WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007 - 2006

Mary Taylor, CPA
Auditor of State

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Western Guernsey Regional Water District, Guernsey County, Ohio (the District), as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Guernsey Regional Water District, Guernsey County, as of December 31, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2008, 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 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 15, 2008

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

The discussion and analysis of the Western Guernsey Regional Water District's financial performance provides an overall review of the Western Guernsey Regional Water District's financial activities for the years ended December 31, 2007 and 2006. Readers should also review the basic financial statements and notes to enhance their understanding of the Western Guernsey Regional Water District's financial performance.

Using this Annual Financial Report

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how Western Guernsey Regional Water District did financially during the years ended December 31, 2007 and 2006. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting considers all of the District's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)**

Table 1 provides a summary of the District's Net Assets for 2007, 2006 and 2005.

**Table 1
Net Assets**

	2007	2006	2005
Assets			
Current and Other Assets	$ 294,648	$ 263,206	$ 273,509
Capital Assets, Net	224,189	256,552	254,945
Total Assets	518,837	519,758	528,454
Liabilities			
Current Liabilities	79,560	80,755	71,786
Noncurrent Liabilities	314,640	354,969	369,377
Total Liabilities	394,200	435,724	441,163
Net Assets			
Invested in Capital Assets, Net of Related Debt	(129,996)	(135,437)	(146,166)
Restricted	92,142	87,366	87,239
Unrestricted	162,491	132,105	146,218
Total Net Assets	$ 124,637	$ 84,034	$ 87,291

The District's increase in total net assets of $40,603 from 2006 to 2007, is mainly due to decreased noncurrent liabilities for the payments made for the GMAC loans.

Table 2 shows the change in net assets for the years ended December 31, 2007, 2006, and 2005, as well as revenues and expenses.

Table 2
Revenues and Expenses

	2007	2006	2005
Operating Revenues:			
Charges for Services	$ 637,841	$ 554,290	$ 560,305
Non-Operating Revenues:			
Interest	5,471	3,405	3,157
Gain on Disposal of Asset	-	4,007	5,740
Miscellaneous	2,630	2,270	6,436
Total Revenues	645,942	563,972	575,638
Operating Expenses:			
Contract Services	303,318	308,926	288,941
Professional Fees	8,247	13,004	4,638
Advertising	16	2,607	-
Bank Charges	34	60	24
Wages	99,436	83,262	88,277
Employee Benefits	15,225	12,815	13,313
Postage and Other Supplies	8,253	7,095	5,583
Group Insurance	10,834	11,376	18,220
Insurance	9,615	7,198	8,773
Small Tools and Supplies	32,101	19,744	14,691
Ground Maintenance	1,020	1,086	1,020
Rentals	50	1,614	-
Outside Services	10,624	9,134	7,302
Depreciation	32,961	32,873	29,203
Dues and Subscriptions	1,307	639	1,101
Vehicle Expense	13,991	8,894	10,595
Phone and Utilities	19,816	19,862	18,926
Licenses and Permits	2,318	2,358	2,828
Repairs	8,173	3,960	3,987
Real Estate Taxes	-	594	-
Miscellaneous	1,279	880	1,469
Non-Operating Expenses:			
Interest Expense	18,383	19,248	19,744
Loss on Disposal of Asset	8,338	-	-
Total Expenses	605,339	567,229	538,635
Change in Net Assets	40,603	(3,257)	37,003
Net Assets Beginning of Year	84,034	87,291	50,288
Net Assets End of Year	**$ 124,637**	**$ 84,034**	**$ 87,291**

Operating revenues consisted of user charges for water consumption. Operating expenses reflect the cost of providing these services. Operating revenues and net assets increased from 2006 to 2007 due to rate increases being charged to customers.

Capital Assets and Debt Administration

Capital Assets

Table 3 provides a summary of the District's capital assets for 2007, 2006, and 2005.

Table 3
Capital Assets

	2007	2006	2005
Buildings & Improvements	$ 109,714	$ 109,714	$ 109,714
Infrastructure	1,116,378	1,121,186	1,111,205
Machinery & Equipment	95,055	112,590	106,141
Vehicles	44,999	45,575	45,575
Office Equipment	10,344	16,002	16,002
Land	12,500	12,500	12,500
Total	$ 1,388,990	$ 1,417,567	$ 1,401,137

During the period ended December 31, 2007, Western Guernsey Regional Water District invested $8,936 in new equipment. Depreciation expense during 2007 amounted to $32,961.

During the period ended December 31, 2006, Western Guernsey Regional Water District invested $34,481 in new equipment. Depreciation expense during 2006 amounted to $32,873.

Debt

Western Guernsey Regional Water District did not incur any new debt during the years ended December 31, 2007 and 2006.

Contacting the Western Guernsey Regional Water District's Financial Management

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2007

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$12,914
Segregated Accounts:	
Indebt Service	32,428
Capital Improvement	59,714
Short Term Investment	54,000
Accounts Receivable	108,657
Inventories	26,935
Total Current Assets	294,648
Noncurrent Assets:	
Capital Assets	
Buildings and Improvements	109,714
Infrastructure	1,116,378
Machinery and Equipment	95,055
Vehicles	44,999
Office Equipment	10,344
	1,376,490
Less: Accumulated Depreciation	(1,164,801)
	211,689
Land	12,500
Total Noncurrent Assets	224,189
Total Assets	$518,837
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Current Portion, Long Term Debt	$35,000
Current Portion, Lease Payable	4,545
Accounts Payable	21,872
Accrued Liabilities	13,393
Customer Deposits	4,750
Total Current Liabilities	79,560
Noncurrent Liabilities	
Long-Term Debt, Net of Current Portion	301,079
Lease Payable, Net of Current Portion	13,561
Total Noncurrent Liabilities	314,640
Total Liabilities	394,200
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	(129,996)
Restricted for Debt Service	32,428
Restricted for Capital Improvements	59,714
Unrestricted	162,491
Total Net Assets	124,637
Total Liabilities and Net Assets	$518,837

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

Operating Revenue:	
Charges for Services	$637,841
Operating Expenses:	
Contract Services	303,318
Professional Fees	8,247
Advertising	16
Bank Charges	34
Wages	99,436
Employee Benefits	15,225
Postage and Office Supplies	8,253
General Insurance	9,615
Group Insurance	8,776
Workers Compensation	2,058
Small Tools and Supplies	32,101
Ground Maintenance	1,020
Rentals	50
Outside Services	10,624
Depreciation	32,961
Dues and Subscriptions	1,307
Vehicle Expense	13,991
Phone and Utilities	19,816
Licenses and Permits	2,318
Repairs	8,173
Miscellaneous	1,279
Total Operating Expenses	578,618
Operating Income	59,223
Non-Operating Revenues (Expenses):	
Rental Income	1,590
Hydrant Assessments	900
Miscellaneous	140
Interest Earned	5,471
Loss on Disposal of Asset	(8,338)
Interest Expense	(18,383)
Total Non-Operating Revenues (Expenses)	(18,620)
Increase in Net Assets	40,603
Net Assets, Beginning of Period	84,034
Net Assets, End of Period	$124,637

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers		$635,169
Cash paid to suppliers and employees		(561,136)
Net cash provided by operating activities		74,033
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received		6,218
Net cash provided by investing activities		6,218
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment		(8,936)
Payments of Lease		(4,354)
Payments of long-term debt		(33,320)
Interest paid		(19,130)
Net cash used for capital and related financing activities		(65,740)
Net increase in cash		14,511
Cash, beginning of period		90,545
Cash, end of period		$105,056

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	59,223
Adjustments to reconcile net income to net cash provided by operating activites:		
Depreciation		32,961
Rental Income		1,590
Miscellaneous		140
Hydrant Assessments		900
(Increase) Decrease in Assets:		
Accounts Receivable		(5,302)
Inventory		(11,629)
Increase (Decrease) in Liabilities:		
Accounts Payable		(3,370)
Accrued Payroll Taxes		(680)
Customer Deposits		200
Net cash provided by operating activities		$74,033

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2006

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$3,179
Segregated Accounts:	
Indebt Service	32,083
Capital Improvement	55,283
Short Term Investment	54,000
Accounts Receivable	103,355
Inventories	15,306
Total Current Assets	263,206
Noncurrent Assets:	
Capital Assets	
Buildings and Improvements	109,714
Infrastructure	1,121,186
Machinery and Equipment	112,590
Vehicles	45,575
Office Equipment	16,002
	1,405,067
Less: Accumulated Depreciation	(1,161,015)
	244,052
Land	12,500
Total Noncurrent Assets	256,552
Total Assets	$519,758
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Current Portion, Long Term Debt	$33,300
Current Portion, Lease Payable	3,590
Accounts Payable	25,242
Accrued Liabilities	14,073
Customer Deposits	4,550
Total Current Liabilities	80,755
Noncurrent Liabilities	
Long-Term Debt, Net of Current Portion	336,099
Lease Payable, Net of Current Portion	18,870
Total Noncurrent Liabilities	354,969
Total Liabilities	435,724
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	(135,437)
Restricted for Debt Service	32,083
Restricted for Capital Improvements	55,283
Unrestricted	132,105
Total Net Assets	84,034
Total Liabilities and Net Assets	$519,758

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating Revenue:	
Charges for Services	$554,290
Operating Expenses:	
Contract Services	308,926
Professional Fees	13,004
Advertising	2,607
Bank Charges	60
Wages	83,262
Employee Benefits	12,815
Postage and Office Supplies	7,095
General Insurance	7,198
Group Insurance	9,459
Workers Compensation	1,917
Small Tools and Supplies	19,744
Ground Maintenance	1,086
Rentals	1,614
Outside Services	9,134
Depreciation	32,873
Dues and Subscriptions	639
Vehicle Expense	8,894
Phone and Utilities	19,862
Licenses and Permits	2,358
Repairs	3,960
Real Estate Tax	594
Miscellaneous	880
Total Operating Expenses	547,981
Operating Income	6,309
Non-Operating Revenues (Expenses):	
Rental Income	1,320
Hydrant Assessments	950
Interest Earned	3,405
Gain on Disposal of Asset	4,007
Interest Expense	(19,248)
Total Non-Operating Revenues (Expenses)	(9,566)
Decrease in Net Assets	(3,257)
Net Assets, Beginning of Period	87,291
Net Assets, End of Period	$84,034

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers		$561,078
Cash paid to suppliers and employees		(511,295)
Net cash provided by operating activities		49,783
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received		4,331
Net cash provided by investing activities		4,331
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment		(34,480)
Gain on disposal of capital asset		4,007
Lease proceeds (net of payments)		22,460
Payments of long-term debt		(31,582)
Interest paid		(20,303)
Net cash used for capital and related financing activites		(59,898)
Net decrease in cash		(5,784)
Cash, beginning of period		96,329
Cash, end of period		$90,545
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	6,309
Adjustments to reconcile net loss to net cash provided by operating activites:		
Depreciation		32,873
Rental Income		1,320
Hydrant Assessments		950
(Increase) Decrease in Assets:		
Accounts Receivable		4,518
Increase (Decrease) in Liabilities:		
Accounts Payable		3,015
Accrued Payroll Taxes		798
Net cash provided by operating activities	$	49,783

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

Western Guernsey Regional Water District, Guernsey County (the "District"), was organized under the provisions of Section 6119 of the Ohio Revised Code on June 1, 2004. Prior to that date, the District was operated as a not-for-profit corporation known as Western Guernsey Services Company. The District is governed by a five member Board of Trustees elected to staggered three year terms by users of the District's water system. The District furnishes water service to customers in the rural areas of Guernsey County, Ohio. Customers are billed on a monthly basis for water used and are included in accounts receivable until paid.

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

Transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net assets. Net assets (i.e., equity) is segregated into invested in capital assets, net of related debt, restricted for purpose, and unrestricted components. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The District uses the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

Cash and Cash Equivalents

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

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

Inventory

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

Property, Plant and Equipment

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

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

Long-Term Obligations

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation of the Water District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Leave

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

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

As of December 31, 2007 and 2006 the District's employees had not accrued any significant leave balances.

Revenue and Expenses

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

Use of Estimates

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

NOTE 2: EQUITY IN POOLED CASH AND INVESTMENTS

State statute outlines allowable deposits and investments for the District. The District may invest in certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

Cash on Hand

At the end of each year, the District had $105 in undeposited cash on hand which is included as part of "Cash and Cash Equivalents."

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2007, the District's deposits was $159,055 and the bank balance was $172,628. At December 31, 2006, the Districts deposits was $144,545 and the bank balance was $167,570. Of the bank balances, all amounts were covered by FDIC insurance.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits (Continued)

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

NOTE 3: SEGREGATED ACCOUNTS

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

NOTE 4: RECEIVABLES

Receivables at December 31, 2007 consisted of $108,657 in water service billings due from water system users during Janaury and February 2008. Receivables at December 31, 2006 consisted of $103,355 in water service billings due from water system users during Janaury and February 2007.

NOTE 5: LONG-TERM DEBT OBLIGATIONS

The District had the following long-term debt obligations as of December 31, 2007 and December 31, 2006:

	2007	2006
Note payable - GMAC Commercial Mortgage Corp., issued in May, 1981, collateralized by all properties considered part of the water system. Annual payments of $35,913 include interest at 5%. Final payment due May, 2013.	$ 179,895	$ 205,543
Note payable - GMAC Commercial Mortgage Corp., issued in June, 1971, collateralized by all properties considered part of the water system. Annual payments of $15,876 include interest at 5%. Final payment due May, 2021.	156,184	163,856
Total Long-Term Obligations	336,079	369,399
less: current portion	35,000	33,300
Long-Term Debt, net of current portion	$ 301,079	$336,099

During the year ended December 31, 2007, principal payments amounted to $25,648 on the 1981 Note Payable and $7,672 on the 1971 Note Payable. During the year ended December 31, 2006, principal payments amounted to $24,403 on the 1981 Note Payable and $7,309 on the 1971 Note Payable. Balances at January 1, 2006 of the 1981 Note Payable and 1971 Note Payable were $229,945 and $171,166, respectively.

NOTE 5: LONG-TERM DEBT OBLIGATIONS (Continued)

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

	GMAC Loans	
Year ending December 31:	Principal	Interest
2008	$ 34,986	$ 16,803
2009	36,735	15,054
2010	38,572	13,217
2011	40,501	11,288
2012	42,526	9,263
2013-2017	88,047	24,042
2018-2021	54,712	6,862
	$ 336,079	$ 96,529

NOTE 6: CAPITAL LEASE OBLIGATION

The following is an analysis of property held under capital lease by major classes at December 31, 2007:

Equipment	$ 24,500
Less: accumulated depreciation	3,063
	$ 21,437

The following is an analysis of property held under capital lease by major classes at December 31, 2006:

Equipment	$ 24,500
Less: accumulated depreciation	613
	$ 23,887

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2007:

2008	$ 5,238
2009	5,238
2010	5,238
2011	3,931
Net minimum payments	19,645
Less: amount representing Interest	1,539
Present value of net minimum Lease payments	$ 18,106

As of December 31, 2007, the above is reflected in the statement of net assets as current and non-current obligations under capital leases of $4,545 and $13,561, respectively.

As of December 31, 2006, the above is reflected in the statement of net assets as current and non-current obligations under capital leases of $3,590 and $18,870, respectively.

NOTE 7: CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2007 was as follows:

	Balance 1/1/07	Additions	Deletions	Balance 12/31/07
Nondepreciable Capital Assets				
Land	$ 12,500	$	$	$ 12,500
Depreciable Capital Assets				
Buildings & Improvements	109,714			109,714
Infrastructure	1,121,186	1,260	(6,068)	1,116,378
Machinery & Equipment	112,590	5,787	(23,322)	95,055
Vehicles	45,575		(576)	44,999
Office Equipment	16,002	1,889	(7,547)	10,344
Total Depreciable Capital Assets	1,405,067	8,936	(37,513)	1,376,490
Less Accumulated Depreciation				
Buildings & Improvements	(61,014)	(3,730)		(64,744)
Infrastructure	(1,013,431)	(12,086)	6,068	(1,019,449)
Machinery & Equipment	(49,336)	(8,333)	15,310	(42,359)
Vehicles	(21,278)	(8,725)	250	(29,753)
Office Equipment	(15,956)	(87)	7,547	(8,496)
Total Accumulated Depreciation	(1,161,015)	(32,961)	29,175	(1,164,801)
Depreciable Capital Assets, Net of Accumulated Depreciation	244,052	(24,025)	(8,338)	211,689
Total Capital Assets	$ 256,552	$ (24,025)	$ (8,338)	$ 224,189

NOTE 7: CAPITAL ASSETS (Continued)

Capital Asset activity for the year ended December 31, 2006 was as follows:

	Balance 1/1/06	Additions	Deletions	Balance 12/31/06
Nondepreciable Capital Assets				
Land	$ 12,500	$	$	$ 12,500
Depreciable Capital Assets				
Buildings & Improvements	109,714			109,714
Infrastructure	1,111,205	9,981		1,121,186
Machinery & Equipment	106,141	24,500	(18,051)	112,590
Vehicles	45,575			45,575
Office Equipment	16,002			16,002
Total Depreciable Capital Assets	1,388,637	34,481	(18,051)	1,405,067
Less Accumulated Depreciation				
Buildings & Improvements	(57,284)	(3,730)		(61,014)
Infrastructure	(1,002,049)	(11,382)		(1,013,431)
Machinery & Equipment	(59,041)	(8,346)	18,051	(49,336)
Vehicles	(12,163)	(9,115)		(21,278)
Office Equipment	(15,656)	(300)		(15,956)
Total Accumulated Depreciation	(1,146,193)	(32,873)	18,051	(1,161,015)
Depreciable Capital Assets, Net of Accumulated Depreciation	242,444	1,608		244,052
Total Capital Assets	$ 254,944	$ 1,608	$	$ 256,552

NOTE 8: OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the District contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional and combined plans for 2007 and 2006 were $13,772 and $11,407, respectively; 100 percent has been contributed for 2007 and 2006.

NOTE 9: POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85 percent of covered payroll; 5.0 percent was the portion that was used to fund health care from January 1 through June 30, 2007 and 6.00 percent from July 1 through December 31, 2007. The 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.5 percent was the portion that was used to fund health care.

NOTE 9: POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50 to 5.00 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 374,979 at December 31, 2007. Actual District contributions for 2007 and 2006 which were used to fund postemployment benefits were $5,468 and $3,747, respectively. The actual contribution and the actuarially required contribution amounts are the same.

The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2006, (the latest information available) was $12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $30.7 billion and $18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2007 and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Significant risk of losses is covered by commercial insurance. The District has not significantly reduced this coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

NOTE 11: COMPLIANCE

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

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

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

To the Board of Trustees:

We have audited the financial statements of the Western Guernsey Regional Water District, Guernsey County, Ohio (the District), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated October 15, 2008. 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 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 control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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 internal control deficiencies that might be 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.

We noted a certain matter that we reported to the District's management in a separate letter dated October 15, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2007-001.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 15, 2008

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

FINDING NUMBER 2007-001

Noncompliance Citation

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

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

Concerning the prior certification of the availability of funds prior to incurring obligations, Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contract and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705,41(D)(3), respectively, of the Ohio Revised Code.

> Then and Now Certificates – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.
>
> Amounts of less than $3,000 may be paid by the fiscal officer without a resolution or ordinance of the District upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

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

FINDING NUMBER 2007-001 (Continued)

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

> Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificate may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
>
> Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

The District did not comply with the aforementioned budgetary laws for the periods ended December 31, 2007 and 2006.

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

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

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

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

Official's Response

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Finding for recovery was issued and repaid under audit for purchase of meals and alcoholic beverages for a Christmas party.	Yes	N/A.
2005-002	A material citation was issued under Ohio Rev. Code § 5705.28(B)(2)(a) for not complying with budgetary laws.	No	Not Corrected; Reissued as Finding Number 2007-001.

Mary Taylor, CPA
Auditor of State

WESTERN GUERNSEY REGIONAL WATER DISTRICT

GUERNSEY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 18, 2008

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