

RENO AREA WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Regular Audit
For the Years Ended December 31, 2006 and 2005



Mary Taylor, CPA

Auditor of State

Board of Trustees
Reno Area Water and Sewer District
170 Mount Tom Road
Marietta, Ohio 45750

We have reviewed the *Independent Accountants' Report* of the Reno Area Water and Sewer District, Washington County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2005 through December 31, 2006. 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.

Finding For Recovery

Ohio Attorney General Opinion No. 82-006 addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of *State ex rel. McClure v. Hagerman (1951)*, 155 Ohio St. 320, provides that the primary object of an expenditure of public funds should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co. (1929)*, 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State ex rel. Village of Linndale v. Masten (1985)*, 18 Ohio St. 3d 228.

During the period January 1, 2005 through December 31, 2006, David Henthorn, Trustee, was paid a total of \$850 for 17 regular Board meetings at \$50 per meeting. Also, Mr. Henthorn was paid \$60 for a special Board meeting on April 26, 2006 at \$10 per hour for 6 hours.

Mr. Henthorn was also paid \$80 on January 5, 2006, \$80 on January 20, 2006, \$40 on June 12, 2006 and \$40 on July 11, 2006. These payments were not for Board meetings. The only documentation to support these payments is Work Orders prepared by Darlene Thomas, Fiscal Officer. The Work Orders only showed hours claimed at \$10 per hour. The Work Orders did not describe the work performed; therefore we were unable to determine whether such expenditures were for a proper public purpose. Additionally, there is no Board policy authorizing Trustees to additional compensation for work performed outside of attending Trustee meetings.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is issued against David Henthorn, Trustee, and Darlene Thomas, Fiscal Officer, jointly and severally, in the amount of \$240 and in favor of the General Fund of the Reno Water and Sewer District.

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 Reno Area Water and Sewer District is responsible for compliance with these laws and regulations.



Mary Taylor, CPA
Auditor of State

October 16, 2007

RENO AREA WATER AND SEWER DISTRICT
WASHINGTON COUNTY
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August 20, 2007

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Reno Area Water and Sewer District
Washington County
170 Mount Tom Road
Marietta, Ohio 45750

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Reno Area Water and Sewer District (the District) as of and for the years ended December 31, 2006 and 2005, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 respective financial position of the Reno Area Water and Sewer District, as of December 31, 2006 and 2005 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 August 20, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Reno Area Water and Sewer District
Washington County
Independent Accountants' Report
Page 2

The management's discussion and analysis on pages 4 through 7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 10, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

Reno Area Water and Sewer District
Washington County

Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
(Unaudited)

The following discussion provides a summary overview of the financial activities of the Reno Area Water and Sewer District ("the District") for the year ended December 31, 2006 and 2005. The information should be read in conjunction with the basic financial statements included in this report.

Financial Highlights

Assets exceeded liabilities by \$1,796,985 and \$1,774,736 on December 31, 2006 and 2005, respectively.
Net assets increased by \$22,249 and \$24,272 in 2006 and 2005, respectively.
Operating revenues increased by \$19,525 (2.99%) and \$15,088 (2.37%) in 2006 and 2005, respectively.
Operating expenses increased by \$29,011 (4.66%) and decreased by \$20,737 (-3.23%) in 2006 and 2005, respectively.
Retirements of debt principal totaled \$64,906 and \$48,794, respectively in 2006 and 2005.

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 Statements of Net Assets, the Statements of Revenues and Expenses and Changes in Net Assets, the Statements 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 presents 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 financing activities.

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

Reno Area Water and Sewer District
Washington County

Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
(Unaudited)

Table 1 provides a summary of the District's financial position and operations for 2006 and 2005, respectively.

Table 1
Condensed Statement of Net Assets
December 31, 2006 and 2005

Assets	2006	2005	\$ Change	% Change
Current and Other Assets	\$777,171	\$688,836	\$88,335	12.82%
Capital Assets, Net	<u>1,551,563</u>	<u>1,647,735</u>	<u>(96,172)</u>	-5.84%
Total Assets	<u>2,328,734</u>	<u>2,336,571</u>	<u>(7,837)</u>	-0.33%
Liabilities				
Current Liabilities	170,522	134,511	36,011	26.77%
Long-Term Liabilities	<u>361,227</u>	<u>427,325</u>	<u>(66,098)</u>	-15.47%
Total Liabilities	<u>531,749</u>	<u>561,836</u>	<u>(30,087)</u>	-5.36%
Net Assets				
Contributed Capital	652,006	652,006	0	0.00%
Fund Balance	<u>1,144,979</u>	<u>1,122,730</u>	<u>22,249</u>	1.98%
Total Net Assets	<u>\$1,796,985</u>	<u>\$1,774,736</u>	<u>22,249</u>	1.25%

As noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceed liabilities by \$1,796,985 and \$1,774,736 as of December 31, 2006 and 2005, respectively.

The largest portion of the District's net assets is reflected in its cash and certificates of deposits, repurchase agreement, and its capital assets, less accumulated depreciation and related debt outstanding. 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.

For the year ended December 31, 2006, total assets of the District decreased by \$7,837 due to depreciation of capital assets and a decrease in net cash flows. Total liabilities decreased by \$30,087 as of December 31, 2006.

Reno Area Water and Sewer District
Washington County

Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
(Unaudited)

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

Table 2
Revenues and Expenses

<u>Operating Revenues</u>	<u>2006</u>	<u>2005</u>	<u>\$ Change</u>	<u>% Change</u>
Sales to Customers	\$665,277	\$641,190	\$24,087	3.76%
Other	6,226	10,788	(4,562)	(42.49)%
Total Operating Revenues	<u>671,503</u>	<u>651,978</u>	<u>19,525</u>	2.99%
 <u>Non-Operating Revenues</u>				
Interest Income	15,603	8,823	6,780	76.84%
Gain on Sale of Asset	0	1,619	(1,619)	(100.00)%
Total Non-Operating Revenues	<u>15,603</u>	<u>10,442</u>	<u>5,161</u>	49.43%
Total Revenues	<u>687,106</u>	<u>662,420</u>	<u>24,686</u>	3.73%
 <u>Operating Expenses</u>				
Operations	512,429	482,706	29,723	6.16%
Maintenance	19,502	19,400	102	0.53%
Depreciation	119,170	119,984	(814)	(0.68)%
Total Operating Expenses	<u>651,101</u>	<u>622,090</u>	<u>29,011</u>	4.66%
 <u>Non-Operating Expenses</u>				
Interest Expense	13,755	16,059	2,304	14.35%
Total Non-Operating Expense	<u>13,755</u>	<u>16,059</u>	<u>2,304</u>	14.35%
Total Expenses	<u>664,856</u>	<u>638,149</u>	<u>26,707</u>	4.19%
Income (Loss)	<u>22,250</u>	<u>24,271</u>	<u>(2,021)</u>	(8.33)%
Change in Net Assets	<u>\$22,250</u>	<u>\$24,271</u>	<u>(2,021)</u>	(8.33)%

Reno Area Water and Sewer District
Washington County

Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
(Unaudited)

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

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

Table 3
Capital Assets

	<u>2006</u>	<u>2005</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 37,440	\$ 37,440	\$ -	0.00%
Buildings	69,938	69,938	-	0.00%
Furniture and Equipment	203,036	183,077	19,959	10.90%
Line Systems	2,830,698	2,830,698	-	0.00%
CIP Reno II Tank	80,249	77,490	2,759	3.56%
Less: Accumulated Depreciation	<u>(1,669,798)</u>	<u>(1,550,908)</u>	<u>(118,890)</u>	7.67%
Total	<u>\$ 1,551,563</u>	<u>\$ 1,647,735</u>	<u>\$ (96,172)</u>	

Debt Administration

The District finances its construction primarily through the issuance of low interest loan programs with the Ohio Public Works Commission and U.S. Government and no interest loans with the US Army Engineer Division. At December 31, 2006, the District had total debt outstanding of \$399,937 compared to \$464,842 at December 31, 2005. This represents a decrease of \$64,905 from payments on principal of the debt. There were no additions to debt during 2006.

Additional information on the District's long-term debt can be found in Note 5 to the financial statements.

Economic Factors and 2007 Budget

The net income for 2007 is budgeted as \$10,000. The District does not plan to increase service rates in the near future. The Reno III line extension has been put on hold due to delays in qualification for grants and high cost of line installation for 2007. Upon completion of the Reno III line extension the District should see a growth in water sales.

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 President, Ruth Beckner, at 170 Mount Tom Road, Marietta, OH 45750.

Reno Area Water & Sewer District
Washington County
Statement of Net Assets
As of December 31, 2006 and 2005

	2006	2005
Assets		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 140,866	\$ 143,262
Investments - CD's	142,820	138,047
Repurchase Agreement	366,305	286,432
Accounts Receivable	107,667	104,023
Inventory	4,313	5,438
Prepaid Expenses	15,200	11,634
	777,171	688,836
Total Current Assets		
Noncurrent Assets: (Note 4)		
Land	37,440	37,440
Buildings	69,938	69,938
Furniture and Equipment	203,036	183,077
Line Systems	2,830,698	2,830,698
CIP Reno II Tank	80,249	77,490
Less: Accumulated Depreciation	(1,669,798)	(1,550,908)
	1,551,563	1,647,735
Total Noncurrent Assets		
TOTAL ASSETS	\$ 2,328,734	\$ 2,336,571

The notes are an integral part of the financial statements.

Reno Area Water & Sewer District
Washington County
Statement of Net Assets
As of December 31, 2006 and 2005

	2006	2005
Liabilities and Equity		
Current Liabilities:		
Accounts Payable	\$ 105,503	\$ 62,233
Compensated Absences Payable	11,144	10,472
Accrued Expenses	4,915	4,124
Accrued Interest	-	12,764
Current Portion - Notes Payable (Note 5)	38,710	37,518
Customer Meter Deposits	10,250	7,400
	170,522	134,511
Total Current Liabilities	170,522	134,511
Long-term Liabilities: (Note 5)		
Notes Payable - GECC	203,902	255,288
Contract Payable - U.S. Government	16,499	17,250
Note Payable - OPWC	179,536	192,305
Less: Current Maturities	(38,710)	(37,518)
	361,227	427,325
Total Long-Term Liabilities	361,227	427,325
Total Liabilities	531,749	561,836
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,151,626	1,244,034
Unrestricted	645,359	530,702
	1,796,985	1,774,736
Total Net Assets	1,796,985	1,774,736
TOTAL LIABILITIES AND NET ASSETS	\$ 2,328,734	\$ 2,336,572

The accompanying notes are integral part of the financial statements.

Reno Area Water & Sewer District
Washington County
Statement of Revenues, Expenses, and Changes in Net Assets
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Water and Sewer Sales	\$ 665,277	\$ 641,190
New Taps	5,046	9,906
Miscellaneous	1,180	882
	<u>671,503</u>	<u>651,978</u>
Operating Expenses:		
Water Purchases	286,943	279,408
Insurance	7,795	7,308
Operating Supplies	10,440	5,398
Utilities	27,973	28,240
Repairs and Maintenance	19,502	19,400
Office and Legal Fees	25,595	25,278
Salaries	90,748	81,772
Contract Labor	10,910	7,655
Fringe Benefits (Note 6)	52,025	47,647
Depreciation	119,170	119,984
	<u>651,101</u>	<u>622,090</u>
Excess (Deficiency) of Revenues Over Expenses from Operations	<u>20,402</u>	<u>29,888</u>
Other Revenues and Expenses:		
Interest Income	15,603	8,823
Interest Expense	(13,755)	(16,059)
Gain on Sale of Asset	0	1,619
	<u>1,848</u>	<u>(5,617)</u>
Excess (Deficiency) of Operating Revenues and Other Revenues Over Operating Expenses and Other Expenses	22,250	24,271
Net Assets, Beginning of Year	<u>1,774,736</u>	<u>1,750,465</u>
Net Assets, End of Year	<u>\$ 1,796,986</u>	<u>\$ 1,774,736</u>

The accompanying notes are an integral part of the financial statements.

Reno Area Water and Sewer District
Statement of Cash Flows
As of December 31, 2006 and 2005

	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES:		
Water and Sewer Sales	661,633	\$ 642,461
New Taps	5,046	8,381
Miscellaneous	1,180	2,501
Total Revenues	667,859	653,343
DISBURSEMENTS:		
Water Purchases	249,003	272,177
Insurance	8,543	6,404
Operations Supplies	10,440	3,874
Utilities	33,237	28,240
Repairs and Maintenance	19,502	19,400
Office and Legal Fees	25,877	27,052
Salaries	90,296	83,674
Contract Labor	10,910	7,655
Fringe Benefits	52,025	49,743
Total Disbursements	499,833	498,219
Net Cash Provided (Used) by Operating Activities	168,026	155,124
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property, Plant, and Equipment	(22,719)	(17,798)
Proceeds from Sale of Asset	-	2,100
Principal Payments on Long-Term Debt	(64,905)	(48,795)
Interest Payments on Debt	(13,755)	(17,833)
Net Cash Provided (Used) by Investing Activities	(101,379)	(82,326)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Receipts from Interest Income	15,603	8,823
Net Cash Provided (Used) by Financing Activities	15,603	8,823
Net Increase (Decrease) in Cash and Cash Equivalents	82,250	81,621
Beginning of Period Cash	567,741	486,120
End of Period Cash	\$ 649,991	\$ 567,741
Supplemental Disclosure of Significant Cash Transactions:		
Interest Payments on Debt	13,755	16,059

Disclosure of Accounting Policy:

For the purpose of the Statement of Cash Flows, the Association considers all unrestricted highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

The Accompanying notes are an integral part of these financial statements.

Reno Area Water and Sewer District
Statement of Cash Flows
As of December 31, 2006 and 2005

	2006	2005
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net Income (Loss)	20,402	29,888
Depreciation	118,890	119,984
Less Gain on Asset	0	1,619
(Increase) Decrease in Accounts Receivable	(3,644)	1,271
(Increase) Decrease in Prepaid Expenses	(3,566)	904
(Increase) Decrease in Inventories	1,125	1,524
Increase (Decrease) in Accounts Payable	43,270	7,231
Increase (Decrease) in Accrued Expenses	(11,973)	(3,870)
Increase (Decrease) in Customer Deposits	2,850	(1,525)
Increase (Decrease) in Compensated Absences Payable	672	(1,902)
	147,624	125,236
Total Adjustments		
Net Cash Provided (Used) by Operating Activities	\$ 168,026	\$ 155,124

The Accompanying notes are an integral part of these financial statements.

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 1. Description of the Entity

The Reno Area Water and Sewer District is a regional water and sewer district organized under the provisions of Chapter 6119 of the revised Code by the Common Pleas Court of Washington County on July 2, 1975. The District operates under the direction of a five-member Board of Trustees. An appointed Secretary/Treasurer is responsible for the fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply and a sanitary system for the District's residential and business users. The District serves all or parts of the following subdivisions:

Washington County
Fearing Township
Marietta Township
Newport Township

As required by accounting principles generally accepted in the United States of America, the general purpose financial statements present the District (the primary government) and any component units. In determining whether to include a governmental department, agency, commission or organization as a component unit, the District must evaluate each entity as to whether they are legally separate and financially accountable based on criteria set forth by the Governmental Accounting Standards Board (GASB). Legal separateness is evaluated on the basis of (1) its corporate name, (2) the right to sue or be sued and (3) the right to buy, sell, lease and mortgage property. Financial accountability is based on (1) the appointment of the governing authority and (2) the ability to impose will or (3) the providing of specific financial benefit or imposition of a specific financial burden. Another factor to consider in this evaluation is whether an entity is fiscally dependent on the District.

The District has no component units.

Note 2. Summary of Significant Accounting Policies

The financial Statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America 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. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Basis of Presentation

The District's operations are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 2. Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting

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., net total assets) is segregated into contributed capital and fund balance components. The operating statement presents increase (i.e., revenues) and decrease (i.e., expenses) in net total assets.

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. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

C. Budgetary Process

Under HB 262, effective for fiscal years ended December 31, 2000 and subsequent, water and sewer districts not levying property taxes must follow most of the Ohio Revised Code Chapter 5705 budget requirements, but need not seek approval of a county budget commission for any budgetary actions. These districts must:

HB 262 Requirements	Applicable ORC Sections
Estimated receipts and adopt an operating budget	5705.28(B)(2)(a)
Prepare certificate of estimated resources (but does not require budget commission approval)	5705.36
Must amend estimated resources under the circumstances described in OCS	5705.36
Appropriate at the minimum level of control prescribed by ORC 5705.38. No budget commission approval is required.	5705.38
Cannot appropriate more than estimated resources	5705.28(B)(2)(c)
Must amend appropriations if they intend to spend more than the original appropriation	5705.40
Cannot disburse or encumber more than appropriated	5705.41(B)
Must certify availability of funds	5705.41(D)
May issue blanket or super blanket purchase orders	5705.41(D)

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 2. Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District's participation in a repurchase agreement is treated as a demand account and reported as cash equivalent. Cash in the District's operating account is considered cash for the purposes of the Statement of Cash Flows.

E. Fixed Assets and Depreciation

Fixed assets acquired or constructed for the general use of the District in providing services are recorded at cost. Construction costs of the water systems are capitalized, including interest incurred on construction projects, when they are substantially completed. Donated assets are recorded at their fair market value at the time recorded. Depreciation of fixed assets of the District is calculated utilizing the straight-line method. No depreciation is charged in the year of acquisition. All assets reported in the financial statements are at cost less accumulated depreciation. Depreciation is charged to operations

F. Allowance for Doubtful Accounts

The District uses the direct method of writing off bad debts. As a result, no allowance for doubtful accounts has been established. This method is not in conformity with accounting principles generally accepted in the United States of America. However, any differences are considered to be immaterial to the general-purpose financial statements.

G. Inventory

The inventory is valued at cost, which approximates market, utilizing first in, first out (FIFO) method. The inventory of the District consists of expendable materials and supplies. The cost is recorded as an expense at the time individual inventory items are used.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006 and December 31, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Compensated Absences

GASB Statement 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. Compensated absence is earned on the basis of services already performed by employees.
2. It is probable that the compensated absence will be paid in a future period.

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 2. Summary of Significant Accounting Policies (Continued)

capital of the District has been from customers, donated assets and grants. Grant amounts are reported as contributed capital in the period in which the entitlement occurs.

J. Tax-exempt Status

The District is a governmental agency and is, therefore, exempt from federal, state, and local income and sales taxes.

K. Long-term Obligations

Long-term debts are reported as liabilities.

L. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, GAAP, requires management must make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

M. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. Revenues are recognized when earned and expenses when incurred. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to unrestricted net assets to the extent such are available and then to restricted net assets.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 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. Of the District's restricted net assets of \$1,151,626, none was restricted by enabling legislation.

Note 3. Equity in Pooled Cash and Cash Equivalents

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

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 3. Equity in Pooled Cash and Cash Equivalents (Continued)

negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-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 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 States 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 Loan Bank, 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 items (1) and (2) of this footnote 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 Treasurer's investment pool (STAR Ohio);
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 five percent of the District's total average portfolio; and

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 3. Equity in Pooled Cash and Cash Equivalents (Continued)

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

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. Investments 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.

Deposits: Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

The bank balance of the District's deposits at December 31, 2006 was \$649,991. Of the bank balance at year end 2006, \$250,000 was covered by federal depository insurance. The remaining balance was covered by a 105% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the District's name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 4. Fixed Assets

A summary of the fixed assets as of December 31, 2006 and December 31, 2005 is as follows:

	Ending Balance 12/31/05	Additions	Deletions	Ending Balance 12/31/06
Land	\$37,440	-	-	\$37,440
Building	69,938	-	-	69,938
Furniture and Equipment	183,077	19,959	-	203,036
Line Systems	2,830,698	-	-	2,830,698
CIP Reno II Tank	77,490	2,759	-	80,249
Total	3,198,643	22,718	-	3,221,361
Less Accumulated Depreciation				
Building	(46,106)	(2,438)	-	(48,544)
Furniture and Equipment	(123,043)	(21,635)	-	(144,678)
Line Systems	(1,381,759)	(94,817)	-	(1,476,576)
Total	(1,550,908)	(118,890)	-	(1,669,798)
Total Capital Assets, Net				
	\$1,647,735	\$ (96,452)	-	\$1,551,563

Note 5. Long-Term Debt

Long-Term Debt outstanding at December 31, 2006, consisted of the following:

General Electric Credit Corporation	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Notes dated February 25, 1979, due 2019, with interest at 5%	\$123,785	\$ -	\$27,461	\$96,324
Notes dated September 17, 1982, due 2022, with interest at 5%	131,503	-	23,925	107,578
Total	\$255,288	\$ -	\$51,386	\$203,902

The notes payable to General Electric Credit Corporation are covered by a water system grant agreement and security agreement which contains conditions which the District is required to meet concerning use and disposition of property included in the agreement. The agreement also pledges accounts receivable and other property. The notes are serviced through the General Motors Acceptance Corporation. Payments reflected above do not include interest.

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 5. Long-Term Debt (Continued)

United States Dept. of Army - Corp of Engineers	12/31/05 Balance	Additions	Deletions	12/31/06 Balance
Contract dated June 30, 1998, due 2029	\$17,250	\$ -	\$750	\$16,500
	\$17,250	\$ -	\$750	\$16,500

Reno Area Water and Sewer District is required to make payments of \$750 per year for 40 years, beginning July 1, 1989, to the United States Government for credits on the Willow Island Project.

Ohio Public Works Commission	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Notes dated November 8, 1996, due 2016	\$34,537	\$ -	\$3,289	\$31,248
1% Note dated May 17, 1999, due 2020	157,768	-	9,480	148,288
Total	\$192,305	\$ -	\$12,768	\$179,536

Reno Area Water and Sewer District is required to make payments of \$1,645, semi-annually for twenty years, beginning January 1, 1997 and \$6,294, semi-annually for twenty years, beginning January 1, 2001 [with an interest only payment of \$1,401 on July 1, 2000], to the Ohio Public Works commission for credits on the Grub Road and System II Storage and Pressure Upgrade Projects, respectively.

The annual requirements to amortize all long-term debt outstanding as of December 31, 2006 are as follows:

Year Ending December 31	1979 GECC Note	1982 GECC Note	Army Corps of Engineers	OPWC Loan CR933	OPWC Loan CR11B	Totals
2007	-0-	-0-	750	3,289	9,671	13,710
2008	14,000	11,000	750	3,289	9,865	38,904
2009	15,000	12,000	750	3,289	10,063	41,102
2010	16,000	13,000	750	3,289	10,266	43,305
2011	17,000	13,000	750	3,289	10,472	44,511
Subsequent	34,324	58,578	12,750	14,803	97,952	218,407
Total	\$96,324	\$107,578	\$16,500	\$31,248	\$148,289	\$399,939

Note 6. Pension Obligations

Public Employees Retirement System

Plan Description: The district contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined pension plan administered by the State. PERS provides retirement and disability benefits,

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 6. Pension Obligations (Continued)

annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established and amended by state statute per Chapter 145 of the Ohio Revised Code.

The PERS issues a stand-alone, publicly available annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS(7377).

Contribution rates are also prescribed by the Ohio Revised Code. For 2006 and 2005, PERS members contributed 9.0% for 2006 and 8.5% for 2005 of their gross salaries. The District contributed an amount equal to 13.70% for 2006 and 13.55% for 2005 of participant's gross salaries. The District has paid all contributions required through December 31, 2006.

Note 7. Risk Management

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. The District has also obtained coverage for general liability and errors and omissions.

Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years.

The District pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

Note 8. Concentrations of Credit Risk

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of accounts receivable. Concentrations of credit risk with respect to receivables are limited due to the large number of customers comprising the District's customer base. As of December 31, 2006 and December 31, 2005, the District had no significant concentrations of credit risk.

Note 9. Budgetary Activity

Budgetary activity for the year ending December 31 2006 and 2005 are as follows:

2006	
Budgeted vs. Actual Receipts	
Budgeted Receipts	\$ -
Actual Receipts	<u>671,503</u>
Variance	<u>\$ (671,503)</u>

Reno Area Water and Sewer District
Washington County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Note 9. Budgetary Activity (Continued)

Budgeted vs. Actual Expenditures

Budgeted Expenditures	\$	-
Actual Expenditures		671,503
Variance		\$ (671,503)

2005

Budgeted vs. Actual Receipts

Budgeted Receipts	\$	-
Actual Receipts		651,978
Variance		\$ (651,978)

Budgeted vs. Actual Expenditures

Budgeted Expenditures	\$	-
Actual Expenditures		622,090
Variance		\$ (622,090)

Note 10. Change in Accounting Principle:

For the fiscal year 2006, the District implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards had no effect on the financial statements, nor did their implementation require a restatement of prior year balances.

Note 11. 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).

RENO AREA WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Regular Audit

For the Years Ended December 31, 2006 and 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

August 20, 2007

Board of Trustees
Reno Area Water and Sewer District
Washington County
170 Mount Tom Road
Marietta, Ohio 45750

We have audited the financial statements of the proprietary activities of the Reno Area Water and Sewer District as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 20, 2007, wherein the District adopted Governmental Accounting Standards Board Statement numbers 42, 46, and 47. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be considered significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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.

Reno Area Water and Sewer District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-01 through 2006-06.

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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify

all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe one significant deficiency, Finding Numbers 2006-06, described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as Items 2006-07 and 2006-08.

This report is intended solely for the information and use of the management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

Reno Area Water and Sewer District
Washington County
Schedule of Findings and Recommendations
For the Years Ended December 31, 2006 and December 31, 2005

SCHEDULE OF AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-01

Significant Deficiency

Circular E, Employer's Supplemental Tax Guide published by the Internal Revenue Service defines common-law employees as anyone who performs services for the District if the District can control the details of what will be done and how it will be done. The guide further defines independent contractors as anyone who follows an independent trade or profession in which they offer their services to the public but who the District only has the right to control or direct the result of the work and not the means and methods of accomplishment.

During 2006 and 2005, the District employed a part-time Office Clerk and did not withhold federal, state, or local taxes and did not formally set the number of hours or rate of pay this individual was allowed to work. However, the District directly controls the following details of work performed by the Office Clerk:

- When and where to do the work
- What tools or equipment to use
- What workers to hire or to assist with the work
- Where to purchase supplies and services
- What work must be performed
- What order of sequence to follow

Consequently, the District could be held liable for employment taxes of a potential employee improperly treated as an independent contractor without a reasonable basis for doing so. The District should refer to Internal Revenue Service Code Section 3509 for additional guidance on an employer's liability for treating an employee as a nonemployee. The District's Board should examine the relationship between the District and all employees and independent contractors to ensure employees and nonemployees are properly reported.

Management's Response - We did not receive a response from officials to this finding.

FINDING NUMBER 2006-02

Significant Deficiency

Approval of Timesheets

During our testing of payroll, no consistent evidence could be found to indicate employee timesheets were reviewed and approved by a supervisor or by district Trustees prior to submission and payment. This condition could result in employees being inaccurately paid. We also noted instances in which additional time was manually noted on employee timecard. However, there was no indication of payment for this time.

We recommend that all employee payroll timesheets be reviewed and approved by a supervisor

Reno Area Water and Sewer District
Washington County
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SCHEDULE OF AUDIT FINDINGS
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FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-02 (Continued)

and/or trustee prior to payment being issued. This approval should be indicated by the supervisor/trustee initialing the timesheet.

Management's Response - We did not receive a response from officials to this finding.

FINDING NUMBER 2006-03

Significant Deficiency

Delinquent Water Accounts

The District does not have a formal policy for the monitoring of delinquent water accounts. As a result, the District has an increased risk of not receiving monies owed for water and sewer utilities.

The Board should adopt a policy detailing the methodology used to distinguish delinquent from uncollectible and the procedures for collecting on delinquent accounts. This policy should address the following issues:

- The monitoring and frequency of review for delinquent accounts
- The procedures to be utilized in an attempt to collect a delinquent account
- The period of time an account may remain delinquent before being classified as uncollectible; and
- The procedures for writing off an account as uncollectible

This will help ensure the District has adequate policies and procedures in place for managing delinquent accounts.

Management's Response - We did not receive a response from officials to this finding.

FINDING NUMBER 2006-04

Significant Deficiency

Monitoring of Adjustment Reports

Trustees were not presented with and did not review any adjustment reports relating to customer billing. This could result in an increased risk of the District not receiving monies owed for water and sewer utilities. Also, inappropriate adjustments are more likely to occur without proper approval from the Trustees prior to an adjustment being made.

We recommend the Trustees review and approve bill adjustment reports on a monthly basis.

Reno Area Water and Sewer District
Washington County
Schedule of Findings and Recommendations
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SCHEDULE OF AUDIT FINDINGS
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FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-04 (Continued)

Management's Response - We did not receive a response from officials to this finding.

FINDING NUMBER 2006-05

Significant Deficiency

Segregation of Duties

It was noted that due to the small size of the District, that nearly all of the office duties are performed by one individual.

We recommend that the Board of Trustees continue to provide detail oversight and review all transactions processed by the District.

Management's Response - We did not receive a response from officials to this finding.

FINDING NUMBER 2006-06

Significant Deficiency/Material Weakness

Posting Estimated Revenues and Appropriations

The District did not enter estimated revenues and appropriations to the manual accounting system.

By not posting estimated receipts and appropriations to the accounting system, the District lacked a significant management control of monitoring year-to-date total comparison of budgeted amounts versus actual amounts.

We recommend the Secretary/Treasurer maintain an accounting system and accounting records as set forth in Ohio Admin. Code §117-2-02. We recommend the District implement procedures to ensure estimated receipts and appropriations are accurately posted to the accounting system and reconciled to the amounts approved by the board. We also recommend budget versus actual reports be presented and approved to the Board on a monthly basis.

Management's Response - We did not receive a response from officials to this finding.

FINDING NUMBER 2006-7

Noncompliance Citation/Material Weakness

Ohio Revised Code 5705.41 (D) (1) states that no subdivision or taxing unit shall make any contract or give any order involving expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in

Reno Area Water and Sewer District
Washington County
Schedule of Findings and Recommendations
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SCHEDULE OF AUDIT FINDINGS
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FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
--

FINDING NUMBER 2006-7 (Continued)

an ensuring fiscal year, the amount required to meet the obligation in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Ohio Rev. Code § 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 budget is not required to be filed with the county auditor or the county budget commission.

According to Ohio Rev. Code § 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 §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.

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

1. "Then and Now" 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 subdivision (District) can authorize the drawing of a warrant for the payment of the amount due. The subdivision 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 upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not

Reno Area Water and Sewer District
Washington County
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SCHEDULE OF AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-7 (Continued)

eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the current 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. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

3. Super Blanket Certificate - The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation. The District did not comply with the aforementioned budgetary laws for the periods ended December 31, 2004 and 2005.

We recommend the District's management review the above requirements of the Ohio Revised Code and implement procedures to assure compliance with these requirements for future periods. Budgeted amounts of receipts and disbursements should be integrated into the District accounting system to allow for meaningful comparisons between the budget versus actual figures.

There were several disbursements noted during the audit period that did not have a properly completed certificate prepared. Purchase orders were issued and signed by the initiator or special approval was noted in the minutes for most transactions. Recurring transactions (i.e., utilities, payroll, water) did not have a properly completed purchase order. This could result in errors and irregularities occurring and not being detected in a timely manner.

We recommend that a properly completed purchase order and certification be prepared for all disbursements issued by the District.

Management's Response - We did not receive a response from officials to this finding.

FINDING NUMBER 2006-8

Non-Compliance

Ohio Rev. Code Sections 121.22 and 149.43 when read together, impose duty on the board to maintain full and accurate record of their proceedings. Ohio Rev. Code Section 121.22 requires that any executive session may be held only after a majority of a quorum of the public body determines, by a roll call vote, to hold an executive session. The minutes must reflect the general subject matter for the executive session.

Reno Area Water and Sewer District
Washington County
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SCHEDULE OF AUDIT FINDINGS
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FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-8 (Continued)

No minutes were presented for audit for the meetings held on January 5, January 20, and July 11, 2006. However, one Trustee was compensated for meetings on these dates. Executive sessions were held without the roll call vote and the general subject matter was not always stated.

We recommend the Board establish guidelines as to what constitutes a legitimate meeting for which compensation for Board Member duties will be paid. We also recommend the Board note in the minutes a roll call vote on going into Executive Session along with the general subject matter to be discussed in the Executive Session.

Management's Response - We did not receive a response from officials to this finding.

RENO AREA WATER AND SEWER DISTRICT
WASHINGTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2004-01	Segregation of Duties	No	Not corrected. Reissued as Finding Number 2006-05
2004-02	ORC § 5705.36 (A)(1)	No	Not corrected. Reissued as part of Finding Number 2006-7
2004-03	ORC § 5705.38	No	Not corrected. Reissued as part of Finding Number 2006-7
2004-04	ORC § 5705.41 (B)	No	Not corrected. Reissued as part of Finding Number 2006-7
2004-05	ORC § 5705.41 (D)	No	Not corrected. Reissued as part of Finding Number 2006-7
2004-06	ORC § 117.38	Yes	Corrected.



Mary Taylor, CPA
Auditor of State

RENO AREA 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
NOVEMBER 8, 2007**