



Dave Yost • Auditor of State

**DEERFIELD REGIONAL STORM WATER DISTRICT
WARREN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Deerfield Regional Storm Water District
Warren County
4900 Parkway Drive
Suite 150
Deerfield Township, Ohio 45040

To the Board of Trustees:

We have audited the accompanying financial statements of the Deerfield Regional Storm Water District, Warren County, Ohio (the District), as of and for the years ended December 31, 2011 and 2010, 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 opinions on these financial statements based on our audit.

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

As discussed in Note B, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of Deerfield Region Storm Water District, Warren County, Ohio, as of December 31, 2011 and 2010, and the changes in cash financial position, thereof for the years then ended in conformity with the accounting basis Note B describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, 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 did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

December 12, 2012

Deerfield Regional Storm Water District
Warren County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
(Unaudited)

This discussion and analysis, along with the accompanying financial reports, of the Deerfield Regional Storm Water District ("the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The District's cash and cash equivalents (and net assets) increased by \$36,161 in 2011 and \$208,405 in 2010.

The District had operating cash receipts of \$539,792 in 2011 and \$536,073 in 2010. Operating cash disbursements increased by \$23,186 from 2010 to 2011 and increased by \$3,907 from 2009 to 2010.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Statements of Net Assets-Cash Basis and the Statements of Cash Receipts, Disbursements and Changes in Net Assets-Cash Basis provide information on the District's cash basis operations over the past two years and the success of recovering all its costs through user fees, charges, and other income. Receipts are reported when received in cash and disbursements are reported when paid.

The notes to the basic financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on the cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the basic financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Deerfield Regional Storm Water District
Warren County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
(Unaudited)

STATEMENTS OF NET ASSETS-CASH BASIS

Table 1 summarizes the Statements of Net Assets of the District.

TABLE 1	<u>2011</u>	<u>2010</u>	<u>Change Amount</u>	<u>2009</u>	<u>Change Amount</u>
Cash and Cash Equivalents	\$ 778,634	\$ 742,473	\$ 36,161	\$ 534,068	\$ 208,405
Total Assets	<u>\$ 778,634</u>	<u>\$ 742,473</u>	<u>\$ 36,161</u>	<u>\$ 534,068</u>	<u>\$ 208,405</u>
Net Assets -					
Unrestricted	\$ 778,634	\$ 742,473	\$ 36,161	\$ 534,068	\$ 208,405
Total Net Assets	<u>\$ 778,634</u>	<u>\$ 742,473</u>	<u>\$ 36,161</u>	<u>\$ 534,068</u>	<u>\$ 208,405</u>

The District's net assets increased by \$36,161 in 2011 and by \$208,405 in 2010. The increase in 2011 was primarily the result of charges for services slightly outpacing the current level of engineering fees and capital outlay type expenditures. The increase in 2010 was primarily the result of a significant decrease in cash disbursements for capital outlay type expenditures compared to such for 2009.

STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS – CASH BASIS

Table 2 below summarizes the changes in Cash Receipts, Cash Disbursements and the resulting change in Net Assets – Cash Basis.

TABLE 2	<u>2011</u>	<u>2010</u>	<u>Change Amount</u>	<u>2009</u>	<u>Change Amount</u>
Operating Cash Receipts	\$ 539,792	\$ 536,073	\$ 3,719	\$ 526,174	\$ 9,899
Operating Cash Disbursements	<u>163,980</u>	<u>140,794</u>	<u>23,186</u>	<u>136,887</u>	<u>3,907</u>
Operating Receipts Over/ (Under) Operating Disbursements	375,812	395,279	(19,467)	389,287	5,992
Non-Operating Cash Receipts	1,704	1,534	170	1,137	397
Non-Operating Cash Disbursements	<u>(341,355)</u>	<u>(188,408)</u>	<u>(152,947)</u>	<u>(286,489)</u>	<u>98,081</u>
Changes in Net Assets	36,161	208,405	(172,244)	103,935	104,470
Net Assets, January 1	<u>742,473</u>	<u>534,068</u>	<u>208,405</u>	<u>430,133</u>	<u>103,935</u>
Net Assets, December 31	<u>\$ 778,634</u>	<u>\$ 742,473</u>	<u>\$ 36,161</u>	<u>\$ 534,068</u>	<u>\$ 208,405</u>

Operating cash receipts remained fairly stable from 2010 to 2011 increasing \$3,719. The increase of \$23,186 in operating cash disbursements was primarily the result of increased cash disbursements for general and administrative services.

Operating cash receipts also remained fairly stable from 2009 to 2010 increasing \$9,899. The increase of \$3,907 in operating cash disbursements was primarily the result of increased cash disbursements for engineering services.

Capital outlay spending accounts for almost all of the non-operating cash disbursements. Capital outlay spending is tied to the projects being undertaken by the District. Drainage, storm water, surveying and other capital outlay-type projects were and/or are in process during 2009, 2010 and 2011. As such, non-operating disbursements on the cash basis of accounting fluctuate from year to year depending on the volume and significance of such projects.

Deerfield Regional Storm Water District
Warren County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
(Unaudited)

CAPITAL ASSETS

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The District had capital outlay disbursements of \$334,823 and \$179,410 during 2011 and 2010, respectively.

DEBT

As of December 31, 2011 and 2010 the District had no debt outstanding.

CASH

Cash balances as of December 31, 2011 and 2010 were \$778,634 and \$742,473, respectively.

CURRENT ISSUES

The District is a board of volunteers and actively seeks out public input into District programs.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to the Deerfield Regional Storm Water District, 4900 Parkway Drive, Suite 150, Deerfield Township, Ohio 45040.

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Deerfield Regional Storm Water District
Warren County
Statement of Net Assets - Cash Basis
For the Years Ended December 31, 2011 and 2010

	2011	2010
Assets		
Cash and Cash Equivalents	\$ 778,634	\$ 742,473
<i>Total Assets</i>	778,634	742,473
 Net Assets		
Unrestricted	778,634	742,473
<i>Total Net Assets</i>	\$ 778,634	\$ 742,473

See accompanying notes to the basic financial statements.

Deerfield Regional Storm Water District
Warren County
Statements of Cash Receipts, Disbursements and
Changes in Net Assets - Cash Basis
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating Cash Receipts		
Charges for Services	\$ 539,792	\$ 536,073
<i>Total Operating Cash Receipts</i>	<i>539,792</i>	<i>536,073</i>
Operating Cash Disbursements		
Purchased Services	163,857	140,039
Materials and Supplies	123	755
<i>Total Operating Cash Disbursements</i>	<i>163,980</i>	<i>140,794</i>
<i>Operating Cash Receipts Over (Under)</i>		
<i>Operating Cash Disbursements</i>	<i>375,812</i>	<i>395,279</i>
Non-Operating Cash Receipts (Disbursements)		
Capital Outlay	(334,823)	(179,410)
Prior Year Refund of Charges for Services	(6,532)	(8,998)
Interest	1,704	1,534
<i>Total Non-Operating Cash Receipts (Disbursements)</i>	<i>(339,651)</i>	<i>(186,874)</i>
<i>Changes in Net Assets</i>	<i>36,161</i>	<i>208,405</i>
<i>Net Assets Beginning of Year</i>	<i>742,473</i>	<i>534,068</i>
<i>Net Assets End of Year</i>	<i>\$ 778,634</i>	<i>\$ 742,473</i>

See accompanying notes to the basic financial statements.

NOTE A - NATURE OF ORGANIZATION

The Deerfield Regional Storm Water District, Warren County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was created on October 31, 2003 by the Warren County Court of Common Pleas to provide storm water management services to the residents of Deerfield Township in accordance with the provisions of Ohio Revised Code Section 6119. A three (3) member Board of Trustees (who are appointed by the Trustees of Deerfield Township) manage the District. Deerfield Township is a related organization to the Deerfield Regional Storm Water District. See Note F for additional information about related organizations.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision of the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The District is solely responsible for its finances. The District is empowered to issue debt payable solely from District revenues.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if it appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Based upon the application of these criteria, the District has no component units.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under the guidelines of GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. A summary of the significant accounting policies applied in preparation of the accompanying financial statements follows:

1. Basis of Accounting

These financial statements follow the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting as described above, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

These statements include adequate disclosure of material matters in accordance with the cash basis of accounting as described above.

2. **Cash and Cash Equivalents**

For reporting purposes, the District considers "Net Assets" and "Cash and Cash Equivalents" to be cash on hand, demand deposits, and all investments held by the District with a maturity date less than or equal to three months from the date of purchase.

3. **Basis of Presentation - Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single fund type and a single fund within that fund type. The fund accounts for the governmental resources allocated to it and the segregation of cash and investments for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The fund type which the Deerfield Regional Storm Water District uses is described below:

Proprietary Fund Type – This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

Enterprise Fund – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing certain goods or services to the general public on a continuing basis are financed or received primarily through user charges. This fund is used by the District to account for storm water management services.

4. **Budgetary Process**

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

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

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

Encumbrances – The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

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

5. **Capital Assets**

Acquisitions of capital assets (property, plant and equipment) are recorded as capital outlay disbursements when paid. These items are not reflected as assets in the accompanying basic financial statements.

6. **Long-Term Obligations**

In general, bonds and loans are recorded as cash disbursements in the basic financial statements when paid and are not recorded as liabilities in the accompanying basic financial statements.

7. **Net Assets**

Net assets represent the difference between assets and liabilities. Since under the District's current basis of accounting, the District does not record any other assets other than cash and investments and does not record any liabilities, net assets is equivalent to cash and investments. The District currently does not record any restrictions on their net assets.

8. **Operating Cash Receipts and Cash Disbursements**

Operating cash receipts are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these cash receipts are charges for storm water management services provided. Operating cash disbursements are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund.

NOTE C – CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS

Monies held by the District are classified by state statute into three categories.

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

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 division (1) and (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

Deerfield Regional Storm Water District
Warren County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

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
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 (FDIC), by eligible securities pledged by the financial institution as a 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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

Deposits: As of December 31, 2011, the District's bank balance of \$793,139 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above. As of December 31, 2010, the District's bank balance of \$742,473 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

Deerfield Regional Storm Water District
Warren County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

NOTE D – BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2011 and 2010 was as follows:

<u>Budgeted vs. Actual Receipts</u>	<u>2011</u>	<u>2010</u>
Budgeted Receipts	\$ 528,100	\$ 528,100
Actual Receipts	<u>541,496</u>	<u>537,607</u>
Variance	<u>\$ 13,396</u>	<u>\$ 9,507</u>

<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>	<u>2011</u>	<u>2010</u>
Appropriation Authority	\$ 796,177	\$ 341,250
Budgetary Expenditures	<u>505,335</u>	<u>327,668</u>
Variance	<u>\$ 290,842</u>	<u>\$ 13,582</u>

NOTE E – RISK MANAGEMENT

The District is exposed to various risks of loss due to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District contracts with Municipal Insurance Alliance of Ohio for all their risk management needs. Settlement amounts did not exceed insurance coverage for the past three fiscal years and there were no significant reductions in coverage from the prior year.

NOTE F – RELATED ORGANIZATIONS

Deerfield Township is a related organization to the Deerfield Regional Storm Water District. The Township Trustees are responsible for appointing the Trustees of the Deerfield Regional Storm Water District, however, the Township Trustees cannot influence the District's operation nor does the Township represent a potential financial benefit or burden to the District.

In addition, the District contracted with Deerfield Township for repair work and administrative and fiscal services as follows:

- Payments totaling \$75,905 in 2010 were issued to Deerfield Township for storm sewer repairs and street sweeping, and
- Payments totaling \$53,797 in 2011 were issued to Deerfield Township for administration and fiscal services, and
- The District utilized the Township's building free of charge.

The monetary exchanges above represent approximately 23% and 11% of the total expenditures for fiscal year 2010 and 2011, respectively.

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Dave Yost • Auditor of State

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

Deerfield Regional Storm Water District
Warren County
4900 Parkway Drive
Suite 150
Deerfield Township, Ohio 45040

To the Board of Trustees:

We have audited the financial statements of the Deerfield Regional Storm Water District, Warren County, Ohio (the District), for the years ended December 31, 2011 and 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 2012, wherein we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-02 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-03 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-01 and 2011-02.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 12, 2012.

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

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. We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 12, 2012.



Dave Yost
Auditor of State

December 12, 2012

**DEERFIELD REGIONAL STORM WATER DISTRICT
WARREN COUNTY**

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

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

Noncompliance Citation

Per the “Deerfield Regional Storm Water District Code of Regulations”, Chapter V: Purchasing Policy, “Purchase orders shall be used to approve purchase commitments and to encumber funds against the available appropriation account(s) according to Administrative Rule.” In addition, Ohio Revised Code Section 5705.41, requires that no contracts or orders involving the expenditure of money may be made unless the treasurer has certified that “the amount required to meet the obligation 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” The vehicle normally used to present this certification is the purchase order.

The Budget process described in Chapter 5705 of the Ohio Revised Code applies to a Regional Water and Sewer District, regardless of whether the District levies taxes. See Attorney General Opinion 99-020. 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 regional water and sewer 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.

Ohio Rev. Code, § 5705.41(D) (1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the 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” certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

**FINDING NUMBER 2011-01
(Continued)**

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 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 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.

100% of the transactions were not properly certified because the District did not recording appropriations or encumbrances in the accounting system and did not verify amounts had been appropriated and were free of any previous encumbrance. In addition, of 35 transactions tested: the Treasurer’s signature was after the date of the commitment and did not have “then and now” language for six transactions, there was no certification on thirteen of the PO’s presented, and PO’s were not provided for 10 transactions.

Unless the exceptions noted above are used, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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 record all appropriations and encumbrances and certify purchases to which section 5705.41D 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 prior certification is not possible, “then and now” certification should be used and signed by the Treasurer.

Officials’ Response

Management wishes to emphasize that this finding does not represent the misappropriation of assets or an intentional misstatement of the District’s financial position. Additionally, management is currently assessing the cost-benefit of making changes to the District’s financial system to address the components of this finding, including the potential adoption of the Uniform Accounting Network to process and record the District’s transactions.

FINDING NUMBER 2011-02

Material Weakness and Noncompliance Citation

Ohio Administrative Code Section 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code

**FINDING NUMBER 2011-02
(Continued)**

Ohio Administrative Code Section 117-2-02(C) (1) states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Ohio Administrative Code Section 117-2-02(C) (2) states in part that purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by section 5705.41 (D) of the Revised Code.

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

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

The District used an accounting system that did not integrate the revenue or appropriations ledgers to provide ongoing and timely information for budgetary receipts, balances of appropriations, or balances of encumbrances. The cash journal recorded disbursements as reductions of accounts payable instead of accurately classified disbursements. Purchase orders were not used for all commitments and the purchases orders that were issued were not integrated into the appropriations ledger as encumbrances.

Additionally, the District did not record the refund of prior year charges for services consistently. Certain refunds were recorded as reductions of current operating charges for services instead of non operating disbursements. Adjustments of \$6,532 and \$8,998 in 2011 and 2010, respectively, were posted to increase charges for service revenue and increase the non operating disbursements for refunds of prior year payments.

Failure to utilize an accounting system that does not integrate budgetary accounts hinders the ability of the district to report budgetary revenues, expenditures, and outstanding encumbrances which could result in misleading financial statements and noncompliance with budgetary laws. It also makes the budgetary monitoring process more difficult which could lead to overspending.

We recommend that the District implement the use of an accounting system that integrates a revenue and appropriations ledgers as required by the Ohio Administrative Code to provide ongoing and timely information for unrealized budgetary receipts and remaining uncommitted balances of appropriations. The District should be able to provide a list of expenditures including the check number, financial statement classification, and PO utilized for the payment. This will allow the District to monitor budgetary variances and take appropriate action in a timely manner.

**FINDING NUMBER 2011-02
(Continued)**

Officials' Response

Management wishes to emphasize that this finding does not represent the misappropriation of assets or an intentional misstatement of the District's financial position. Additionally, management is currently assessing the cost-benefit of making changes to the District's financial system to address the components of this finding, including the potential adoption of the Uniform Accounting Network to process and record the District's transactions.

FINDING NUMBER 2011-03

Significant Deficiency

Segregation of duties, including proper oversight and review procedures, is an essential element of effective internal controls involving the separation of custody of assets from the related recording of transactions. The objective of internal control over cash receipts and cash disbursements is to maintain control over cash received and cash disbursed. To achieve this control, more than one member of personnel should handle duties involving cash receipts and cash disbursements. Our audit revealed a lack of segregation of duties within the cash disbursements areas. This situation allows for a breakdown in controls and the potential for misappropriation of assets to occur and not be detected within a reasonable amount of time.

The small size of the District does not allow for an adequate segregation of duties. The District has contracted with Deerfield Township to perform all accounting functions for the District. The Township Accounting Manager has the ability to process and post receipts and disbursements, and is also responsible for reconciling to the depository, maintaining the vendor master file and posting all journal entries to the general ledger. Bills were paid using an online bill payment service provided by the bank. The Township Accounting Manager maintains the password to the service. Controls are not in place to act as a check and balance on the Township Accounting Manager's duties and responsibilities. Payments could be processed without the approval of the board. Fraud, error or omissions to the financial statements could occur and may not be detected by the District.

To help strengthen the District's internal control structure and reduce the likelihood of undetected errors, the District should develop and implement policies and procedures beyond those which have already been developed and implemented. In addition, management should review the controls implemented on a periodic basis to determine adequacy and effectiveness. We recommend the District consider a system that would segregate the electronic payment entry from the electronic payment approval such as an electronic positive pay system.

Officials' Response

Management is currently assessing the cost-benefit of making changes to the District's system of internal control to address the components of this finding, including further segregating the duties of those individuals involved with the processing and recording of the District's transactions.

DEERFIELD REGIONAL STORM WATER DISTRICT
WARREN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Ohio Revised Code Section 5705.41(D), failure to properly certify purchases.	No	Not corrected. Reissued as 2011-001

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Dave Yost • Auditor of State

DEERFIELD REGIONAL STORM WATER DISTRICT

WARREN 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
JANUARY 17, 2013