



Dave Yost • Auditor of State

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

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Dave Yost • Auditor of State

West Malta Rural Water District
Washington County
P O Box 185
Malta, Ohio 45758

To the Commission:

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

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Dave Yost
Auditor of State

July 26, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

West Malta Rural Water District
Morgan County
P.O. Box 185
Malta, Ohio 43758

To the Commission:

We have audited the accompanying financial statement of the West Malta Rural Water District, Morgan County, Ohio (the Water District), as of and for the years ended December 31, 2011 and 2010. This financial statement is the responsibility of the Water District's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

GAAP require presenting entity-wide statements. While the Water District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statement does not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require water districts to reformat their statement. The Water District has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balance as of December 31, 2011 and 2010 of the West Malta Rural Water District, Morgan County, Ohio, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2012, on our consideration of the Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. While we did not opine on the internal control over financial reporting and compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

July 26, 2012

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

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

	2011	2010
Operating Cash Receipts:		
Charges for Services	\$106,770	\$85,140
Late Fees	626	
Tap Fees	8,500	
Total Operating Cash Receipts	115,896	85,140
Operating Cash Disbursements:		
Professional Services	4,044	14,281
Utilities	3,211	2,784
Water Purchase	11,254	7,529
Repairs and Maintenance	11,665	9,813
Contract Services	32,594	
Equipment	1,791	
Miscellaneous	1,689	529
Supplies	468	6,919
Postage	917	
Insurance	2,638	2,374
Mileage	4,916	
Reimbursement		10,010
Total Operating Cash Disbursements	75,187	54,239
Operating Income/(Loss)	40,709	30,901
Non-Operating Cash Receipts:		
Investment Earnings	250	672
Intergovernmental Revenues		110,367
Proceeds from Sale of Public Debt:		
Sale of Bonds		944,000
Miscellaneous		232
Other Non-Operating Revenues	616	593
Total Non-Operating Cash Receipts	866	1,055,864
Non-Operating Cash Disbursements:		
Debt Service	56,527	1,069,481
Other Non-Operating Cash Disbursements		123,330
Total Non-Operating Cash Disbursements	56,527	1,192,811
Net Receipts Over/(Under) Disbursements	(14,952)	(106,046)
Cash Balance, January 1	157,505	263,551
Cash Balance, December 31	\$142,553	\$157,505

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

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**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges for the West Malta Rural Water District, Morgan County, Ohio (the Water District), as a body corporate and politic. The Water District was established as a separate political subdivision of the State of Ohio under provisions of Ohio Revised Code Section 6119.02(A)(6). Although construction is complete, the affairs of the Water District continue to be conducted by a ten-member Commission. The affairs of the Water District should be conducted by a three-member Board of Trustees. The Board members are to be appointed by the Morgan County Common Pleas Court Judge. The Water District provides water services to residents of the Water District.

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

B. Accounting Basis

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

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

C. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property, Plant, and Equipment

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

2. DEPOSITS

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

	2011	2010
Demand deposits	\$142,553	\$157,505

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

3. BUDGETARY ACTIVITY

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

2011 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$110,457	\$116,762	\$6,305

2011 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$207,457	\$131,714	\$75,743

2010 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$291,467	\$1,141,004	\$849,537

2010 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$442,676	\$1,247,050	(\$804,374)

Contrary to Ohio law, budgetary expenditures exceeded the Water District's appropriation by \$804,374 for the year ended December 31, 2010.

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

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

4. DEBT

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
USDA Rural Development	\$944,000	4.00%
OPWC	614,468	0.00%
Total	<u>\$1,558,468</u>	

The Water District received a loan from United States Department of Agriculture Rural Development (#91-01) to refinance interim financing received through Ohio Water Development Authority (OWDA) for the construction phase of the water distribution system. Repayment of this debt will begin in 2012 in accordance with the approved amortization schedule. The debt is collateralized by water resource revenue bonds issued through USDA. The Water District has agreed to set utility rates sufficient to cover United States Department of Agricultural Rural Development (USDA) debt service requirements.

The Ohio Public Works Commission (OPWC) loan #CR25J relates to the construction of a water system distribution project. The OPWC approved \$646,808 in loans to the Water District for this project. The loan will be repaid in semiannual installments in July and January of each year. Repayment of this debt began in July 2010 in accordance with the approved amortization schedule. The loan is collateralized by water receipts. The Water District has agreed to set utility rates sufficient to cover OPWC debt service requirements.

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

<u>Year ending December 31:</u>	<u>USDA</u>	<u>OPWC</u>
2012	\$48,160	\$21,560
2013	48,244	21,560
2014	48,208	21,560
2015	48,156	21,560
2016	48,288	21,560
2017-2021	240,996	107,801
2022-2026	240,992	107,801
2027-2031	240,956	107,801
2032-2036	240,992	107,801
2037-2041	241,048	75,464
2042-2046	240,980	
2047-2050	192,840	
Total	<u>\$1,879,860</u>	<u>\$614,468</u>

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

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

5. RISK MANAGEMENT

Commercial Insurance

The Water District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;

6. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Water District are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

7. SUBSEQUENT EVENTS

The Water District held a preliminary meeting with United States Department of Agriculture Rural Development and Morgan Meigsville Rural Water District to discuss the consolidation of the two water systems. The consolidation would result in the dissolution of West Malta Rural Water District. Negotiations will continue throughout 2012.



Dave Yost • Auditor of State

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

West Malta Rural Water District
Morgan County
P.O. Box 185
Malta, Ohio 43758

To the Commission:

We have audited the financial statement of West Malta Rural Water District, Morgan County, Ohio (the Water District), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated July 26, 2012, wherein we noted the Water District prepared its financial statement using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material financial statement misstatement of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements and will not be prevented or detected and timely corrected. We consider findings 2011-02 through 2011-05 described in the accompanying Schedule of Findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Water District's financial statement is free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2011-01 through 2011-04.

We also noted certain matters not requiring inclusion in this report that we reported to the Water District's management in a separate letter dated July 26, 2012.

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

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



Dave Yost
Auditor of State

July 26, 2012

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2011-01

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the Treasurer is attached thereto. The Treasurer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

1. "Then and Now" certificate - If the Treasurer can certify that both at the time that the contract or order was made ("then"), and at the time that the Treasurer 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 Water District can authorize the drawing of a warrant for the payment of the amount due. The Water District has thirty days from 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 Treasurer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Water District.

2. Blanket Certificates - Treasurers may prepare so-called "blanket" certificates not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
3. Super Blanket Certificate - The Water 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 Treasurer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

While the Water District did approve 2010 and 2011 blanket purchase orders in summary format, individual purchase orders, documenting running balances and evidencing certifications, were not maintained by the Water District. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-01 (Continued)

Noncompliance Citation -Ohio Rev. Code Section 5705.41(D)(1) (Continued)

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

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

Officials' Response: The Treasurer understands what "Then and Now certificates and Blanket Certificates and super Blanket Certificates" are but did not realize that the Summary Format would not be sufficient. She will try to do better.

FINDING NUMBER 2011-02

Noncompliance Citation and Material Weakness

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

1. Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payer, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
3. Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations, and any other information required may be entered in the appropriate columns.

The Water District utilized Quick Books, which did not include receipts and appropriations ledgers, as their sole accounting record. However, not all of the Water District's accounts and financial activity were posted to Quick Books. Additionally, because the Treasurer prepared the financial statements from the bank statements, the year-end financial statement amounts did not agree to Quick Books and audit adjustments, as described in Finding 2011-06, were required.

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-02 (Continued)

Noncompliance Citation and Material Weakness - Ohio Admin. Code Section 117-2-02(D) (Continued)

We recommend the Water District establish and maintain the required cash journal, receipts ledger, and appropriation ledger in compliance with the Ohio Admin. Code.

Officials' Response: The Treasurer understands this issue but also recognizes it will be difficult to coordinate with Morgan-Meigsville, fiscal agent, in order to comply.

FINDING NUMBER 2011-03

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.09(E) states that each subdivision shall establish a special bond fund for each bond issue. Additionally, Section 7 of the July 2010 Water Resource Revenue Bond Resolution states the following:

- 1.. From time to time as and when required, all reasonable and proper expenses of operating and maintaining the System, such expenses to exclude those of any other utility of the Issuer, whether or not such other utility shall be operated as a single unit with the System, and further to exclude depreciation and capital replacements.
2. Monthly, commencing with the month in which the Payment Date occurs in 2011, to the Water System Bond Payment Fund hereby created in the custody of the Issuer (the "Bond Payment Fund"), of the amount at least equal to one-twelfth (1/12), or such larger amount as is necessary, of the amount due and payable with respect to the Bonds on the next succeeding payment date for the Bonds. If for any reason there is a failure to make such monthly deposit, then an amount equal to the deficiency shall be set aside and deposited in the Bond Payment Fund from moneys on deposit in the Revenue Fund in the ensuing month or months, which amount shall be in addition to the regular monthly deposit required during such succeeding month or months. All moneys and investments in the Bond Payment Fund shall be used only for the payment of the principal of and interest on the Bonds when due. Whenever there shall accumulate in the Bond Fund amounts in excess of the requirements during the next twelve (12) months paying the principal of Bonds falling due and interest on all outstanding Bonds and in excess of the requirements of the Reserve Fund hereinafter established, such excess may be used by the Issuer for redemption of Bonds in the manner set out in Section 4 of this Resolution.
3. Monthly, commencing with the month in which the Payment Date occurs in 2011, to the Water System Debt Service Reserve Fund hereby created in the custody of the Issuer (the "Reserve Fund"), an amount equal to \$402.40 until there is \$48,288 (the Minimum Reserve") accumulated in the Reserve Fund, after which no further payments need be made to the Reserve Fund except to replace withdrawals there from. With the approval of the Government, the Minimum Reserve shall be used and disbursed only for the purpose of paying the cost of repairing or replacing any damage to the System which may be caused by an unforeseen catastrophe, and when necessary for the purpose of making payments of principal of and interest on the Bonds when due and payable if the amount in the Bond Payment Fund is not sufficient to meet such payments. Whenever disbursements are made from the Reserve Fund, monthly payments shall be resumed until there is again accumulated an amount equal to the Minimum Reserve, at which time payments may be again discontinued.

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-03 (Continued)

Noncompliance Citation and Material Weakness – Ohio Rev. Code Section 5705.09(E) (Continued)

4. Monthly, commencing with the month in which the Payment Date occurs in 2011, any moneys remaining in the Reserve Fund after reserving therein an adequate amount as working capital for the System, shall be transferred to the Water Surplus Fund, hereby created in the custody of the Issuer (the Surplus Fund"). Moneys in the Surplus Fund shall be used to pay the principal of and interest on the Bonds to the extent moneys in the Bond Payment Fund and the Reserve Fund are insufficient, and otherwise may be used for making extensions or improvements to the System, redeeming outstanding Bonds, redeeming outstanding Bonds prior to maturity, paying other obligations issued to finance improvements to the System, and any other use of the revenues of the System authorized by law.

While the Water District budgeted an amount adequate to meet the 2012 debt obligation in the operating fund, the Water District did not establish the required Bond Payment Fund until 2012. The required balance in Bond Payment Fund at December 31, 2011 was \$24,080.

We recommend the Water District review the Water Resource Revenue Bond Resolution, Section 7 and establish the necessary funds as prescribed.

Officials' Response: The Treasurer has set up the segregated accounts and deposited the amounts required.

FINDING NUMBER 2011-04

Noncompliance and Material Weakness

Ohio Rev. Code Section 5705.42 indicates when the United States government or the state or any department, division, agency, authority, or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purpose by the taxing authority of the subdivision as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection within the meaning of Section 5705.41 of the Revised Code.

For example, Auditor of State Bulletin 2002-004 explains the Ohio Public Works Commission (OPWC) will make payments to the contractor(s) for its share based on invoices submitted by the fiscal officer or to the local government as a reimbursement. For payments made to the contractor, the State will notify the fiscal officer of the amount disbursed. Upon receipt of this notice, each local government shall record a receipt and expenditure in the capital projects fund equal to the amount disbursed by the OPWC.

The Water District failed to post Intergovernmental Receipts (OPWC & ARC on-behalf payments) to intergovernmental receipts and the corresponding and subsequent expenditure to Other Non-Operating Disbursements (Construction) totaling \$83,496. This resulted in the understatement of actual resources and costs associated with road repair and maintenance. The audited financial statements reflect the above adjustments.

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-04 (Continued)

Noncompliance and Material Weakness – Ohio Rev. Code Section 5705.42 (Continued)

We recommend the Water District record all on-behalf payments to their accounting system as outlined in the aforementioned bulletin. We also recommend the Water District budget for the on-behalf receipts and expenditures.

Officials' Response: The Treasurer stated that this has been addressed and corrected.

FINDING NUMBER 2011-05

Material Weakness

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following adjustments were made to the financial statements:

- The Water District implemented the Quick Books software beginning 2010. However, the Treasurer used the bank balance as the beginning balance; therefore, all outstanding checks from 2009 were re-recorded. An adjustment to decrease the beginning balance and reduce 2010 expenditures by \$176,089 was proposed.
- During 2010 and 2011, the Water District's Accounting system did not reconcile to the bank accounts and annual financial report, numerous adjustments were proposed to properly reflect the financial activity that was recapped from the 2010 bank statements.
- The Water District recorded transfers between the Water District's two accounts as transfers in and out. An adjustment was made to eliminate this activity by \$120,342 for 2010 and by \$63,225 for 2011.
- In 2010, the Water District misclassified Sale of USDA Bond Proceeds as Intergovernmental Revenue in the amount of \$944,000.
- The Water District failed to post Intergovernmental Receipts (OPWC & ARC on-behalf payments) to intergovernmental receipts and the corresponding and subsequent expenditure to Other Non-Operating Disbursements (Construction) totaling \$83,496.

The net effect of these misstatements on the Water District's financial statements as of December 31, 2011 is a cash balance decrease of \$4,185.

As a result, significant adjustments and reclassifications, with which the Water District's management agrees, were posted to the financial statements and ledgers and are reflected in the accompanying financial statements.

We recommend the Treasurer take additional care in posting transactions to the Water District's ledgers in order to ensure the year-end financial statements reflect the appropriate sources and uses of the Water District's resources.

Officials' Response: The Treasurer stated that they will monitor this more closely in the future.

**WEST MALTA RURAL WATER DISTRICT
MORGAN COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	A noncompliance citation was issued under Ohio Rev. Code Section 5705.28(B)(2)(b) for not following budgetary practices.	Yes	N/A
2009-002	A noncompliance citation was issued under Ohio Rev. Code Section 5705.38(A) for not adopting appropriations.	Yes	N/A
2009-003	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Re-issued as Finding Number 2011-01.
2009-004	A noncompliance citation and material weakness under OAC 117-2-02(D) was issued since the Water District maintains a manual cashbook as their sole accounting record.	No	Re-issued as Finding Number 2011-03.



Dave Yost • Auditor of State

WET MALTA RURAL WATER DISTRICT

MORGAN 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 09, 2012**