



Mary Taylor, CPA
Auditor of State

WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY

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Mary Taylor, CPA

Auditor of State

Whitewater Township Regional Sewer District
Hamilton County
P.O. Box 532
Miamitown, Ohio 45041

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 a February 2, 2005 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 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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Mary Taylor, CPA
Auditor of State

June 27, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Whitewater Township Regional Sewer District
Hamilton County
P.O. Box 532
Miamitown, Ohio 45041

To the Board of Trustees:

We have audited the accompanying financial statements of Whitewater Township Regional Sewer District Hamilton County, Ohio (the District), as of and for the years ended December 31, 2005 and 2004. 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.

Revisions to GAAP would require the District to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The District has elected not to reformat its statements. Since this District does not use GAAP to measure financial statement amounts, 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, 2005 and 2004 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, 2005 and 2004, or its changes in financial position or its cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of Whitewater Township Regional Sewer District, Hamilton County, Ohio, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2007, 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 27, 2007

**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Operating Cash Receipts:		
Charges for Services	\$4,325	\$4,465
Interest Income	14,382	11,357
	18,707	15,822
Operating Cash Disbursements:		
Contractual Services	182,950	166,533
Personal Services	71,746	42,463
Testing and Licenses		2,932
Insurance		1,375
Capital Outlay	2,239,323	
	2,494,019	213,303
Total Operating Cash Disbursements		
Operating (Loss)	(2,475,312)	(197,481)
Non-Operating Cash Receipts:		
OWDA Loan Proceeds	2,056,901	20,319
OPWC Proceeds	400,000	
	2,456,901	20,319
Total Non-Operating Cash Receipts		
Non-Operating Cash Disbursements:		
Principal Payments	54,468	20,891
Interest Expense	65,177	88,601
Capitalized Interest	8,008	20,319
	127,653	129,811
Total Non-Operating Cash Disbursements		
Net Receipts (Under) Disbursements	(146,064)	(306,973)
Cash Balances, January 1	744,829	1,051,802
Cash Balances, December 31	\$598,765	\$744,829

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

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**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

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 Whitewater Township Regional Sewer District, Hamilton County, Ohio (the District), as a body corporate and politic. The District is directed by a five-member Board of Trustees. The Board is appointed by the Whitewater Township Board of Trustees, and only those members who are residents of an area within the District's territory are eligible to serve as Board members. The District provides sewer services to residents of the District.

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

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements basis of accounting. This basis 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. Cash Deposits

The District's funds are deposited in a checking and savings account with a local commercial bank.

D. Budgetary Process

The Ohio Revised Code requires the District 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. Unencumbered appropriations lapse at year end. The District did not approve an appropriation measure for 2004.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The District did not prepare a certificate of estimated resources for 2004.

**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(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 2005 and 2004 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

The accounting basis records acquisitions of property, plant, and equipment as capital outlay disbursements when paid. The accompanying financial statements do not include these assets.

2. EQUITY IN POOLED CASH DEPOSITS

The carrying amount of cash deposits at December 31 follows:

	2005	2004
Savings Account	591,007	743,909
Checking Accounts	<u>7,758</u>	<u>920</u>
Total deposits	<u>\$598,765</u>	<u>\$744,829</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation. However at December 31, 2005, \$491,007 and at December 31, 2004, \$643,909 of deposits were not insured or collateralized, contrary to Ohio law.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

Budgeted vs. Actual Receipts		
Fund Type	2005	2004
Budgeted Receipts	\$2,432,000	\$0
Actual Receipts	<u>2,475,608</u>	<u>36,141</u>
Variance	<u>\$43,608</u>	<u>\$36,141</u>

**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Budgeted vs. Actual Budgetary Basis Expenditures		
Fund Type	2005	2004
Appropriation Authority	\$2,018,000	\$0
Budgetary Expenditures	2,621,672	343,114
Variance	(\$603,672)	(\$343,114)

Contrary to Ohio law, the District did not adopt an operating budget for 2004. The District did not prepare a certificate of estimated resources for 2004. The District did not adopt an annual appropriation measure for 2004. Also contrary to Ohio law, the District did not certify the availability of funds for expenditure for 2005 and 2004.

4. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
OWDA Construction Loan #3502	\$1,232,071	5.15%
OWDA Construction Loan #4275	2,210,910	1%
OPWC Loan Project # CB22G	390,000	0%
Total	\$3,832,981	

The OWDA (Ohio Water Development Authority) Construction Loan #3502 was issued June 28, 2001 for the purpose of constructing a sewer line. OWDA has approved up to \$1,358,971 in loans to the District for this project. This project was completed in 2005. The loan will be repaid semiannually over a period of 20 years at an interest rate of 5.15%.

The OWDA Construction Loan #4275 was issued on March 31, 2005 for the purpose of constructing a sewer line. OWDA had approved up to \$2,863,157 in loans to the District for this project. \$2,210,910 has been received as of December 31, 2005. The loan will be repaid over a period of 20 years at an interest rate of 1%. The first payment is due on July 1, 2007. In April 2005 the District's OWDA Planning Loan #3298 had an outstanding balance of \$159,313, this outstanding balance was transferred over to this construction loan since planning was complete. This project is still in progress as of December 31, 2005.

The OPWC (Ohio Public Works Commission) Loan Project # CB22G was issued for the purpose of constructing a sewer line. OPWC approved \$400,000 in loans to the District for this project. The District used these proceeds in 2005 to pay the contractor. The loan will be repaid over a period of 20 years at an interest rate of 0%. The first payment was due on January 1, 2006 however the District made a payment in November 2005.

The District's financial statements present non-operating cash disbursements of capitalized interest which represents OWDA loan interest payments which the District has deferred payment on and has been included in the final loan principal balance to be repaid at a later date.

**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

4. DEBT (Continued)

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

Year ending December 31:	OWDA Construction Loan #3502	OPWC Loan
2006	\$109,796	\$20,000
2007	109,796	20,000
2008	109,796	20,000
2009	109,796	20,000
2010	109,796	20,000
2011 - 2027	1,207,756	290,000
Total	\$1,756,736	\$390,000

The OWDA Construction Loan #4275 is not included in the amortization schedule shown above since a repayment schedule has not been established as of December 31, 2005. Payments will begin in July, 2007 for 30 years.

5. RISK MANAGEMENT

The District is exposed to various risks of property and casualty losses, and injuries to employees.

The District insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Districts can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. RISK MANAGEMENT (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004:

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. RISK MANAGEMENT (Continued)

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The District's share of these unpaid claims is approximately \$2,750.



Mary Taylor, CPA

Auditor of State

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

Whitewater Township Regional Sewer District
Hamilton County
P.O. Box 532
Miamitown, Ohio 45041

To the Board of Trustees:

We have audited the financial statements of the Whitewater Township Regional Sewer District, Hamilton County, Ohio (the District), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated June 27, 2007, 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable condition is described in the accompanying schedule of findings as items 2005-001 through 2005 -008.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the District's management dated June 27, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003 and items 2005-006 through 2005-008.

In a separate letter to the District's management dated June 27, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the Board of Trustees. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

June 27, 2007

**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

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

FINDING NUMBER 2005-001

Material Noncompliance / Reportable Condition

Ohio Revised Code, Section 5705.36, provides in part, that on or about the first day of each fiscal year, the fiscal officer of subdivisions and other taxing units are to certify the total amount from all sources which is available for expenditures from each fund in the operating budget along with any unencumbered balances that existed at the end of the preceding year. The District did not prepare such a certificate for the year 2005 and 2004.

Ohio Revised Code, Section 5705.38, provides in part, that on or about the first day of each fiscal year, an appropriation measure is to be passed. The District did not adopt an annual appropriation measure for 2004.

1999 Op. Att’y Gen. No. 99-020, clarified that the budget process described in Chapter 5705, Ohio Revised Code, applies to a Regional Sewer District, regardless of whether the District levies taxes. These documents are required to be prepared in accordance with the Ohio Revised Code, but are not required to be filed with the county auditor or county budget commission. The District must henceforth adopt an annual budget and annual appropriations, limited by estimated resources. Expenditures will be limited by appropriations. The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. The District did not adhere to the budget process.

Contrary to Ohio law, the District did not adopt an operating budget for 2004. The District did not prepare a certificate of estimated resources for 2004. The District did not adopt an annual appropriation measure for 2004. Also contrary to Ohio law, the District did not certify the availability of funds for expenditure for 2004.

Failure to adopt a budget, certifying funds available and adopting appropriations and maintaining financial records to monitor such budget reduces the Trustee’s ability to monitor how they are operating financially. We recommend that annually the District adopt a budget, certify available funds and adopt appropriations and accordingly record and monitor these budget items versus the actual financial information to assist in the Trustees making sound financial decisions related to the District.

Officials’ Response:

The WTRSD Board of Trustees has reviewed your findings and understands this requirement. The Board intends to implement your recommendations in a timely manner.

FINDING NUMBER 2005-002

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the 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.

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

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the 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 (\$1,000 prior to April 7, 2003) 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the 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 properly certify the availability of funds for purchase commitments for one hundred percent of expenditures tested and none of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the District uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that 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.

**FINDING NUMBER 2005-002
(Continued)**

We recommend the District officials and employees obtain the Treasurer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Treasurer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Officials' response:

The WTRSD Board of Trustees has reviewed your findings and understands this requirement. The Board intends to implement your recommendations in a timely manner. A purchase order process and a "Super Blanket Certificate" for recurring billings will be established.

FINDING NUMBER 2005-003

Material Noncompliance / Reportable Conditions

Ohio Admin. Code, Section 117-2-02(D), requires all local public offices to maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors.

Such records **should** include the following:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
- (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
 - a. Payroll records including:
 - i. W-2's, W-4's and other withholding records and authorizations;
 - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;

**FINDING NUMBER 2005-003
(Continued)**

- iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;
 - iv. Information regarding nonmonetary benefits such as car usage and life insurance
 - v. Information, by employee, regarding leave balances and usage
- b. Fixed asset records* including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.
- c. Each local public office should establish a capitalization threshold* so that, at a minimum, eighty per cent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

Contrary to the above, the District does not maintain a cash journal, receipts ledger, appropriation ledger, or maintain appropriate payroll and fixed assets records.

During budgetary receipts and appropriations testing we noted that the financial accounting system was not updated throughout the year to reflect amendments to estimated receipts and appropriations. The appropriations were not input into a budgetary system generated appropriation ledger therefore, they did not agree to the amounts adopted by the Board of Trustees at December 31, 2005 and 2004. The estimated receipts were not input into a budgetary financial accounting system therefore, they did not agree to the amounts adopted by the Board of Trustees at December 31, 2005 and 2004.

The Certificate of Estimated Resources, Amended Certificates, the Appropriations Resolution, and amendments to appropriations are budgeting tools for the District. When the general ledger is not updated to reflect current budgeted appropriations and estimated receipts, it restricts the District's ability to effectively monitor the official budget. The District should input the budgetary appropriations and estimated receipts into a budgetary financial accounting system and update their records throughout the fiscal year for all amendments.

Officials' response:

The WTRSD Board of Trustees has reviewed your findings and understands this requirement. The Board intends to implement your recommendations in a timely manner. The Board believes that, except for format, the information required under this finding is available within the records of the District.

FINDING NUMBER 2005-004

Reportable Condition

Loan programs through the Ohio Public Works Commission (OPWC) and the Ohio Water Development Authority (OWDA) organizations provide that contractor invoices be paid by OPWC and OWDA with appropriate cumulative account of funds loaned to the District.

During debt testing we noted that the District's year end financial reports and accounting records did not properly account for all transactions related to on-going capital projects and debt service through OPWC and OWDA. While the District did not actually pay the contractor invoices or receive the loan proceeds, the District should account for these transactions as if the activity had actually flowed through their accounts. The financial statements did not properly reflect their total financial activity related to these projects without including this activity. We noted instances during 2005 and 2004 where the District did not correctly record the true value of project costs and loan proceeds.

Adjustments were made to the financial statements included within this report to properly state project costs and loan proceeds.

We recommend that prior to closing the financial records of the District at year end, management perform reconciliation procedures to ensure that all project costs and loan proceeds from OPWC and OWDA funded projects are properly recorded and that all recorded outstanding loan balances are properly stated.

Officials' response:

The WTRSD Board of Trustees has reviewed your findings and understands this requirement. The Board intends to implement your recommendations in a timely manner.

FINDING NUMBER 2005-005

Reportable Condition

In order for the District to assure that there is completeness in the collection and the financial reporting of sewer tap-in receipts they should be receiving and reporting, the District should develop internal control procedures over this process. Few internal controls were noted to be in operation during the period covered by this report for the collection of tap-in receipts. This creates an environment in which fraud and accounting errors could remain undetected. The following internal control deficiencies over the collection of tap-in receipts were noted:

- There are no written policies and procedures for the collection of tap-in money and installation of a tap-in.
- There is no indication that tap-in fees were paid before the tap-in was installed.
- There are no pre-numbered standard sewer tap applications.
- There is no reconciliation of the tap-ins installed and tap-ins paid.
- There is no reconciliation of the Hamilton County Building Department building permit applications that indicate there is public sewer available with the tap-ins paid.

**FINDING NUMBER 2005-005
(Continued)**

To improve accountability over tap-in receipts, the Board should adopt policies and procedures for tap-in receipts including procedures for the following:

- The District should initiate a system of internal control over the tap-in fee receipts. We recommend that the District reconcile tap-in fees paid to tap-ins installed to ensure all fees are collected prior to installation and that customers that delay installation are given proper credit for prepayment of their tap-in fee. A pre-numbered duplicate receipt book should be maintained to record tap-in fees paid. The Standard Sewer Tap Application which is issued when a tap-in is collected should be stamped paid, initialed and dated by the Clerk collecting the tap-in money. These Standard Sewer Tap Applications should be pre-numbered and kept in a secure location. These should be signed and dated by the applicant.
- The Hamilton County Building Department processes building permits for new construction in Whitewater Township and has historically routed those applications to MSD when an applicant indicates there is public sewer available. Recently the Building Department is forwarding applications for new construction in Whitewater Township to the District. We recommend that the District reconcile Hamilton County Building Department applications to tap-ins paid to ensure all fees due to the District are collected.

Officials' response:

The WTRSD Board of Trustees has reviewed your findings and understands this requirement. The Board intends to implement your recommendations in a timely manner.

FINDING NUMBER 2005-006

Material Noncompliance / Reportable Condition

Ohio Rev. Code, Section 135.18, provides in part, that the treasurer of a political subdivision must require the institution designated as a public depository to provide security equal to the funds on deposit at all times. Security may consist of federal deposit insurance, surety company bonds, or pledged securities. At December 31, 2005, the District had \$491,007 of deposits that were not insured or collateralized and at December 31, 2004, the District had \$643,909 of deposits that were not insured or collateralized.

Ohio Rev. Code, Section 6119.151, requires regional sewer districts to keep their funds in depositories selected by the district in accordance with Section 135.12 of the Revised Code and the deposits shall be secured as provided in Section 135.18 of the Revised Code.

Furthermore, Ohio Revised Code, Section 135.181 (B), provides that in lieu of the specific pledging requirements of Section 135.18, a public depository at its option may pledge a single pool of eligible securities to secure the repayment of all its public deposits not otherwise secured, provided that at all times the total market value of the securities so pledged is at least equal to one hundred five per cent of its total public deposits to be secured by the pooled securities, including the portion of these deposits covered by any federal deposit insurance.

The District does not have a surety bond or receive pooled collateral statements from its financial institution.

Finally, Ohio Revised Code, Section 135.12 (B), states that each governing board other than the state board of deposit shall meet every five years on the third Monday or such regularly scheduled meeting date of the month next preceding the date of the expiration of its designation for the purpose of designating the public depositories of the public moneys of the subdivision, and at such meeting or any adjourned session thereof, shall designate such public depositories and award the public moneys of the subdivision to and among the public depositories so designated for the period of five years commencing on the date of the expiration of the next preceding designation. The designation and award shall be made in duplicate; one copy shall be retained by the governing board of the subdivision and one copy shall be certified to the treasurer. Contrary to the above, the District has not designated the public depository of the public moneys of the District.

Audit Division Advisory Memo 2002-005 states that sound control practices would suggest subdivisions should obtain and file a written agreement with their financial institutions. The nature and extent of a documented agreement between a subdivision and a financial institution will vary depending upon the amount of investments and the complexity of the investments. Such an agreement might include:

- The maximum amount the institution can accept and collateralize;
- A requirement that a pledge of collateral:
 - (1) Be in writing.
 - (2) Be executed contemporaneously with the acquisition of the asset by the depository institution.
 - (3) Be approved by the financial institution's board of directors or loan committee and the approval must be reflected in the minutes of the financial institution's board or committee and
 - (4) Be an official record of the depository institution continuously since it was executed.

Requirements (1) – (4) are necessary under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FERPA), to assure the pledge would be valid in the even of a claim under FDIC.

**FINDING NUMBER 2005-006
(Continued)**

- A promise from the financial institution to pledge only collateral permitted under Ohio Rev. Code 135.18 (specific pledging) or 135.181 (for collateral pools);
- A requirement that the financial institution provide periodic summaries of the types and amounts of collateral or surety bonds pledged compared to total public deposits.

We recommend that the District obtain and file a written agreement with their financial institution.

Officials' response:

The WTRSD Board of Trustees has reviewed your findings and understands this requirement. The Board intends to implement your recommendations in a timely manner. The Board has established a Star Ohio Account for its assets, which complies with the requirements of this finding.

FINDING NUMBER 2005-007

Material Noncompliance / Reportable Condition

26 U.S.C., Section 3401, defines wages as remuneration for services performed by an employee for his employer. "Employee" includes an officer, employee, or elected official of the United States, a State, or any political subdivision thereof.

26 U.S.C., Section 3402 (a)(1), states except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary.

The District did not withhold any federal taxes related to payments made to Board members during the year. Additionally they did not withhold mandatory Medicare taxes **26 U.S.C. Section 3102(a)** requires mandatory Medicare coverage for all employees hired on or after April 1, 1986 to be withheld at the rate prescribed by that section: 1.45 as the employee's share and 1.45 percent as the employer's share.

The District did not report these payments on IRS Form W-2 but reported these amounts on IRS Form 1099 which should be used not for employees but independent contractors. The District should consult with their legal counsel and IRS to determine what if any corrective action should be taken.

Officials' response:

The WTRSD Board of Trustees has reviewed your findings and understands this requirement. The Board will consult with Legal Counsel and implement if appropriate.

FINDING NUMBER 2005-008

Material Noncompliance / Reportable Condition

Ohio Revised Code, Section 145.03, generally requires compulsory membership of employees to the Public Employees Retirement System (PERS). Section 145.47, Revised Code, sets forth the required member contribution and Section 145.48, Revised Code, sets forth the required employer contribution.

Ohio Revised Code, Section 145.034, states that a member of the public employees retirement system who is a public employee and whose earnings from employment are or become subject to the tax on wages imposed by the "Federal Insurance Contributions Act," 68A Stat. 415 (1954), 26 U.S.C.A. 3101, as amended, may elect to have such earnings exempted from contributions to the public employees retirement system by filing with the public employees retirement board a written request bearing his signature. The request shall be filed not later than ninety days after the date the member becomes subject to such tax on wages. A request mailed to the board shall be considered to have been filed on its postmark date. On receipt of a request, the board shall notify the member's employer that the request has been made. No contributions by the person making the request or his employer shall be required for service for which earnings are made exempt from contributions pursuant to this section, and no service credit shall be granted or purchased for such service. Once granted, a request made pursuant to this section may not be withdrawn.

None of the Board members of the Sewer District are either enrolled in PERS nor exempt from contributions. We noted the District did not contribute to PERS and the District did not withhold employee contributions to PERS. The District should consult with their legal counsel and PERS to determine what if any corrective action should be taken.

Officials' response:

The WTRSD Board of Trustees has reviewed your findings and understands this requirement. The Board will consult with Legal Counsel and implement if appropriate.

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**WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	ORC 5705.36, the District did not adopt an operating budget.	No	Reported as Finding 2005-001
2003-002	ORC 5705.38, the District did not adopt an appropriation measure.	Partially	Reported as Finding 2005-001
2003-003	ORC 5705.41, the District did not certify the availability of funds for expenditure.	No	Reported as Finding 2005-002



Mary Taylor, CPA
Auditor of State

WHITEWATER TOWNSHIP REGIONAL SEWER DISTRICT

HAMILTON 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 7, 2007**