

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Regular Audit
For the Year Ended December 31, 2011**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Board of Trustees
Tri-County Rural Water and Sewer District
20 Anderson Lane
Waterford, Ohio 45786

We have reviewed the *Independent Accountants' Report* of the Tri-County Rural Water and Sewer District, Washington County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Tri-County Rural Water and Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

August 1, 2012

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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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Perry & Associates
Certified Public Accountants, A.C.

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INDEPENDENT ACCOUNTANTS' REPORT

June 25, 2012

Tri-County Rural Water & Sewer District
Washington County
20 Anderson Lane
Waterford, OH 45786

To the Members of the Board:

We have audited the accompanying financial statements of the business-type activities of the **Tri-County Rural Water and Sewer District**, Washington County, Ohio, (the District) as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Tri-County Rural Water and Sewer District, Washington County, Ohio as of December 31, 2011 and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2012, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

Perry and Associates
Certified Public Accountants, A.C.

**TRI COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Unaudited)**

The following discussion provides a summary overview of the financial activities of the Tri Country Rural Water and Sewer District, Washington County Ohio (the District) for the year ended December 31, 2011. The information should be read in conjunction with the basic financial statements included in this report.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets increased \$405,321 from 2010.
- Total assets increased \$699,749 which represents 11.27% increase from 2010. This increase is due mainly to an increase in Property and Equipment.
- Total liabilities increased \$294,398, which represents a 5.78% increase from 2010. This variance is primarily due to an increase in the Water System capital asset debt net of the continual reduction in long term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Assets presents the District's financial position and reports the resources owned by the District (assets), obligations owed by the District (liabilities) and District net assets (the difference between assets and liabilities). It provides a way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses and Changes in Net Assets present a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees.

The Statement of Cash Flows provides information about the District's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financial activities.

The notes of the financial statements provide additional information that is essential for a full understanding of the financial statements.

**TRI COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Unaudited)**

Net Assets

Table 1 provides a comparative analysis of 2011 and 2010.

(Table 1)

Net Assets

	2011	2010
Assets:		
Current Assets	\$ 651,489	\$ 732,411
Restricted Assets	84,329	73,097
Capital Assets (Net)	6,121,833	5,351,473
Other Assets	51,609	52,530
Total Assets	6,909,260	6,209,511
Liabilities:		
Current Liabilities	528,189	493,657
Long-term Liabilities	4,860,257	4,600,391
Total Liabilities	5,388,446	5,094,048
Net Assets:		
Invested in Capital Assets, Net of Related Debt	888,271	412,057
Restricted	84,329	73,097
Unrestricted	548,214	630,339
Total Net Assets	\$ 1,520,814	\$ 1,115,493

As noted earlier, the net assets may be served as a useful indicator of financial position. The District's assets exceed liabilities by \$1,520,814 as of December 31, 2011.

The largest portion of the District's net assets is reflected in its Invested in Capital Assets, Net of Related Debt. The District strives to keep adequate cash reserves on hand in order to maintain or expand its facilities to meet the needs of its customers and to comply with regulatory requirements.

**TRI COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Unaudited)**

Change in Net Assets

The table 2 shows the changes in net assets for the years ended December 2011 and 2010.

(Table 2)
Change in Net Assets

	2011	2010
Revenues		
Operating Revenues	\$ 1,003,153	\$ 1,002,662
Nonoperating Revenues	459,853	155,336
Total Revenues	1,463,006	1,157,998
Expenditures		
Operating Expenditures	821,336	753,960
Nonoperating expenditures	236,349	254,216
Total Expenditures	1,057,685	1,008,176
Increase (Decrease) In Net Assets	405,321	149,822
Beginning Net Assets	1,115,493	965,671
Ending Net Assets	<u>\$ 1,520,814</u>	<u>\$ 1,115,493</u>

Operating revenues consisted of user charges for water and sewer consumption. Operating expenses reflect the cost of providing these services.

Capital Assets

Table 3 provides a summary of the District's capital assets for 2011 and 2010.

(Table 3)
Capital Assets

	2011	2010
Land	\$ 258,508	\$ 258,508
Buildings	26,934	23,793
Machinery and Equipment	73,746	72,230
Office Furniture and Fixtures	38,368	38,368
Autos and Trucks	34,593	34,593
Construction in Progress	68,822	115,601
Water Systems	11,325,317	10,074,738
Less: Accumulated Depreciation	(5,704,455)	(5,271,143)
Total	<u>\$ 6,121,833</u>	<u>\$ 5,351,473</u>

Additional information on the District's capital assets can be found in Note 5 to the basic financial statements.

**TRI COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Unaudited)**

Debt Administration

The District finances its construction primarily through the issuance of low interest loan programs with the Ohio Public Works Commission and Ohio Water Development authority. At December 31, 2011, the District had total debt outstanding of \$ 5,233,561 compared to \$ 4,939,416 at December 31, 2010. This represents an increase of \$294,145 due to the installing of new water lines and painting of the water tanks along with the continual reduction on principal of the debt.

Additional information on the District's long-term debt can be found in Note 4 to the basic financial statements.

Contacting the District's Financial Management

This report is designed to provide the District's customers, bondholders, creditors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact the office at Candice Armstrong at 20 Anderson Lane, Waterford, OH 45786.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 534,860
Accounts Receivable-Customers (Net)	116,629
Total Current Assets	<u>651,489</u>

Restricted Assets:

Cash and Cash Equivalents	<u>84,329</u>
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Capital Assets:

Land	258,508
Buildings	26,934
Machinery and Equipment	73,746
Office Furniture and Fixtures	38,368
Autos and Trucks	34,593
Construction in Progress	68,822
Water System - Wells	199,576
Water System - Meter/Taps/Hydrants	423,854
Water System - Water Lines	8,137,218
Water System - Stations	920,258
Water System - Tanks/Towers	1,644,411
Less: Accumulated Depreciation	<u>(5,704,455)</u>
Net Property and Equipment	<u>6,121,833</u>

Other Assets:

Loan Closing Fees - Net of Amortization	11,575
Right of Ways	39,734
Advance Deposits	300
Total Other Assets	<u>51,609</u>

Total Assets	<u>\$ 6,909,260</u>
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The accompanying notes are an integral part of these financial statements

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011
(Continued)**

Liabilities and Net Assets

Liabilities:

Current Liabilities:

Accounts Payable	\$ 30,519
Current Portion of Long-Term Debt	373,304
Customer Security Deposits	441
Payroll Withholdings	4,737
Accrued Payroll Taxes	2,051
Accrued Interest Payable	113,553
Accrued Vacation and Sick Leave	3,584
Total Current Liabilities	<u>528,189</u>

Long Term Liabilities:

Notes Payable OWDA	3,695,260
Notes Payable OPWC	1,522,152
Notes Payable Citizens Bank	16,149
Less: Current Portion of Long-Term Debt	<u>(373,304)</u>
Total Long-Term Liabilities	<u>4,860,257</u>

Total Liabilities	<u>5,388,446</u>
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Net Assets:

Invested in Capital Assets, Net of Related Debt	888,271
Restricted	84,329
Unrestricted	<u>548,214</u>

Total Net Assets	<u>1,520,814</u>
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Total Liabilities & Net Assets	<u>\$ 6,909,260</u>
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The accompanying notes are an integral part of these financial statements

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Operating Revenues:

Charge for Services	\$ 933,238
Tap Fees	47,900
Finance Charges	18,715
Reconnect Fees	3,300
Total Operating Revenues	<u>1,003,153</u>

Operating Expenses:

Advertising	884
Amortization Expense	921
Auto-Truck Travel	478
Bad Debts	22
Chemicals	10,950
Contract Labor	38,462
Depreciation Expense	438,097
Fuel, Oil and Grease	8,209
Dues and Subscriptions	575
Insurance	6,119
Hospital Insurance	28,726
Legal and Accounting	9,134
Licenses/Permits	4,164
Repairs and Maintenance	3,353
Office	13,119
Pension - PERS	16,424
Postage	5,058
Professional Fees	10,391
Recording/Filing Fees	2,667
Rents	1,884
Salaries	115,644
Supplies	24,900
Payroll Taxes	3,932
Other Taxes	45
Telephone	3,909
Tools	1,020
Travel and Entertainment	398
Training	2,028
System Electric	62,973
Other Utilities	1,368
Sewer/Beverly Hills	2,353
Water Testing	3,129
Total Operating Expenses	<u>821,336</u>

Operating Income	<u>181,817</u>
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The accompanying notes are an integral part of these financial statements

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

Nonoperating Revenues (Expenses):	
Interest Earned	3,005
Surcharge/Financed Taps	2,048
Other Non-Operating Revenues	35,306
Interest Expense	<u>(236,349)</u>
Total Nonoperating Revenues (Expenses)	<u>(195,990)</u>
Net Loss Before Capital Contributions	(14,173)
Capital Contributions	419,494
Net Assets, Beginning of Year	<u>1,115,493</u>
Net Assets, End of Year	<u>\$ 1,520,814</u>

The accompanying notes are an integral part of these financial statements

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 994,087
Cash Payments to Suppliers for Goods and Services	(208,941)
Cash Payments to Employees for Services and Benefits	<u>(165,411)</u>
Net Cash Provided by (Used by) Operations	<u>619,735</u>
Cash Flows from Capital and Related Financing Activities:	
Retirement of Long-Term Debt	(411,623)
Acquisition of Property and Equipment	(1,208,458)
Other Non-operating Revenues	44,306
Proceeds from Long-Term Debt	705,768
Intergovernmental Revenue	410,494
Interest Paid	<u>(244,061)</u>
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>(703,574)</u>
Cash Flows from Investing Activities:	
Investment Income	3,005
Surcharged Finance Taps	<u>2,048</u>
Net Cash Provided (Used) by Investing Activities	<u>5,053</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(78,786)
Cash and Cash Equivalents - January 1	<u>697,975</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 619,189</u></u>
Adjustments to Reconcile Operating Income to Cash Flows	
From Operating Activities	
Net Operating Income	\$ 181,817
Depreciation/Amortization	439,018
Decrease (Increase) in Accounts Receivable	(9,066)
Increase (Decrease) Accounts Payable	8,651
Increase (Decrease) Accrued Payroll	(2,533)
Increase (Decrease) Accrued Payroll Taxes	<u>1,848</u>
Total Adjustments	<u>437,918</u>
Net Cash Provided by (Used by) Operating Activities	<u><u>\$ 619,735</u></u>

The accompanying notes are an integral part of these financial statements

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Tri-County Rural Water and Sewer District Washington County, Ohio (the District), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Water District was established as a separate political subdivision of the State of Ohio under provision of Chapter 6119 of the Ohio Revised Code. The Water District is directed by an elected seven-member Board of Trustees. These board members are elected by the membership (any consumer who has paid for a tap). An appointed staff consisting of a general manager, distribution operator, and one office clerk are responsible for fiscal control of the resources of the District. The District provides water and sewer services to residents of the District. Management believes the financial statements represent all activities over which the District has control.

B. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the business-type activities financial statements. Basis of accounting relates to the timing of measurements made. The accounting policies of the District conform to generally accepted accounting principles.

The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the statement of net assets. Equity (i.e., total net assets) is segregated into restricted and unrestricted net assets components. The operating statements present increases (i.e. revenues) and decreases (i.e., expenses) in total net assets.

Pursuant to GASB Statement No. 20: *Accounting Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the District follows GASB guidance as applicable to proprietary funds. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued after November 30, 1989 to business-type activities, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Enterprise activity is accounted for in the manner similar to private business enterprises where the intent of management is that the costs and expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges and where management has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control and accountability.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. Unbilled service charges receivable are recognized as revenue at year-end.

Operating revenues and expenses result from supplying water and providing for the collection, treatment and disposal of wastewater. Operating revenues consist primarily of user charges for water and sewage services based on water consumption. Operating expenses include the cost of providing these services, including administrative expense and depreciation of capital assets. Non-operating revenues and expenses are revenues and expenses not meeting the definition of operating revenues and expenses, and include revenues and expenses from capital and related financing activities and investing activities.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Under HB 262, effective for fiscal years ending December 2000 and subsequent, Water and Sewer Systems not levying property taxes must follow most of the Ohio Revised Code Chapter 5705 budget requirements, but need not seek approval of county budget commission for any budgetary actions.

The Ohio Revised Code requires the District adopt an annual budget.

Appropriations

Budgetary expenditures (that is, disbursements) may not exceed appropriations at the function or object level of control and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments.

Estimated Resources

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

Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are canceled, and re-appropriated in the subsequent year.

A summary of 2011 budgetary activity appears in Note 3. The District prepares its budget on the cash basis.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all investments with a maturity of three months or less at the time they are purchased to be pooled cash and investments and are reported as "cash and cash equivalents" in the accompanying financial statements.

E. Restricted Assets

Restricted assets represent cash and cash equivalents set aside for repayment of deposits to utility customers and tap fees collected for areas where service has not yet been extended.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included or capitalized. Capital assets, which include property, plant and equipment of the District, are recorded at cost. Property, plant, and equipment donated are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Property, plant and equipment reflected are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water Systems	25
Buildings	15
Furniture / Equipment	5-7
Vehicles	5

G. 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 borrowing 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 adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Contributed Capital

Contributed capital consists of grants restricted to capital acquisitions, fixed assets received from developers and tap fees in excess of related costs. These assets are recorded at their fair market value on the date contributed.

I. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. DEPOSITS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. DEPOSITS (Continued)

Inactive deposits are public deposits that the Board has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the District by the financial institution, or by single collateral established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities.

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United State treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home bank loan, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (I) or (2), this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurers Investment pool (STAROHIO) ;
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 5% of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed 10% of the District's average portfolio.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. DEPOSITS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits by categories of risk as defined in GASB Statement 40, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At December 31 the carrying amount of the District's deposits was as follows:

	2011
Demand deposits	\$ 619,189

At December 31, the bank balance of the District's deposits was as follows:

	2011
Demand deposits	\$ 631,166

At December 31, 2011, \$351,844 of the bank balance each year was insured by the Federal Deposit Insurance Corporation and the remaining balances were collateralized by the financial institution's public entity deposit pool in the manner described above.

Investments: The District did not have any investments during 2011.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2011 follows:

Budgeted vs. Actual Receipts	
	2011
Budgeted Receipts	\$ 1,881,391
Actual Receipts	2,159,708
Variance	\$ (278,317)

Budgeted vs. Actual Expenditures	
	2011
Budgeted Expenditures	\$ 2,062,064
Actual Expenditures	2,238,494
Variance	\$ (176,430)

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

4. LONG TERM LIABILITIES

Debt outstanding at December 31, 2011 consisted of the following:

Ohio Water

Development Authority

Long-Term Debt	Principal Outstanding 12/31/10	Additions	Deductions	Principal Outstanding 12/31/11	Amount Due in One Year
Note dated July 1 1995, due 2021, with interest at 6.72%	\$ 3,160,103	\$ -	\$ (203,199)	\$ 2,956,904	\$216,854
Note dated July 1 1995, due 2022 with interest at 6.51%	170,270.	-	(11,071)	159,199	11,791
Noted dated January 30, 1997, due 2022, with interest at 6.12%	56,233.	-	(3,310)	52,923	3,513
Note dated July 24, 1997, due 2023, with interest at 6.11%	20,435.	-	(1,138)	19,297	1,207
Note dated February 26, 1998, due 2023, with interest at 5.73%	7,669.	-	(413)	7,256	437
Note dated March 25, 1999, due 2026, with interest at 2.0%	56,634.	-	(3,154)	53,480	3,216
Note dated June 24, 1999, due 2024, with interest at 5.56%	161,351.	-	(7,876)	153,475	8,320
Note dated December 14, 2000, due 2021, with interest at 2.0%	130,721.	-	(10,737)	119,984	10,953
Note dated January 1, 2003 due 2035, with interest at 1.5%	78,256.	-	(2,601)	75,655	2,640
Note dated January 1, 2011 due 7/1/15 with interest at 4.76%	67,964.	26	(67,990)	-	-
Note dated July 1, 2010, due 1/1/2040 with interest at 0.00%	47,561.	-	(1,851)	45,710	415
Note dated July 1, 2011, due 1/1/2016 with interest at 0.00%	41,701.	14,426	(4,750)	51,377	8,486
Total	\$ 3,998,898	\$ 14,452	(\$ 318,090)	\$ 3,695,260	\$ 267,832

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

4. LONG TERM LIABILITIES (Continued)

The notes listed above are for the various fixed assets constructed to provide service from the wells to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these debts. All loans are due in semi-annual installments due January 1 and July 1 of each year.

Ohio Public Works Commission

The District incurred various debts under Issue II funding of the Ohio Public Works Commission (OPWC). Terms of all existing notes payable except Note CR14G, include twenty (20) year maturities and an interest rate of zero (0) percent per annum. Note CR14G is for 20 years with an interest rate of 2%.

The notes payable to the Ohio Public Works Commission are pursuant to Ohio Rev. Code 104.05 and Ohio Admin. Code §164-4-21. The Project Agreement entered into between the Ohio Public Works Commission and the District states the loans are to be used for the purpose of financing or reimbursing the costs of the indicated projects.

All loans are due in semi-annual installments on January 1 and July 1 of each year. Balances on the OPWC notes payable as of December 31, 2011 are as follows:

Ohio Public Works Commission

Long-Term Debt	Principal Outstanding 12/31/10	Additions	Deductions	Principal Outstanding 12/31/11	Amount Due in One Year
Round 3 - CR314	\$ 58,472	\$ -	\$ 5,569	\$ 52,903	\$5,569
Round 5 - CR530	107,100	-	10,200	96,900	10,200
Round 7 - CR729	141,015	-	13,430	127,585	13,430
Round 9 - CR935	187,446	-	17,852	169,594	17,852
CR 14C	206,211	-	16,117	190,094	16,442
CR 20G	221,074	-	15,792	205,282	15,791
CR 17N	-	691,316	11,522	679,794	23,044
Total	\$ 921,318	\$ 691,316	\$ 90,482	\$ 1,522,152	\$ 102,328

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

4. LONG TERM LIABILITIES (Continued)

Citizens Bank Loans

The district financed the purchase of a 2010 Chevy Silverado at the Citizens Bank on October 22, 2010. The interest rate is 3.17% due October 22, 2016. The balance on the Citizens Bank Loan as of December 31, 2011 is as follows:

Principal Outstanding 12/31/10	Additions	Deductions	Principal Outstanding 12/31/11	Amount Due in One Year
\$19,200	\$ -	\$3,051	\$16,149	\$3,144

Loan Maturities

The following is a schedule of future maturities of long-term debt, including interest of \$1,400,395 on the OWDA loans, \$21,605 on the OPWC loans, and \$1,292 on the Citizens Bank Loan as of December 31, 2011.

The following is a schedule of future maturities of long-term debt as of December 31, 2011.

Year	OWDA Principal	OWDA Interest	OPWC Principal	OPWC Interest	CITIZENS Principal	CITIZEN Interest	TOTAL PRINCIPAL	TOTAL INTEREST	TOTAL Payments
2012	\$ 267,832	\$ 227,876	\$102,328	\$ 3,720	\$ 3,144	\$ 468	\$ 373,304	\$ 232,064	\$ 605,368
2013	284,742	212,196	102,658	3,390	3,247	366	390,647	215,952	606,599
2014	302,610	194,328	102,995	3,053	3,351	261	408,956	197,652	606,608
2015	321,646	175,295	103,339	2,709	3,459	154	428,444	178,158	606,602
2016	341,926	155,012	103,690	2,358	2,938	43	448,554	157,393	605,947
2017-2021	2,023,480	423,988	500,436	6,275	-	-	2,523,916	430,263	2,954,179
2022-2026	99,200	9,402	172,573	100	-	-	271,773	9,502	281,275
2027-2031	25,260	1,802	115,219	-	-	-	140,479	1,802	142,281
2032-2036	22,801	496	115,219	-	-	-	138,020	496	138,516
2037-2041	5,763	-	103,695	-	-	-	109,458	-	109,459
Total	\$3,695,260	\$1,400,395	\$1,522,152	\$21,605	\$16,149	\$1,292	\$5,233,561	\$1,423,272	\$6,656,834

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

5. CAPITAL ASSETS

A summary of the District's assets at December 31, 2011:

	Balance at 12/31/10	Additions	Deletions	Balance at 12/31/11
Capital assets non-depreciable:				
Land	\$ 258,508	\$ -	\$ -	\$ 258,508
Construction in process	115,601	867,442	(914,221)	68,822
Total non-depreciable capital assets	<u>374,109</u>	<u>867,442</u>	<u>(914,221)</u>	<u>327,330</u>
Capital assets being depreciated:				
Buildings	23,793	3,141	-	26,934
Machinery and equipment	72,230	1,516	-	73,746
Office furniture	38,368	-	-	38,368
Autos and trucks	34,593	-	-	34,593
Water system - wells	199,576	-	-	199,576
Water system - meter/tap/hydrants	377,086	46,768	-	423,854
Water system- lines	7,269,765	867,453	-	8,137,218
Water system - stations	920,258	-	-	920,258
Water system - tanks/towers	1,308,052	336,359	-	1,644,411
Total capital assets being depreciated:	<u>10,243,721</u>	<u>1,255,237</u>	<u>-</u>	<u>11,498,958</u>
Less accumulated depreciation				
Buildings	20,438	224	-	20,662
Machinery and equipment	46,728	6,587	-	53,315
Office furniture	17,890	4,811	-	22,701
Autos and trucks	9,189	6,919	-	16,108
Water system	5,172,113	419,556	-	5,591,669
Total accumulated depreciation	<u>5,266,358</u>	<u>438,097</u>	<u>-</u>	<u>5,704,455</u>
Capital assets, net of depreciation	<u>\$ 5,351,472</u>	<u>\$ 1,684,582</u>	<u>\$ (914,221)</u>	<u>\$ 6,121,833</u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

6. 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.

Risk Pool Membership

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

The Pool covers the following risks:

- General liability and casualty;
- Public official's liability; and
- Vehicle.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2011, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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

Financial Position

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

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

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010, and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Government's share of these unpaid claims collectible in future years is approximately \$5,000.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

6. RISK MANAGEMENT (Continued)

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

<u>Contributions to PEP</u>	
2010	\$ 5,803
2011	\$ 5,809

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they 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 contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

7. PENSION PLAN

Plan Description – The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension 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. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2011, member and employer contribution rates were consistent across all three plans.

The District's 2011 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5 percent as of December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.23 as of December 31, 2010. Employer contribution rates are actuarially determined. These percentages are the most recent available.

TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

7. PENSION PLAN (Continued)

The District's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$16,424, \$14,477, and \$12,209, respectively; 100 percent has been contributed for 2011, 2010 and 2009.

8. POSTEMPLOYMENT BENEFITS

Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5 percent as of December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.23 percent as of December 31, 2010. These percentages are the most recent available.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The District's contributions allocated to fund post-employment benefits for the years ended December 31, 2011, 2010 and 2009 were \$5,866, \$5,256 and \$5,118, respectively; 100 percent has been contributed for all years.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

9. CONCENTRATIONS

The District received approximately 29.67 percent of its total revenues from Globe Metallurgical Inc. A reduction in the income from Globe Meallurgical, if such were to occur, would have a material effect on the District's financial position, results of operations, net assets, and cash flows.

11. CONTINGENCY

The District participates in state and federally assisted programs. These programs are subject to financial and compliance audits by the grantor or their representative. As of December 31, 2011, the audits of certain of these programs have not been completed. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the District believes such disallowance, if any, would be immaterial.

Perry & Associates
Certified Public Accountants, A.C.

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

June 25, 2012

Tri-County Rural Water & Sewer District
Washington County
20 Anderson Lane
Waterford, OH 45786

To the Members of the Board:

We have audited the financial statements of the business-type activities of the **Tri-County Rural Water and Sewer District**, Washington County, Ohio (the District), as of and for the year ended December 31, 2011, and have issued our report thereon dated June 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 25, 2012.

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

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

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Dave Yost • Auditor of State

TRI-COUNTY RURAL WATER AND SEWER DISTRICT

WASHINGTON 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 14, 2012