

***TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Board of Trustees
Twin Keystone Water District
8460 Tower Park Drive
Twinsburg, Ohio 44087

We have reviewed the *Report of Independent Accountants* of the Twin Keystone Water District, Summit County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2009 through December 31, 2010. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Twin Keystone Water District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 28, 2011

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**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO
AUDIT REPORT
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

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REPORT OF INDEPENDENT ACCOUNTANTS

**Twin Keystone Water District
Summit County
8460 Tower Park Drive
Twinsburg, Ohio 44087**

The Board of Trustees:

We have audited the accompanying financial statements of the Twin Keystone Water District, Summit County, Ohio (the District) as of and for the years ended December 31, 2010 and 2009, 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 these financial statements based on our audit.

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

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

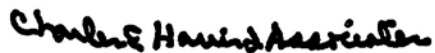
Revisions to GAAP would require the District to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2010 and 2009. While the District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The District has elected not to reformat its statements. Since this District does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2010 and 2009, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Twin Keystone Water District, Summit County, as of December 31, 2010 and 2009, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the years ended December 31, 2010 and 2009. The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal controls 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.



Charles E. Harris & Associates, Inc.
June 16, 2011

**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
Operating Cash Receipts:		
Charges for Services	\$ 159,193	\$ 161,793
14% Administrative Fees	-	280
Licenses, Permits and Fees	-	655
Developers Fees/Deposits	-	7,410
Plan Review Fees	-	1,720
	159,193	171,858
Total Operating Cash Receipts	159,193	171,858
Operating Cash Disbursements:		
Contractual Services	63,534	82,137
Utilities	3,379	3,376
Repairs and Maintenance	2,300	-
Office Supplies and Materials	1,920	807
Collection Fees	12,739	8,558
Miscellaneous	2,564	2,889
Debt:		
Principal	49,536	47,622
Interest	39,047	40,961
	175,019	186,350
Total Operating Cash Disbursements	175,019	186,350
Operating Income/(Loss)	(15,826)	(14,492)
<u>Non-Operating Receipts:</u>		
Miscellaneous	452	-
Interest	1,358	2,445
	1,810	2,445
Total Non-Operating Receipts	1,810	2,445
Net Income	(14,016)	(12,047)
Cash Balances, January 1	460,443	472,490
Cash Balances, December 31	\$ 446,427	\$ 460,443

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

**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Twin Keystone Water District, Summit County, (the District) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A seven-member Board of Trustees directs the District. The District contracts with the City of Cleveland, Division of Water, to provide water service, billing and collections for residents of Twinsburg Township. The District also provides construction of water lines and major repair and servicing of hydrants within the Township.

The District's Board of Trustees believes these financial statements present all activities of the District for which the District is financially accountable.

B. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursement basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. These statements include adequate disclosures of material matters, as prescribed or permitted by the Auditor of State.

C. INVESTMENTS AND INACTIVE FUNDS

The provisions of the Ohio Revised Code restrict investment procedures. Purchased investments are valued at purchase cost. Interest earned is recognized and recorded when received. See Note 2 for further description.

D. FUND ACCOUNTING

The District maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities, reported in other funds. The District has one enterprise fund. The restrictions associated with Proprietary Funds – Enterprise Fund type's are as follows:

Enterprise Fund – Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal service. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursement as nonoperating.

**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

E. BUDGETARY PROCESS

The Ohio Revised Code requires the District to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The District did not issue purchase orders nor did they encumber any commitments.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments.

The carrying amounts of the District's cash and investments at December 31, 2010 and 2009 were as follows:

	<u>2009</u>	<u>2010</u>	
Demand Deposits	\$ <u>460,443</u>	\$ <u>446,427</u>	

**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS – (continued)

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 Finance Officer 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.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2010 and 2009 follows:

Budgeted vs. Actual Receipts		
Enterprise Fund	2010	2009
Budgeted Receipts	\$ 195,000	\$ 204,600
Actual Receipts	161,003	174,303
Variance	\$ (33,997)	\$ (30,297)

Budgeted vs. Actual Budgetary Basis Expenditures		
Enterprise Fund	2010	2009
Appropriation Authority	\$ 195,000	\$ 204,600
Budgetary Expenditures	175,019	186,350
Variance	\$ 19,981	\$ 18,250

4. RISK MANAGEMENT

The District is exposed to various risks of loss related torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees and natural disasters. During both fiscal years, the District was not covered by any insurance.

During the audit, the District bonded both the Treasurer and the Assistant Secretary/Bookkeeper in the amount of \$20,000 each.

**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

5. OHIO WATER DEVELOPMENT AUTHORITY (OWDA) - DEBT

The Twin Keystone Water District entered into two loan agreements with OWDA for the Water Design (planning loan) and the Marwell/Twinsburg Road Water Main. The Water Design loan was authorized on May 29, 2003 and in 2004 was rolled into the Marwell/Twinsburg Road Water Main. The Marwell/Twinsburg Road Water Main loan was authorized June 24, 2004. The final total of the two loans is \$1,213,741, with the final payment January 1, 2024 at a rate of 3.98 percent.

<u>Debt</u>	<u>Balance Outstanding 1/1/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Outstanding 12/31/10</u>
Marwell/Twinsburg Road Water Main	<u>\$ 1,040,957</u>	<u>\$ -</u>	<u>\$ 97,158</u>	<u>\$ 943,799</u>

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

<u>Years</u>	<u>Principal and Interest</u>
2011	\$ 88,583
2012	88,583
2013	88,583
2014	88,583
2015	88,583
2016-2020	442,914
2021-2024	265,748
Total	\$ 1,151,577

6. LEGAL COMPLIANCE

Contrary to Ohio Revised Code Section 5705.28 requiring the District to follow 5705.41(D)(1), the District did not issue purchase orders nor did the Treasurer certify any order or contract involving the expenditure of money, therefore, they did not encumber.

7. SUBSEQUENT EVENTS/PENDING LITIGATION

Management believes there are no pending claims or lawsuits.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Twin Keystone Water District
Summit County
8460 Tower Park Drive
Twinsburg, Ohio 44087

To the Board of Trustees:

We have audited the financial statements of the Twin Keystone Water District, Summit County Ohio (the District) as of and for the years ended December 31, 2010 & 2009 and have issued our report thereon dated June 16, 2011, wherein we noted the District followed accounting practices the Auditor of State prescribes 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 Controls Over Financial Reporting

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

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

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

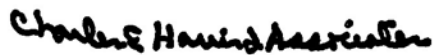
Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants 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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2010-TKWD-01.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We also noted certain matters that we have reported to management of the District in a separate letter dated June 16, 2011.

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



Charles E. Harris and Associates, Inc.

June 16, 2011

**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO
For the Years Ended December 31, 2010 & 2009**

SCHEDULE OF FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-TKWD-01

Noncompliance Citation

Clerk's Certificate and Expenditures

Ohio Revised Code Section 5705.28 requires the District to follow ORC 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the Treasurer attached. The Treasurer must certify that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to the basic requirement stated above, one of which is provided for in section 5705.41(D)(1) of the 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 he is completing his certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of such certificate to approve payment by resolution. If approval is not made within thirty days, there is no legal liability on the part of the District.

Amounts less than \$3,000 may be paid by the Treasurer without such affirmation of the taxing authority 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 taxing authority.

2. **"Blanket" Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **"Super Blanket" Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation 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 predicable 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 items appropriation.

**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO
For the Years Ended December 31, 2010 & 2009**

SCHEDULE OF FINDINGS – (Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-TKWD-01 – (continued)

One hundred percent of expenditures tested for the District were not certified. Purchase orders with the Treasurer’s certificate were not used. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. When the District uses a “then and now” certification, a “blanket certificate” or a “super blanket certificate”, the purchase order should be so noted.

Management’s Response:

Expenditures are budgeted so that the funds are available and appropriated. The District’s purchases are very minimal, therefore purchase orders were never used and are not required. Funds are verified through the District’s accounting system compared with the budgeted amount so that the District does not overspend.

**TWIN KEYSTONE WATER DISTRICT
SUMMIT COUNTY, OHIO
For the Years Ended December 31, 2010 & 2009**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2008-TKWD-01	Noncompliance with Section 5705.41 (D)(1), Ohio Revised Code	No	Not corrected; see Finding Number 2010-TKWD-01
2008-TKWD-02	Noncompliance with Sections 5705.41 (B) and 5705.40, Ohio Revised Code	Yes	No Longer Valid
2008-TKWD-03	Material Weakness with Section 117-2-02 Ohio Administrative Code – Accounting and reporting records	No	Not corrected; see Finding Number 2010-TKWD-01
2008-TKWD-04	The District recorded billings from the City of Cleveland at net amount	Yes	No Longer Valid
2008-TKWD-05	The District recorded administrative fee twice	No	Management letter comment

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Dave Yost • Auditor of State

TWIN KEYSTONE WATER DISTRICT

SUMMIT 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 9, 2011**