



Dave Yost • Auditor of State



**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

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# Dave Yost • Auditor of State

Northwest Water District  
Williams County  
14426 County Road 6-75  
Montpelier, Ohio 43543-9508

To the Board of Trustees:

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

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**Dave Yost**  
Auditor of State

August 24, 2012

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Northwest Water District  
Williams County  
14426 County Road 6-75  
Montpelier, Ohio 43543-9508

To the Board of Trustees:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the fund the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the District's larger (i.e. major) funds separately. While the District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The District has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2011 and 2010, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances as of December 31, 2011 and 2010 of Northwest Water District, Williams County, Ohio, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 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.

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 24, 2012

**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCE (CASH BASIS)  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Cash Receipts:</b>		
Charges for Services	\$210	
<b>Operating Cash Disbursements:</b>		
Utilities	1,470	\$2,348
Testing and Licenses	100	90
Other Contractual Services	107,022	
Insurance	4,825	
Public Works	27	
<i>Total Operating Cash Disbursements</i>	<u>113,444</u>	<u>2,438</u>
<i>Operating Loss</i>	<u>(113,234)</u>	<u>(2,438)</u>
<b>Non-Operating Cash Receipts/(Disbursements)</b>		
Intergovernmental Revenues	11,214	3,653
Proceeds from Legal Settlement	104,823	
Other Non-Operating Revenues		100
Other Non-Operating Disbursements		(1,530)
<i>Total Non-Operating Cash Receipts/(Disbursements)</i>	<u>116,037</u>	<u>2,223</u>
<i>Net Change in Fund Cash Balance</i>	<u>2,803</u>	<u>(215)</u>
<i>Fund Cash Balance, January 1</i>	<u>35</u>	<u>250</u>
<i>Fund Cash Balance, December 31</i>	<u><u>\$2,838</u></u>	<u><u>\$35</u></u>

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

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**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges for the Northwest Water District, Williams County, Ohio (the District), as a body corporate and politic. Northwest Township appoints each member to the Board of Trustees to direct the District. There are three Board members. Northwest Township is the only subdivision within the District. The District provides water services within the District.

The District participates in a risk pool, Public Entities Pool of Ohio (PEP). Note 5 to the financial statements provide additional information for this entity.

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

**B. Accounting Basis**

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

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

**C. Deposits and Investments**

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

**D. Budgetary Process**

The Ohio Revised Code requires the Board to budget annually.

**1. Appropriations**

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

**2. Estimated Resources**

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

**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

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

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

**3. Encumbrances**

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

A summary of 2011 and 2010 budgetary activity appears in Note 3.

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

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

**2. DEPOSITS**

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

	2011	2010
Demand deposits	\$2,838	\$35

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
	\$116,247	\$116,247

2011 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
	\$113,444	(\$113,444)

2010 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
	\$3,753	\$3,753

**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

2010 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
	\$3,968	(\$3,968)

Contrary to Ohio law, the District did not prepare and approve a budget and set appropriations for 2011 and 2010.

**4. DEBT**

Debt outstanding at December 31, 2011 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority	\$2,343,488	3%
Northwest Township	22,746	
Total	\$2,366,234	

The District borrowed from the Ohio Water Development Authority (O.W.D.A.) to finance the building of a water tower and water lines for a proposed travel plaza near the Ohio Turnpike. The water system was finished in 2009. An agreement was reached in 2011 with Flying J to make the payments for the District until the company builds a complex to utilize the water tower which was built for them.

The District obtained a loan from Northwest Township. The loan was used for operating costs. No repayment schedule has been finalized with this loan.

In 2011, the District retired a \$95,000 line of credit with a contractor. This line of credit was issued in conjunction with the water tower project.

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

	O.W.D.A. Water Tower Loan
Year ending December 31:	
2012	\$70,305
2013	70,305
2014	70,305
2015	70,305
2016	70,305
2017-2021	669,574
2022-2026	669,574
2027-2031	669,574
2032-2036	669,574
2037-2042	669,574
Total	\$3,699,395

**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

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

**5. RISK MANAGEMENT**

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009 the latest information available.

	<u>2010</u>	<u>2009</u>
Assets	\$34,952,010	\$36,374,898
Liabilities	<u>(14,320,812)</u>	<u>(15,256,862)</u>
Net Assets	<u>\$20,631,198</u>	<u>\$21,118,036</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the District's share of these unpaid claims collectible in future years is approximately \$4,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

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

**5. RISK MANAGEMENT (Continued)**

<u>Contributions to PEP</u>	
<u>2010</u>	<u>2009</u>
\$4,312	\$4,750

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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# 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*

Northwest Water District  
Williams County  
14426 County Road 6-75  
Montpelier, Ohio 43543-9508

To the Board of Trustees:

We have audited the financial statements of the Northwest Water District, Williams County, Ohio (the District), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated August 24, 2012 wherein we noted the District followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-002 described in the accompanying schedule of findings to be a material weakness.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-001, 2011-003, and 2011-004.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated August 24, 2012.

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.

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**Dave Yost**  
Auditor of State

August 24, 2012

**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-001**

**Noncompliance Citation**

**Ohio Revised Code, §5705.41(D), (1)**, states in part that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached certificate of the fiscal officer of the subdivision that the amount required for the order or contract 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. Every such 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, each of which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of an appropriate fund, free from any previous encumbrances, the Board of Trustees can authorize the drawing of a warrant for the payment of the amount due. The Board of Trustees has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Board of Trustees 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 may, but need not, be limited to a specific vendor. 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.

None of the transactions tested were certified by the fiscal officer at the time the commitments were incurred and there was no evidence the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2011-001  
(Continued)**

Certification is not only required by Ohio law but it is a key control in the disbursement process to help assure that purchase commitments receive prior approval and to help reduce the possibility of the District's funds being over expended or exceeding budgetary spending limitations as set by the Board of Trustees.

To improve controls over disbursements, we recommend the District's disbursements receive prior certification of the Fiscal Officer and the Board of Trustees periodically review the expenditures made to ensure they are within the appropriations adopted by the Board of Trustees, certified by the Fiscal Officer and recorded against appropriations.

**FINDING NUMBER 2011-002**

**Material Weaknesses - Financial Reporting**

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments:

1. Revenues received from Northwest Township and Williams County (\$11,214 in 2011) were posted as miscellaneous revenue instead of intergovernmental revenues.
2. Expenditures made for the remaining balance outstanding on the water tower project and the purchase of a pump (\$104,823 and \$1,500 in 2011) were posted as debt service payments and public works instead of capital outlay.
3. Expenditures made for Insurance and Utilities (\$4,825 and \$1,470 in 2011) were posted as public works instead of insurance and utilities.
4. Overall revenues and expenditures included in the financial statements were understated by \$1,214 and \$324 which resulted in cash being understated by \$890 at December 31, 2011.

Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the District's financial statements and notes to the statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and the Trustees, to identify and correct errors and omissions. In addition, the Fiscal Officer should also review the workbook for District cash basis Annual Financial Report.

**FINDING NUMBER 2011-003**

**Noncompliance Citation**

**Ohio Revised Code, § 5705.28(B)(2)(a)**, states a 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.

The District did not prepare an operating budget as mentioned above for 2011 and 2010.

**FINDING NUMBER 2011-003  
(Continued)**

We recommend the Fiscal Officer prepare an operating budget annually prior to July 15<sup>th</sup> of the preceding years. The Board of Trustees should approve this budget. Then, use estimated receipts in the budget to set its annual appropriation measure keeping in mind appropriations cannot exceed to this amount and the total unencumbered carryover balances.

**FINDING NUMBER 2011-004**

**Ohio Revised Code, § 5705.38**, requires the passage of an annual appropriations measure, **Ohio Revised Code, § 5705.38(C)**, requires appropriation measures be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

The District did not pass appropriations for 2011 and 2010. As result, all expenditures made during 2011 and 2010 were not appropriated which is contrary to **Ohio Revised Code, § 5705.41(B)**.

We recommend the District adopt an appropriation measure for each fiscal year. The appropriations set in this measure should be incorporated into the District's accounting records, normally in the appropriation ledger. Expenditures should then be charged against these appropriations providing the District with a method to which it can monitor spending.

**Officials' Response:**

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

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**NORTHWEST WATER DISTRICT  
WILLIAMS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
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; <b><i>Explain</i></b>
2009-001	<b>Ohio Revised Code §5705.41(D)(1)</b> – No certification of expenditures by the Fiscal Officer.	No	Reissued as Finding Number 2011-001 in this report.
2009-002	<b>Ohio Revised Code § 5705.10(D)</b> – Loan proceeds and certain grants were not recorded.	Yes	Finding no longer valid, District did not receive grant money and a loan during this audit.
2009-003	<b>Material Weaknesses - Financial Reporting</b> – Certain errors required audit adjustments.	No	Reissued as Finding Number 2011-002 in this report.
2009-004	<b>Ohio Revised Code § 5705.28 (2)(a)</b> – No operating budget was prepared for 2009 and 2008.	No	Reissued as Finding Number 2011-003 in this report.
2009-005	<b>Ohio Revised Code § 5705.38</b> – Appropriations were not passed for 2009 and 2008.	No	Reissued as Finding Number 2011-004 in this report.

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# Dave Yost • Auditor of State

**NORTHWEST WATER DISTRICT**

**WILLIAMS 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  
SEPTEMBER 6, 2012**