



Mary Taylor, CPA
Auditor of State

**WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON COUNTY**

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Mary Taylor, CPA
Auditor of State

Warren Regional Water and Sewer District
Jefferson County
7 Montenery Road
Rayland, Ohio 43943

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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 22, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Warren Regional Water and Sewer District
Jefferson County
7 Montenery Road
Rayland, Ohio 43943

To the Board of Trustees:

We have audited the accompanying financial statements of Warren Regional Water and Sewer District, Jefferson County, (the District) as of and for the years ended December 31, 2009 and 2008. 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 combined funds 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 Districts to reformat their statements. The District has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 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, 2009 and 2008, or its changes in financial position 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 Warren Regional Water and Sewer District, Jefferson County, as of December 31, 2009 and 2008, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2010, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

April 22, 2010

**WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Operating Cash Receipts:		
Charges for Services	\$115,235	\$109,750
Miscellaneous	819	2,141
	<u>116,054</u>	<u>111,891</u>
Total Operating Cash Receipts		
Operating Cash Disbursements:		
Personal Services	25,852	25,093
Utilities	6,614	6,479
Repairs and Maintenance	28,029	19,661
Other Contractual Services	48,650	58,081
Office Supplies and Materials	2,670	3,594
Insurance	2,150	3,804
	<u>113,965</u>	<u>116,712</u>
Total Operating Cash Disbursements		
Operating Income/(Loss)	<u>2,089</u>	<u>(4,821)</u>
Non-Operating Cash Disbursements:		
Debt Service	15,308	24,479
Other Non-Operating Cash Disbursements	211	234
	<u>15,519</u>	<u>24,713</u>
Total Non-Operating Cash Disbursements		
Net Receipts Over/(Under) Disbursements	<u>(13,430)</u>	<u>(29,534)</u>
Cash Balances, January 1	<u>74,400</u>	<u>103,934</u>
Cash Balances, December 31	\$60,970	\$74,400

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

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**WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

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 Warren Regional Water and Sewer District, Jefferson County, (the District) as a body corporate and politic. The District is directed by a three-member Board of Trustees. Board members are appointed for lifetime terms by a County Judge. Subdivisions within the District are Warren District, Jefferson County and Pease District, Belmont County. The District provides water and 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. 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.

The District values Certificates of Deposits at cost.

D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies all funds as Enterprise Fund Type:

Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Ohio Water Development Authority Fund - This fund receives a portion of water and sewer surcharges used to pay related debt.

**WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. 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 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.

3. Encumbrances

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

A summary of 2009 and 2008 budgetary activity appears in Note 3.

F. 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. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

The District may invest in certificates of deposits.

The carrying amount of deposits and investments at December 31 was as follows:

	<u>2009</u>	<u>2008</u>
Demand deposits	\$37,689	\$51,263
Certificates of deposit	23,281	23,137
Total deposits	<u>60,970</u>	<u>74,400</u>

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

**WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
2009	\$131,404	\$116,054	(\$15,350)
2008	\$0	\$111,891	\$111,891

Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
2009	\$128,948	\$129,483	(\$535)
2008	\$0	\$141,425	(\$141,425)

Contrary to Ohio Revised Code Sections 5705.38 and 5705.41(B), the District did not adopt appropriations for 2008 and as a result all expenditures were not in compliance as noted above.

4. DEBT

Debt outstanding at December 31, 2009 was as follows:

	Principal	Interest Rate
OWDA Water System Expansion Loan	\$235,741	2%

The District secured an Ohio Water Development Authority loan to upgrade storage tanks, the booster station and to place additional waterlines. Future revenues from the District's utility operations collateralize this loan.

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

Year ending December 31:	OWDA Loan
2010	\$15,308
2011	15,308
2012	15,308
2013	15,308
2014	15,308
2015-2019	76,540
2020-2024	76,540
2025-2028	53,578
Total	\$283,198

**WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

5. RETIREMENT SYSTEMS

The District's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the Plan's retirement benefits, including postretirement healthcare and survivor and disability benefits to participants.

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14% of participants' gross salaries. The District has paid all contributions required through December 31, 2009.

6. RISK MANAGEMENT

Commercial Insurance

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.



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*

Warren Regional Water and Sewer District
Jefferson County
7 Montenery Road
Rayland, Ohio 43943

To the Board of Trustees:

We have audited the financial statements of the Warren Regional Water and Sewer District, (the District) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated April 22, 2010, wherein we noted the District prepared its financial statements using accounting practices the Auditor of State prescribes or permits 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 to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements 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 would not necessarily identify all deficiencies in internal control 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2009-003 to be a significant deficiency. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We also noted certain deficiencies that we reported to the District's Management in a separate letter dated April 22, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2009-001 and 2009-002.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 22, 2010.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

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

Mary Taylor, CPA
Auditor of State

April 22, 2010

WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

FINDING NUMBER 2009-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the Fiscal Officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's Fiscal Officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

1. **Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the Fiscal Officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the District may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000 the Fiscal Officer may authorize payment through a Then and Now Certificate without affirmation of the District if such expenditure is otherwise valid.

2. **Blanket Certificate** – Fiscal Officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (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 in a specified fund upon certification of the Fiscal Officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The District did not properly certify or record the amount against the applicable appropriation accounts for 10% of tested expenditures for fiscal year 2008 and 2009. The District did not properly utilize the certification exceptions described above for those expenditures lacking prior certification.

**FINDING NUMBER 2009-001
(Continued)**

Failure to certify the availability of funds and encumber appropriations for the full amount of the expenditure could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the Fiscal Officer should certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

Officials' Response

As Secretary/Treasurer, I have tried to implement the purchase order requirement that the Ohio Revised Code requires since taking office in 2007. Unfortunately, there are many times that I am not contacted when purchases are made until after the fact. When the Board was established in 1959 two board members could make decisions at any time a repair is needed. There have been five different board members, besides myself (Secretary/Treasurer) since 2007. In the last part of 2009, we have been correcting the requirement of getting a purchase order prior to purchases.

The board only meets once a month and the other two board members must repair water line breaks and lift station break downs on emergency basis.

At this time Warren Water Authority does not have a full board, at such time that a board will be established we use the Then and Now Certificate method for such items, and we will pass the Super Blanket Certificates to cover all the expenditures that are recurring expenses monthly.

FINDING NUMBER 2009-002

Noncompliance Citation

Ohio Revised Code Section 5705.38 requires that on or about the first day of each fiscal year, an appropriation measure be passed. **Ohio Revised Code Section 5705.41(B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated.

As the District did not pass an appropriation measure for 2008 and as expenditures are limited by the appropriations established for each fund, all expenditures made by the District in 2008 (\$141,425) were not in compliance with the Ohio Revised Code.

Failure to pass an appropriation measure, which serves as a tool by which expenditures can be monitored could result in overspending. The District should pass an appropriation measure as required so that expenditures can be monitored. The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations.

Officials' Response

I was not aware the appropriations were needed. I only knew of the requirement to pass the budget in July. Going forward we will pass the appropriations as required.

FINDING NUMBER 2009-003

Significant Deficiency

All governments should have internal controls to reasonably assure that recorded transactions have occurred and are not fictitious. That includes maintaining sufficient documentation for all transactions.

**FINDING NUMBER 2009-003
(Continued)**

Weaknesses in the District's financial reporting systems are enumerated below:

- Monthly reconciliations included fund balances that were incorrect.
- All Certificates of Deposits were not included in the monthly reconciliations.
- The District's cash journal ledgers did not agree to the Annual Financial reports in several fund/accounts.
- The District's financial ledgers did not reflect proper posting of interest, bank fees and OWDA loan activity.

In order to present accurate cash reconciliations, adjustments were posted to the District's fund balances in the amounts of \$484 for 2008 and \$143 for 2009. The District Fiscal Officer has agreed to, and posted the adjustments and the corrected amounts are reflected in the accompanying financial statements.

The Fiscal Officer and the Board should carefully review these weaknesses and develop internal controls over the District's reporting system which will support the integrity of the District's financial records and reports. Specifically the following procedures should be considered.

- The Fiscal Officer should prepare accurate and complete reconciliations that include all District accounts and Certificates of Deposit. The Board of Trustees should then review the reconciliation and the support for the monthly cash reconciliations and document the reviews.
- A review process should be implemented whereby the Board would review the cash journal, the receipts and disbursements ledgers and financial statements and document the reviews in the District's minute record. As part of the review, the Board should determine whether transactions are posted to the appropriate fund and line item, and that totals in the cash journal, the receipts and disbursements ledgers and financial statements agree, and are complete and accurate.
- The Board should prepare analytics or a comparable mechanism to identify unusual and/or other significant fluctuations in the cash journal and ledgers and take corrective action as necessary.
- The Board should prepare analytics or a comparable mechanism to identify unusual and/or other significant fluctuations in the cash journal and ledgers and take corrective action as necessary.

Officials' Response:

I did not give the records to the auditor in the same manner that they are presented at the monthly meeting.

All board members review the bank reconciliations at the meeting and sign off on the bank reconciliation that is attached to the monthly bank statement.

In preparing for the audit I (Susan Kolkedy) did find minor errors in posting of interest and informed the auditors that the ending financial statement balances would not agree with what was submitted to the state.

I will double check all formulas in my statements to insure that all expenditures and income are being added and subtracted properly. I also will have the board members sign off on the copy that is kept in the office and make sure that it is the copy that is submitted for all future audits. In the past, I have given the board members a copy for their records, but will change it as stated.

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**WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Ohio Revised Code Section 5705.41D District failed to certify purchases.	No	Reissued as finding number 2009-001.
2007-002	Proper Classification of Receipts and Disbursements	No	Partially corrected, reissued in the management letter



Mary Taylor, CPA
Auditor of State

WARREN REGIONAL WATER AND SEWER DISTRICT
JEFFERSON 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 3, 2010