



**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2011 - 2010

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Dave Yost • Auditor of State

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Western Guernsey Regional Water District
Guernsey County
61786 Shaw Road
Cambridge, Ohio 43725

To the Board of Trustees:

We have audited the accompanying financial statements of the Western Guernsey Regional Water District, Guernsey County, Ohio (the District), as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western Guernsey Regional Water District, Guernsey County, Ohio, as of December 31, 2011 and 2010, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 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 Governmental Accounting Standards Board considers 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 that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

August 15, 2012

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(UNAUDITED)**

The discussion and analysis of the Western Guernsey Regional Water District's (the District) financial performance provides an overall review of the District's financial activities for the years ended December 31, 2011 and 2010. Readers should also review the basic financial statements and notes to enhance their understanding of the Western Guernsey Regional Water District's financial performance.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how the District did financially during the years ended December 31, 2011 and 2010. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting considers all of the District's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Water District has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(UNAUDITED)**

Table 1 provides a summary of the District's Net Assets for 2011, 2010, and 2009.

	2011	2010	2009
Assets			
Current and Other Assets	\$ 301,852	\$ 279,005	\$ 353,952
Capital Assets, Net	207,426	214,043	145,733
Total Assets	509,278	493,048	499,685
Liabilities			
Current Liabilities	72,355	72,238	74,980
Noncurrent Liabilities	142,108	184,706	230,429
Total Liabilities	214,463	256,944	305,409
Net Assets			
Invested in Capital Assets, Net of Related Debt	22,749	(15,022)	(126,886)
Restricted	89,350	81,850	110,052
Unrestricted	182,716	169,276	211,110
Total Net Assets	\$ 294,815	\$ 236,104	\$ 194,276

The District's 2011 increase in total net assets of \$58,711 was mainly due to a decrease in noncurrent liabilities due to principal payments made on debt and capital leases during the year. The District's 2010 increase in total net assets of \$41,828 was mainly due to an increase in capital assets, due to the construction of waterlines and a decrease in noncurrent liabilities due to principal payments made on debt and capital leases during the year.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(UNAUDITED)**

Table 2 shows the change in net assets for the years ended December 31, 2011, 2010, and 2009.

**Table 2
Revenue and Expenses**

Miscellaneous	3,040	1,820	2,870
Total Revenues	<u>581,984</u>	<u>614,745</u>	<u>635,656</u>
Operating Expenses:			
Contract Services	224,229	264,095	265,316
Professional Fees	5,041	15,534	6,315
Advertising	41	104	54
Bank Charges	290	380	380
Wages	110,449	116,228	106,558
Employee Benefits	17,064	17,969	16,754
Postage and Office Supplies	9,798	11,080	9,953
Group Insurance	19,741	16,279	9,510
General Insurance	4,070	9,659	6,936
Small Tools and Supplies	35,518	22,370	31,863
Ground Maintenance	1,193	2,601	1,870
Rentals	210		
Workers Compensation	1,965	1,565	1,603
Outside Services	2,440	3,440	5,399
Depreciation	18,163	21,655	21,991
Dues and Subscriptions	2,740	2,110	435
Vehicle Expense	12,997	13,428	11,442
Phone and Utilities	25,467	26,658	24,871
Licenses and Permits	13,947	696	3,566
Repairs	6,696	14,302	15,575
Real Estate Taxes	306	270	(1,881)
Miscellaneous	938	295	230
Non-Operating Expenses:			
Interest Expense	9,970	12,199	15,090
Total Expenses	<u>523,273</u>	<u>572,917</u>	<u>553,830</u>
Change in Net Assets	58,711	41,828	81,826
Net Assets Beginning of Year	236,104	194,276	112,450
Net Assets End of Year	<u><u>\$ 294,815</u></u>	<u><u>\$ 236,104</u></u>	<u><u>\$ 194,276</u></u>

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(UNAUDITED)**

Operating revenues consisted of user charges for water consumption. Operating expenses reflect the cost of providing these services. Although operating revenues decreased from 2010 to 2011, net assets still increased during 2011 due to revenues exceeding expenditures.

Capital Assets and Debt Administration

Capital Assets

Table 3 provides a summary of the District's capital assets as of December 31, 2011, 2010, and 2009.

**Table 3
Capital Assets
(Net of Depreciation)**

	2011	2010	2009
Buildings & Improvements	\$ 30,308	\$ 33,273	\$ 36,238
Infrastructure	45,193	54,955	64,717
Machinery & Equipment	20,244	25,302	27,521
Vehicles			3,670
Office Equipment	331	709	1,087
Construction in Progress	98,850	87,304	
Land	12,500	12,500	12,500
Total	\$ 207,426	\$ 214,043	\$ 145,733

During 2011, the District started a new construction project for waterlines. Depreciation expense amounted to \$18,163 and \$21,656 during 2011 and 2010, respectively.

Debt Administration

The District did not incur any new debt during the years ended December 31, 2011 and 2010.

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Michele Swingle, Clerk, Western Guernsey Regional Water District, 61786 Shaw Road, Cambridge, Ohio 43725-9441.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010**

	2011	2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$50,183	\$27,898
Segregated Accounts:		
Indebt Service	35,047	34,992
Capital Improvement	54,303	46,858
Short Term Investment	54,075	54,075
Accounts Receivable	74,735	81,672
Inventories	33,509	33,510
Total Current Assets	301,852	279,005
Noncurrent Assets:		
Capital Assets		
Buildings and Improvements	97,242	97,242
Infrastructure	924,585	924,585
Machinery and Equipment	50,987	50,987
Vehicles	42,499	42,499
Office Equipment	2,088	2,088
	1,117,401	1,117,401
Less: Accumulated Depreciation	(1,021,325)	(1,003,162)
	96,076	114,239
Land	12,500	12,500
Construction in Progress	98,850	87,304
Total Noncurrent Assets	207,426	214,043
Total Assets	\$509,278	\$493,048
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current Portion, Long Term Debt	\$42,569	\$40,500
Current Portion, Lease Payable		3,859
Accounts Payable	15,234	12,918
Accrued Liabilities	10,602	12,511
Customer Deposits	3,950	2,450
Total Current Liabilities	72,355	72,238
Noncurrent Liabilities		
Long-Term Debt, Net of Current Portion	142,108	184,706
Total Noncurrent Liabilities	142,108	184,706
Total Liabilities	214,463	256,944
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	22,749	(15,022)
Restricted for Debt Service	35,047	34,992
Restricted for Capital Improvements	54,303	46,858
Unrestricted	182,716	169,276
Total Net Assets	294,815	236,104
Total Liabilities and Net Assets	\$509,278	\$493,048

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

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
Operating Revenue:		
Charges for Services	\$578,615	\$612,318
Operating Expenses:		
Contract Services	224,229	264,095
Professional Fees	5,041	15,534
Advertising	41	104
Bank Charges	290	380
Wages	110,449	116,228
Employee Benefits	17,064	17,969
Postage and Office Supplies	9,798	11,080
General Insurance	4,070	9,659
Group Insurance	19,741	16,279
Workers Compensation	1,965	1,565
Small Tools and Supplies	35,518	22,370
Ground Maintenance	1,193	2,601
Rentals	210	
Outside Services	2,440	3,440
Depreciation	18,163	21,655
Dues and Subscriptions	2,740	2,110
Vehicle Expense	12,997	13,428
Phone and Utilities	25,467	26,658
Licenses and Permits	13,947	696
Repairs	6,696	14,302
Real Estate Tax	306	270
Miscellaneous	938	295
Total Operating Expenses	513,303	560,718
Operating Income	65,312	51,600
Non-Operating Revenues (Expenses):		
Rental Income	1,020	1,020
Hydrant Assessments	1,300	
Miscellaneous	720	800
Interest Earned	329	607
Interest Expense	(9,970)	(12,199)
Total Non-Operating Revenues (Expenses)	(6,601)	(9,772)
Increase in Net Assets	58,711	41,828
Net Assets, Beginning of Period	236,104	194,276
Net Assets, End of Period	\$294,815	\$236,104

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

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$575,575	\$610,340
Cash paid to suppliers and employees	(483,256)	(543,974)
Net cash provided by operating activities	92,319	66,366
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Rental Income	1,020	1,020
Hydrant Assessments	1,300	
Miscellaneous	720	800
Net cash provided by noncapital financing activities	3,040	1,820
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	329	607
Net cash provided by investing activities	329	607
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(11,546)	(89,966)
Payments of lease	(3,858)	(4,955)
Payments of long-term debt	(40,529)	(38,598)
Interest paid	(9,970)	(12,199)
Net cash used for capital and related financing activities	(65,903)	(145,718)
Net increase/decrease in cash	29,785	(76,925)
Cash and Cash Equivalents, beginning of period	109,748	186,673
Cash and Cash Equivalents, end of period	<u>\$139,533</u>	<u>\$109,748</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 65,312	\$ 51,600
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	18,163	21,655
(Increase) Decrease in Assets:		
Accounts Receivable	6,937	(1,978)
Increase (Decrease) in Liabilities:		
Accounts Payable	2,316	(5,328)
Accrued Payroll Taxes	(1,909)	217
Customer Deposits	1,500	200
Net cash provided by operating activities	<u>\$ 92,319</u>	<u>\$ 66,366</u>

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

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**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

Western Guernsey Regional Water District, Guernsey County (the "District"), was organized under the provisions of Section 6119 of the Ohio Revised Code on June 1, 2004. Prior to that date, the District was operated as a not-for-profit corporation known as Western Guernsey Services Company. The District furnishes water service to customers in the rural areas of Guernsey County, Ohio. Customers are billed on a monthly basis for water used and are included in accounts receivable until paid.

Basis of Presentation

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the District applies GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Interpretations, Accounting Principles Board Opinions (APBO), and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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.

Measurement Focus and Basis of Accounting

Transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net assets. Net assets (i.e., equity) is segregated into invested in capital assets, net of related debt, restricted for purpose, and unrestricted components. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total 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 refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The District uses the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Bad debts expense has been minimal and, as a result, accounts receivable do not include an allowance for doubtful accounts. The District has the ability under the provision of Ohio Rev. Code Section 6119.06(W) to certify unpaid charges to the County Auditor and place a lien upon the property.

Inventory

Inventory consists of water meters and repair parts. Inventory is stated at the lower of cost or market value based on the first-in, first-out method (FIFO).

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation for financial reporting purposes is based on the following policies:

<u>Description</u>	<u>Estimated Life</u>	<u>Method</u>
Buildings and Improvements	10-40 years	Straight line
Infrastructure	10-40 years	Straight line
Machinery and Equipment	5-10 years	Straight line
Vehicles	5-10 years	Straight line and accelerated
Office Equipment	5-10 years	Straight line and accelerated

Long-Term Obligations

The District records obligations not expected to be financed within one year by available financial resources as long-term debt, which consisted of Berkadia Commercial Mortgage LLC notes (formerly GMAC Commercial Mortgage Corporation) and a capital lease.

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 borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation of the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Leave

All full time permanent employees are entitled to vacation leave, with pay, after the completion of one full year of employment. Vacation leave must be taken by the employee during the year following that in which it was accrued however in special cases the Board may permit an employee to carry over vacation leave to the following year. In no case is any employee allowed to carry over more than one year's accrued vacation for longer than two years. At the time of separation, an employee is entitled to compensation at their current rate of pay for the pro-rated portion of any earned but unused vacation leave for the current year and for any unused vacation leave from a prior period accrued to the employee's credit with the approval of the Board.

All employees earn sick leave at the rate of 4.6 hours for each 80 hours in active pay status. Employees with a minimum of ten years of service may receive 25% of their accumulated sick leave, not to exceed thirty days, upon retirement through PERS.

As of December 31, 2011 the District's employees had not accrued any significant leave balances.

Revenue and Expenses

Operating revenues and expenses result from providing water conveyance services. Operating revenues consist of user charges for water services based on water consumption. Operating expenses include the cost of these water services, including administrative expenses. Revenues and expenses which do not meet these definitions are reported as Non-Operating Revenues or Expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: EQUITY IN POOLED CASH AND INVESTMENTS

State statute outlines allowable deposits and investments for the District. The District may invest in certificates of deposit, 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.

Cash on Hand

At the end of each year, the District had \$145 in undeposited cash on hand which is included as part of "Cash and Cash Equivalents."

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. For the years ended December 31, 2011 and 2010, the District's deposits were \$193,463 and \$163,678, and the bank balances were \$190,502 and \$165,820, respectively. Of the bank balances, all amounts were covered by FDIC insurance.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

NOTE 2: EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Deposits (Continued)

The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be 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.

NOTE 3: SEGREGATED ACCOUNTS

The District is required by loan covenants with Berkadia, formerly GMAC, to segregate amounts for debt service and capital reserve. These balances are maintained in bank accounts separate from the general account.

NOTE 4: RECEIVABLES

Receivables at December 31, 2011 consisted of \$74,735 in water service billings due from water system users during January and February 2012. Receivables at December 31, 2010 consisted of \$81,672 in water service billings due from water system users during January and February 2011.

NOTE 5: LONG-TERM DEBT OBLIGATIONS

The District had the following long-term debt obligations as of December 31, 2011 and December 31, 2010:

Note payable – Berkadia Commercial Mortgage LLC, formerly GMAC, issued in May, 1981, collateralized by all properties considered part of the water system. Annual payments of \$35,913 include interest at 5%. Final payment due May, 2013.	<u>2011</u>	<u>2010</u>
	\$ 63,583	\$94,750
 Note payable - Berkadia Commercial Mortgage LLC, formerly GMAC, issued in June, 1971, collateralized by all properties considered part of the water system. Annual payments of \$15,876 include interest at 5%. Final payment due May, 2021.	<u>121,094</u>	<u>130,456</u>
Total Long-Term Obligations	184,677	225,206
less: current portion	<u>42,569</u>	<u>40,500</u>
Long-Term Debt, net of current portion	<u>\$ 142,108</u>	<u>\$184,706</u>

During the year ended December 31, 2011, principal payments amounted to \$31,167 on the 1981 Note Payable and \$9,362 on the 1971 Note Payable. During the year ended December 31, 2010, principal payments amounted to \$29,691 on the 1981 Note Payable and \$8,908 on the 1971 Note Payable. Balances at January 1, 2010 of the 1981 Note Payable and 1971 Note Payable were \$124,441 and \$139,364, respectively.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

NOTE 5: LONG-TERM DEBT OBLIGATIONS (Continued)

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

Year ending December 31:	Berkadia Loans	
	Principal	Interest
2012	\$ 42,569	\$ 9,220
2013	41,063	7,092
2014	10,837	5,039
2015	11,379	4,497
2016	11,948	3,928
2017-2021	66,881	9,430
	\$ 184,677	\$ 39,206

NOTE 6: CAPITAL LEASE OBLIGATION

The following is an analysis of property held under capital lease by major classes at December 31, 2011:

	Equipment	\$ 24,500
Less: accumulated depreciation		<u>12,863</u>
		<u>\$ 11,637</u>

The following is an analysis of property held under capital lease by major classes at December 31, 2010:

	Equipment	\$ 24,500
Less: accumulated depreciation		<u>10,413</u>
		<u>\$ 14,087</u>

As of December 31, 2011, the capital lease was paid in full.

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2010:

	2011	3,929
Less: amount representing Interest		<u>70</u>
Present value of net minimum Lease payments		<u>\$ 3,859</u>

As of December 31, 2010, the above is reflected in the statement of net assets as current obligations under capital leases of \$3,859.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

NOTE 7: CAPITAL ASSETS

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

	<u>Balance 1/1/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/11</u>
Nondepreciable Capital Assets				
Land	\$ 12,500	\$	\$	\$ 12,500
Construction in process	87,304	11,546		98,850
Total Nondepreciable Capital Assets	<u>99,804</u>	<u>11,546</u>		<u>111,350</u>
Depreciable Capital Assets				
Buildings & Improvements	97,242			97,242
Infrastructure	924,585			924,585
Machinery & Equipment	50,987			50,987
Vehicles	42,499			42,499
Office Equipment	2,088			2,088
Total Depreciable Capital Assets	<u>1,117,401</u>			<u>1,117,401</u>
Less Accumulated Depreciation				
Buildings & Improvements	(63,969)	(2,965)		(66,934)
Infrastructure	(869,630)	(9,762)		(879,392)
Machinery & Equipment	(25,685)	(5,058)		(30,743)
Vehicles	(42,499)			(42,499)
Office Equipment	(1,379)	(378)		(1,757)
Total Accumulated Depreciation	<u>(1,003,162)</u>	<u>(18,163)</u>		<u>(1,021,325)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>114,239</u>	<u>(18,163)</u>		<u>96,076</u>
Total Capital Assets	<u>\$ 214,043</u>	<u>\$ (6,617)</u>	<u>\$</u>	<u>\$ 207,426</u>

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

NOTE 7: CAPITAL ASSETS (Continued)

Capital Asset activity for the year ended December 31, 2010 was as follows:

	Balance 1/1/10	Additions	Deletions	Balance 12/31/10
Nondepreciable Capital Assets				
Land	\$ 12,500	\$	\$	\$ 12,500
Construction in process		87,304		87,304
Total Nondepreciable Capital Assets	12,500	87,304		99,804
Depreciable Capital Assets				
Buildings & Improvements	97,242			97,242
Infrastructure	924,585			924,585
Machinery & Equipment	48,325	2,662		50,987
Vehicles	42,499			42,499
Office Equipment	2,088			2,088
Total Depreciable Capital Assets	1,114,739	2,662		1,117,401
Less Accumulated Depreciation				
Buildings & Improvements	(61,004)	(2,965)		(63,969)
Infrastructure	(859,868)	(9,762)		(869,630)
Machinery & Equipment	(20,804)	(4,881)		(25,685)
Vehicles	(38,829)	(3,670)		(42,499)
Office Equipment	(1,001)	(378)		(1,379)
Total Accumulated Depreciation	(981,506)	(21,656)		(1,003,162)
Depreciable Capital Assets, Net of Accumulated Depreciation	133,233	(18,994)		114,239
Total Capital Assets	\$ 145,733	\$ 68,310	\$	\$ 214,043

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

NOTE 8: OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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 that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, 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 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 that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14%, respectively, of participants' gross salaries. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional and combined plans for 2011 and 2010 were \$15,463 and \$16,282, respectively; 100 percent has been contributed for 2011 and 2010.

NOTE 9: POSTEMPLOYMENT BENEFITS

The 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 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, which includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including postretirement health care coverage.

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 health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 45*.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

NOTE 9: POSTEMPLOYMENT BENEFITS (Continued)

A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2011 local government employer contribution rate was 14 percent of covered payroll and the portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent. The 2010 local government employer contribution rate was 14 percent of covered payroll and the portion that was used to fund health care from January 1 through February 28, 2010 was 5.5 percent and 5.0 percent from March 1 through December 31, 2010.

NOTE 10: 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, inquiries to employees and natural disasters. Significant risk of losses is covered by commercial insurance. The District has not significantly reduced this coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

NOTE 11: COMPLIANCE

The District did not formally adopt an operating budget or follow the other budgetary processes outlined by Ohio Rev. Code Section 5705.28(B)(2)(a).

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

Western Guernsey Regional Water District
Guernsey County
61786 Shaw Road
Cambridge, Ohio 43725

To the Board of Trustees:

We have audited the financial statements of the Western Guernsey Regional Water District, Guernsey County, Ohio (the District), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated August 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, and contracts, 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2011-01.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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

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

Dave Yost
Auditor of State

August 15, 2012

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2011-01

Noncompliance Citation

Ohio Rev. Code Section 5705.28(B)(2)(a) states that the taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget pursuant to division (A) of this section. Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission.

According to Ohio Rev. Code Section 5705.28(B)(2)(b), although a taxing unit that does not levy a tax is not a taxing unit for purposes for Ohio Rev. Code Chapter 5705, a water district is still required to follow these Ohio Rev. Code Sections: 5705.36, 5705.38, 5705.40, 5705.41, 5705.43, 5705.44 and 5705.45. These sections separately require the District to, in part: certify beginning balances on or about the first day of each fiscal year, certify revenue available for appropriation, adopt appropriations within available resources, certify the availability of funds prior to incurring obligations, and limit expenditures to appropriations for each fund. However, documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.

Concerning the prior certification of the availability of funds prior to incurring obligations, Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any 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. Further, contract and orders for expenditures lacking prior certification shall be null and void.

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.

Then and Now Certificates – 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 District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance of the District 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 District.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2011-01 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.28(B)(2)(a) (Continued)

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 certificate 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.

Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the 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.

The District did not comply with the aforementioned budgetary laws for the periods ended December 31, 2011 and 2010. The District did not estimate resources and did not appropriate expenditures; therefore, the District was unable to monitor operations via the control that budgeting provides.

The District’s accounting system did not allow for integration of budget information or encumbrances.

Budgeted amounts of receipts and disbursements integrated into the District’s accounting system would allow for meaningful comparisons between the budgeted and actual figures.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve control over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to obligation by the District. When prior certification is not possible, “then and now” certification should be used.

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

Official’s Response

The District intends to implement procedures to assure compliance with budgetary laws.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	A material citation was issued under Ohio Rev. Code Section 5705.28(B)(2)(a) for not complying with budgetary laws.	No	Not Corrected; Reissued as Finding Number 2011-01.

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WESTERN GUERNSEY REGIONAL WATER DISTRICT

GUERNSEY 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
AUGUST 30, 2012