salineville Water System) located in Columbiana County, Ohio consisting of certain real estate and improvements thereon. The Village is also the owner of certain personal property, real property easements, rights of way and improvements thereon utilized for the operations of the Salineville Water System. The Village has appointed and designated the District as the manager of the Salineville Water System; however, transfer of ownership is pending an agreement setting forth all terms, conditions, obligations and responsibilities of the Parties and to obtain all necessary governmental approvals including but not limited to the Ohio EPA and applicable funding authorities to whom the Village is currently indebted. As of December 31, 2011, a transfer agreement has not been entered into.

The District agreed to use water revenues to pay debt service on the Salineville Water System. During 2011, the District paid \$73,872 towards the payment of debt service. These payments are reflected as contracted services on the financial statements.

Note 12 – Contractual Commitment

The District has a verbal agreement with Columbiana County whereby the District pays \$51,875 annually towards OPWC loans. This payment is reflected as contracted services on the financial statements.

Note 13 - Litigation

In 2005, the District was named as a co-defendant in a civil suit filed in the Columbiana County Common Pleas Court, involving a contract dispute. The City of East Liverpool and Columbiana County (the County) had previously entered into a Water Agreement whereby the City of East Liverpool supplied the County with potable water in conjunction with the County's operation of its Water and Sewer District Number 2. The County subsequently transferred such water and sewer district operations to a newly-formed public utility, Buckeye Water District, and this Water Agreement was assigned to the District as part of this transfer. The District subsequently terminated the Agreement with East Liverpool, and East Liverpool filed suit against both the District and the County. In February 2008, a judgment was granted in favor of the plaintiff. The award amount was \$9.7 million plus interest. On appeal, the Court of Appeals reduced this judgment to \$4.85 million, and such judgment (as reduced) is now final. In January 2011, Columbiana County Common Pleas Court issued a judgment freezing the District's bank accounts. On appeal, the Columbiana County Common Pleas Court released the operating account to allow the District to continue its day-to-day operations. In December 2011, the District filed an appeal with the Seventh Appellate District's Court of Appeals to stay the garnishment judgment.



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*

Buckeye Water District
Columbiana County
P.O. Box 105
Wellsville, OH 43968

To the Board of Trustees:

We have audited the statement of fund net assets and the statement of revenues, expenses and changes in net assets of Buckeye Water District, Columbiana County, (the District) as of and for the year ended December 31, 2011 and have issued our report thereon dated January 31, 2012. We noted that for the year ended December 31, 2011, the District revised its financial presentation to the requirements of accounting principles generally accepted in the United State of America and to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. We also qualified our report on the capital assets reported because certain accounting records were not presented for audit. Except as discussed in the preceding sentence, 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 opinions 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 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 combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and timely corrected. We consider findings 2011-03 and 2011-04 described in the accompanying schedule of findings to be material weaknesses.

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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 2011-01 through 2011-03.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 31, 2012.

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

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

David Yost
Auditor of State

January 31, 2012

**BUCKEYE WATER DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2011-01

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 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.
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 Fiscal Officer did not certify or record the amount against the applicable appropriation accounts for 90% of tested expenditures. The District did not properly utilize the certification exceptions described above for those expenditures lacking prior certification. It was noted that purchase orders issued in 2011 were not certified by the fiscal officer, but signed by the District Administrator. It was also noted that the District had more than one blanket certificate outstanding at one particular time for certain line item appropriations.

Finding Number 2011-01 – (Continued)

Noncompliance Citation

Failure to certify the availability of funds and encumber appropriations for the full amount of the expenditure could result in overspending in 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 Fiscal Officer 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 the full purchase amounts 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 for the authorization of disbursements. The Fiscal Officer should sign the certification prior to incurring a commitment, and only when the requirements of Ohio Revised Code Section 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 2011-02

Noncompliance Citation

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations in the following funds as of December 31, 2011:

Fund	Appropriations	Expenditures	Variance
Enterprise Operating	\$1,872,084	\$2,702,790	(\$830,706)
Enterprise Capital Projects	\$0	\$87,927	(\$87,927)
Enterprise Debt	\$1,756,011	\$1,756,046	(\$35)

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

Finding Number 2011-03

Noncompliance Citation/Material Weakness

Ohio Administrative Code Section 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records to enable the public office to identify, assemble, analyze,, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance related legal contractual requirements and prepare financial statements. **Ohio Administrative Code Section 117-2-02(D)** further states that all public offices may use manual or computerized format. The records used should be based on the nature of operations and the service the public office provides, and should consider the degree of automation and other factors. Such records should include capital asset records including such information as original cost, acquisition date, voucher number, the asset type (land, building, equipment, vehicle, etc.), asset description, location and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data.

Finding Number 2011-03 – (Continued)

Noncompliance Citation/Material Weakness

It is management's responsibility to implement internal accounting control policies and procedures to reasonably ensure that the District's capital assets are safeguarded and recorded. Specifically, these control procedures should include the maintenance of adequate documentation to support the accuracy and completeness of capital asset records.

The District's capital assets are reported on the basic financial statements at \$31,810,856. However, the District has not maintained a complete capital asset listing to support the valuation of capital assets and the depreciation, thereof. Specifically, when the District was formed, many of its original assets were acquired from Columbiana County and from the Village of Wellsville. The documentation to verify the existence, cost and accumulated depreciation was incomplete. Accordingly, the District's financial statements do not account for certain capital assets, accumulated depreciation and depreciation expenses. The omission of the capital asset information resulted in a qualified opinion on the District's basic financial statements, because we cannot reasonably determine whether the amount of the capital assets is fairly stated.

The District should procure the expertise of an appraisal firm to prepare a complete physical inventory of the District's capital assets and to prepare an accurate and complete capital asset listing, which would include a description of each capital asset, original cost, acquisition date, voucher number, assets type, useful life accumulated depreciation, location and tag number. Also, the District should annually update the inventory to account for additions, deletions and current depreciation expense.

The District should also create a comprehensive written policy governing the identification, capitalization, depreciation and disposition of capital assets to provide the required information to be reported under Governmental Accounting Standards Board (GASB) Statement 34. The policy should also include application and monitoring controls over the purchase, acquisition, sale and movement of capital assets within the District and periodic physical inventory requirements.

Finding Number 2011-04

Material Weakness

The District Fiscal Officer did not record all monies received and expended by the District and failed to prepare accurate monthly bank reconciliations to reasonably assure accountability for all transactions. Failure to maintain accurate monthly reconciliations increases the risk of discrepancies and errors occurring without detection and prevents the District management from having accurate financial information. Local Government Services completed a bank to book reconciliation for the District at December 31, 2011. In order to present accurate cash reconciliations, Local Government Services proposed adjustments totaling \$13,820 to the District. These adjustments have been posted to the District's financial records and are included in the accompanying financial statements.

The fiscal officer did not correctly post other receipts and expenses in 2011, resulting in the following adjustments to the financial statements. These adjustments have been posted to the District's financial records and are included in the accompanying financial statement.

Finding Number 2011-04 – (Continued)

Material Weakness

Fund	Proper Account	Amount	Description
Enterprise Operating	Principal retirement expenses	(\$19,575)	Loan payment recorded twice
Enterprise Operating	Special assessments receipts	\$9,753	Not posted on the ledgers
Enterprise Operating	Miscellaneous receipts	\$752	Not posted on the ledgers
Enterprise Operating	Charges for services receipts	(\$1,322)	Non-sufficient funds items not recorded on the ledgers
Enterprise Operating	Salaries expenses	(\$24,027)	Expense posted twice on the ledgers
Enterprise Operating	Fringe benefits expenses	(\$1,085)	Amount recorded twice on the ledgers
Enterprise Operating	Miscellaneous expenses	\$2,250	Amount not posted on the ledgers
Enterprise Operating	Miscellaneous expenses	\$184	Adjustment needed to balance at year end

The District fiscal officer should prepare accurate monthly bank reconciliations that include all district accounts and an accurate outstanding check list. All reconciling items should be substantiated by supporting documentation. All discrepancies and errors should be investigated, documented and corrected, if necessary. The Fiscal Officer should maintain the accounting system to enable the District to identify, assemble, analyze, classify, record and report all transactions and to maintain accountability.

The District should carefully review their accounting system and their reconciliation process and develop necessary internal controls, which will support the integrity of the District's financial records and reports. A review process should be implemented whereby the Board of Trustees review ledgers, monthly financial statements and reconciliations, and document the reviews.

Officials' Response:

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

**BUCKEYE WATER DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Ohio Revised Code Section 5705.41D – Proper Certification	No	Reissued as Finding 2011-01
2010-02	Proper Posting and Reconciliations	No	Reissued as Finding 2011-02

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Dave Yost • Auditor of State

BUCKEYE WATER DISTRICT

COLUMBIANA 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
FEBRUARY 21, 2012**