

Adams County Regional Water District
Adams County, Ohio

Single Audit

January 1, 2010, through December 31, 2010
Fiscal Years Audited Under GAGAS: 2010



Balestra, Harr & Scherer, CPAs, Inc.

528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639
9076 Ohio River Rd. Wheelersburg, Ohio 45694 Phone: 740.876.9121 Fax: 800.210.2573



Dave Yost • Auditor of State

Board of Trustees
Adams County Regional Water District
9203 State Route 136
West Union, Ohio 45693

We have reviewed the *Independent Auditor's Report* of the Adams County Regional Water District, Adams County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2010 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.

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 Adams County Regional 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

May 5, 2011

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Adams County Regional Water District
Adams County, Ohio
Table of Contents
For the Years Ended December 31, 2010 and 2009

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Independent Auditor’s Report | 1 |
| Management’s Discussion and Analysis..... | 3 |
| Financial Statements: | |
| Statements of Net Assets..... | 8 |
| Statements of Revenues, Expenses and Changes in Net Assets | 10 |
| Statements of Cash Flows | 11 |
| Notes to the Financial Statements | 12 |
| Schedule of Federal Awards Expenditures..... | 27 |
| Notes to the Schedule of Federal Awards Expenditures..... | 28 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 29 |
| Report on Compliance with Requirements Applicable to Each Major Federal Program And on Internal Control over Compliance Required by OMB Circular A-133 <i>Standards</i> | 31 |
| Schedule of Findings OMB Circular A-133 Section .505 | 33 |



Independent Auditor's Report

Board of Trustees
Adams County Regional Water District
9203 State Route 136
West Union, Ohio 45693

We have audited the accompanying financial statements of the business-type activities of the Adams County Regional Water District, Adams County (the District), as of and for the years ended December 31, 2010 and 2009, 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.

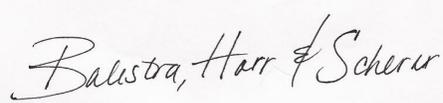
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Adams County Regional Water District, as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows, thereof, for the years 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 April 8, 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 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 result of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The accompanying Schedule of Federal Awards Expenditures provides additional analysis and is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
April 8, 2011

Adams County Regional Water District

Management's Discussion and Analysis (Unaudited)

The following discussion provides a summary overview of the financial activities of the Adams County Regional Water District ("the District") for the year ended December 31, 2010. The information should be read in conjunction with the basic financial statements included in this report.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

- Assets exceeded liabilities by \$6,542,379 and \$5,805,447 as of December 31, 2010 and 2009 respectively.
- Net assets increased by \$736,932 in 2010 and decreased by \$93,469 in 2009.
- Operating revenues increased by \$123,528 (3.52%) and increased by \$258,780 (7.97%) and operating and maintenance expenses increased by \$91,884 (2.92%) and increased by \$90,155 (2.95%) in 2010 and 2009 respectively.
- Retirement of debt principal totaled \$589,000 and \$562,442 for 2010 and 2009 respectively and additions to debt principal totaled \$-0- for both 2010 and 2009.

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, 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 Statements 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). They provide 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 Statements of Revenues, Expenses and Changes in Net Assets present a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. These statements measure 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 Statements of Cash Flows provide information about the District's cash receipts and disbursements during the year. They summarize 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.

Adams County Regional Water District

Management's Discussion and Analysis (Unaudited)

Financial Analysis of the District's Financial Position and Results of Operations

The tables below provide a summary of the District's financial position and operations for 2010, 2009 and 2008, respectively.

Table 1
Condensed Statement of Net Assets
December 31,

| | 2010 | 2009 | 2008 |
|----------------------------------------------------|---------------------|---------------------|---------------------|
| <u>Assets</u> | | | |
| Current & other assets | \$ 5,050,667 | \$ 4,488,782 | \$ 4,168,801 |
| Capital assets, net | 14,719,695 | 15,103,964 | 16,237,731 |
| Total assets | 19,770,362 | 19,592,746 | 20,406,532 |
| <u>Liabilities</u> | | | |
| Current liabilities | 1,301,411 | 1,243,534 | 1,374,851 |
| Long-term debt | 11,926,572 | 12,543,765 | 13,132,765 |
| Total liabilities | 13,227,983 | 13,787,299 | 14,507,616 |
| <u>Net Assets</u> | | | |
| Invested in capital assets, net of related debt | 2,175,930 | 1,971,199 | 2,542,524 |
| Restricted for debt service | 202,701 | 202,297 | 206,004 |
| Unrestricted | 4,163,748 | 3,631,951 | 3,150,388 |
| Total net assets | \$ 6,542,379 | \$ 5,805,447 | \$ 5,898,916 |

Financial Analysis of the District's Financial Position and Results of Operations

As noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$6,542,379 as of December 31, 2010, of which \$2,175,930 is for net investment in capital assets; compared to an excess of \$5,805,447 as of December 31, 2009.

The largest portion of the District's net assets is reflected in its cash and certificates of deposit, 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 requirement.

For the year ended December 31, 2010 and 2009 respectively, total assets of the District increased by \$177,616 and decreased by \$813,786 due to additional construction and depreciation of capital assets. Total liabilities as of December 31, 2010 and 2009 decreased by \$559,316 and \$720,317; respectfully; due mainly to retirement of debt.

Adams County Regional Water District

Management's Discussion and Analysis (Unaudited)

The following table summarizes the changes in revenues and expenses for the District between 2010, 2009 and 2008:

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31,

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------------------------------------|-------------------|--------------------|------------------|
| <u>Operating revenue</u> | | | |
| Sales to customers | \$ 2,691,137 | 2,611,530 | \$ 2,399,659 |
| Sales to public authorities | 822,868 | 773,657 | 744,434 |
| Other revenues | 116,170 | 121,460 | 103,774 |
| Total operating revenue | <u>3,630,175</u> | <u>3,506,647</u> | <u>3,247,867</u> |
| <u>Non operating revenue</u> | | | |
| Tap fee revenue | 193,600 | 102,200 | 154,900 |
| Grant revenue | 754,034 | 39,500 | - |
| Interest income | 52,677 | 94,055 | 97,153 |
| Total non operating revenue | <u>1,000,311</u> | <u>235,755</u> | <u>252,053</u> |
| Total revenue | <u>4,630,486</u> | <u>3,742,402</u> | <u>3,499,920</u> |
| <u>Operating expenses</u> | | | |
| Operations | 1,732,839 | 1,609,696 | 1,542,283 |
| Maintenance | 237,462 | 202,516 | 227,478 |
| Depreciation | 1,269,761 | 1,335,966 | 1,288,262 |
| Total operating expenses | <u>3,240,062</u> | <u>3,148,178</u> | <u>3,058,023</u> |
| <u>Non operating expenses</u> | | | |
| Interest expense | 657,472 | 684,433 | 711,452 |
| Loss on disposal of assets | 7,354 | 34,477 | - |
| Total non operating expenses | <u>664,826</u> | <u>718,910</u> | <u>711,452</u> |
| Total expenses | <u>3,904,888</u> | <u>3,867,088</u> | <u>3,769,475</u> |
| <u>Income (Loss) before contributions</u> | | | |
| <u>& extraordinary item</u> | 725,598 | (124,686) | (269,555) |
| Capital contributions | 11,334 | 4,677 | 302,510 |
| Extraordinary item | <u>-</u> | <u>26,540</u> | <u>9,156</u> |
| Change in net assets | <u>\$ 736,932</u> | <u>\$ (93,469)</u> | <u>\$ 42,111</u> |

Operating revenues consist of user charges for water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2010:

- Operating revenue increased \$123,528 (3.52%) and increased \$258,780 (7.97%) in 2010 and 2009 respectively.
- Non-operating revenues increased by \$764,556 (324.30%) due to increase in grant revenue in 2010 and decreased by \$16,298 (6.47%) due to decrease in tap fee revenue in 2009.
- Operating expenses increased by \$91,884 (2.92%) due to an increase in salaries and utilities in 2010 and increased by \$90,155 (2.95%) due to an increase in depreciation and operational expenses in 2009. Total expenses increased by \$37,800 (0.98%) and \$97,613 (2.59%) in 2010 and 2009 respectively.

Adams County Regional Water District

Management's Discussion and Analysis (Unaudited)

Capital contributions from customers increased \$6,657 (142.33%) in 2010 and decreased by \$297,833 (98.45%) in 2009. These contributions are provided by customers and grants from various agencies and are used to help cover the costs of line extensions.

Capital Assets

As of December 31, 2010 and 2009, respectfully, the District had \$14,719,695 and \$15,103,964 invested in capital assets. This amount represents a net decrease \$384,269 (2.54%) in 2010 and a decrease of \$1,133,767 (6.98%) in 2009.

**Table 3
Capital Assets
December 31,**

| | 2010 | 2009 | 2008 |
|-----------------------------------|----------------------|----------------------|----------------------|
| Land and improvements | \$ 840,524 | \$ 834,640 | \$ 834,640 |
| Construction in progress | 762,274 | 108,650 | 93,388 |
| Buildings | 542,065 | 542,065 | 519,670 |
| Wells and wellfield improvements | 1,349,295 | 1,351,191 | 1,335,217 |
| Mains, lines, and meters | 25,049,282 | 24,915,041 | 24,831,406 |
| Storage tanks | 2,114,545 | 2,143,152 | 2,207,564 |
| Water treatment & other equipment | 1,410,921 | 1,314,723 | 1,299,811 |
| Less: Accumulated depreciation | (17,349,211) | (16,105,498) | (14,883,965) |
| Totals | \$ 14,719,695 | \$ 15,103,964 | \$ 16,237,731 |

Major additions in 2010, 2009 and 2008 at cost included:

| | | | |
|------------------------------|-------------------|------------------|---------------------|
| Line extension | \$ 134,241 | \$ 83,635 | \$ 744,469 |
| Land – 130.59 Acres on US 52 | - | - | 391,736 |
| | <u>\$ 134,241</u> | <u>\$ 83,635</u> | <u>\$ 1,136,205</u> |

Debt Administration

The District finances its construction primarily through the issuance of revenue bonds or through low interest loan programs with the State of Ohio. At December 31, 2010, the District had total debt outstanding of \$12,543,765 compared to \$13,132,765 at December 31, 2009. This represents a decrease of \$589,000 and \$562,442, respectfully from payments on principal of the debt.

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

Economic Factors and 2011 Budget

Adams County Regional Water District water rates remained at the same level as 2009 with the minimum rate of \$19.00 for the first 1500 gallons and \$6.00 per thousand thereafter for a 5/8" tap. Rates for bigger-sized taps and wholesale rates also remained at the 2009 level.

Adams County Regional Water District

Management's Discussion and Analysis (Unaudited)

Economic Factors and 2011 Budget (Continued)

The number of water taps sold by the District has been declining in recent years due to the economic crisis the country has been facing, but 2010 fared a little better with eighty-two residential taps being sold with an additional sixty-four taps put in service on the south portion of the Lawshe Road Water Line Extension Project. As of the end of 2010 an additional fifty-four tap deposits had been received for taps on this project which will be installed in 2011. It is anticipated that more taps will be sold on this project during the construction of the northern part of the project.

Improvements made in the District during 2010 included small line extensions on Ebrite Road, Horner Chapel Road, Vaughn Ridge Road, Poplar Grove Road, and Reed Cemetery Road. Other improvements included several directional bores to upgrade the distribution system, the installation of anode bars on the clear wells, an upgrade to the West Union master meter pit, an expansion of the business office parking lot, and an overhaul of the radio licensing and Phase I of the telemetry system upgrade. Several pieces of equipment were purchased, as well as a leak detector system and hardware and software for an automatic meter reading system, to improve the operations of the District. Three water storage tanks were inspected and were found to not be in need of repair or painting.

The operating budget for 2011 is \$3,943,100, which is \$185,884 more than the 2010 budget. Capital improvements scheduled for 2011 include the completion of the Lawshe Road Water Line Extension, as well as possible line extensions or upgrades on Unity Road, Amason Road, State Route 348 and Holcomb Boulevard, State Route 41 south, and Betty's Creek/Poplar Grove Road. Other improvements scheduled are an upgrade to the Murphin Ridge pit, tank inspections for Clayton Tank and Eckmansville Road Tank, a well cleaning, the installation of stainless steel well columns, a high service pump rebuild, the installation of a concrete pad for pipe storage, and the purchase of generators, spare pump and motor, a chlorine analyzer and chlorine pacing valve, a pick-up truck, a camera and DVR system for the Coon Hill Tank, and various pieces of office equipment and computers.

Adams County Regional Water District is actively seeking funding for a water line extension in the Sunshine Ridge Road area. This project also requires a storage tank and booster tank to serve the area. A contract for the preliminary engineering has been issued and the project should be ready for Ohio EPA approval in 2011. Should funding be received for this project, it could possibly be constructed in 2012. The estimated cost of the project is \$1,013,150.

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 General Manager, Adams County Regional Water District, 9203 State Route 136, PO Box 427, West Union, OH 45693.

Adams County Regional Water District
Statements of Net Assets
December 31, 2010 and 2009

| | 2010 | 2009 |
|------------------------------------------------------------------|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,643,814 | \$ 1,529,110 |
| Certificates of deposit | 1,253,370 | 1,827,916 |
| Accounts receivable: | | |
| Customers, net of allowance for doubtful accounts of \$11,201 | 523,765 | 478,029 |
| Other receivables | 16,897 | 11,931 |
| Accrued interest receivable | 50,686 | 91,924 |
| Inventories | 278,573 | 253,699 |
| Prepaid expenses | 40,546 | 50,115 |
| Total current assets | 4,807,651 | 4,242,724 |
| NONCURRENT ASSETS | | |
| Restricted cash and certificates of deposit | 202,701 | 202,297 |
| Deferred costs, net | 40,315 | 43,761 |
| Total noncurrent assets | 243,016 | 246,058 |
| CAPITAL ASSETS (at cost) | | |
| Non depreciable capital assets | | |
| Land | 785,396 | 785,396 |
| Construction in progress | 762,274 | 108,650 |
| Total non depreciable assets | 1,547,670 | 894,046 |
| Depreciable capital assets | | |
| Land and land improvements | 55,128 | 49,244 |
| Buildings | 542,065 | 542,065 |
| Wells and wellfield improvements | 1,349,295 | 1,351,191 |
| Mains, lines and meters | 25,049,282 | 24,915,041 |
| Storage tanks | 2,114,545 | 2,143,152 |
| Water treatment and plant equipment | 302,471 | 302,471 |
| Trucks, tractors and radio equipment | 990,011 | 897,727 |
| Office furniture and equipment | 118,439 | 114,525 |
| Less: accumulated depreciation | (17,349,211) | (16,105,498) |
| Total depreciable capital assets | 13,172,025 | 14,209,918 |
| Total capital assets (net of depreciation) | 14,719,695 | 15,103,964 |
| Total noncurrent assets | 14,962,711 | 15,350,022 |
| Total assets | \$ 19,770,362 | \$ 19,592,746 |

(Continued)

See accompanying notes to the financial statements

Adams County Regional Water District
Statements of Net Assets
December 31, 2010 and 2009

| | 2010 | 2009 |
|-------------------------------------------------|--------------|--------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 50,925 | \$ 32,181 |
| Accrued expenses | 285,167 | 270,227 |
| Accrued interest | 252,176 | 263,676 |
| Current portion of long-term debt | 617,193 | 589,000 |
| Customer deposits | 95,950 | 88,450 |
| Total current liabilities | 1,301,411 | 1,243,534 |
| | | |
| LONG-TERM DEBT, less current portion | 11,926,572 | 12,543,765 |
| Total Liabilities | 13,227,983 | 13,787,299 |
| | | |
| NET ASSETS | | |
| Invested in capital assets, net of debt service | 2,175,930 | 1,971,199 |
| Restricted for debt service | 202,701 | 202,297 |
| Unrestricted net assets | 4,163,748 | 3,631,951 |
| Total net assets | \$ 6,542,379 | \$ 5,805,447 |

See accompanying notes to the financial statements.

Adams County Regional Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|-------------------------------------------|--------------|--------------|
| OPERATING REVENUES | | |
| Sales to customers | \$ 2,691,137 | \$ 2,611,530 |
| Sales to public authorities | 822,868 | 773,657 |
| Other revenues | 116,170 | 121,460 |
| Total operating revenues | 3,630,175 | 3,506,647 |
| OPERATING EXPENSES | | |
| Salaries | 804,202 | 755,396 |
| Utilities | 288,567 | 246,528 |
| Depreciation expense | 1,269,761 | 1,335,966 |
| Amortization expense | 3,446 | 3,446 |
| Repairs | 190,374 | 162,001 |
| Truck expense | 47,088 | 40,515 |
| Supplies | 34,922 | 36,572 |
| Pension expense | 138,391 | 133,017 |
| Payroll taxes | 57,574 | 65,296 |
| Insurance | 279,215 | 249,037 |
| Office supplies and postage | 32,814 | 32,075 |
| Legal and engineering fees | 3,525 | 3,305 |
| Accounting fees | 11,863 | 11,761 |
| Director fees | 28,900 | 26,025 |
| Advertising | 3,009 | 1,251 |
| Bad debt expense | 177 | 275 |
| Other expenses | 46,234 | 45,712 |
| Total operating expenses | 3,240,062 | 3,148,178 |
| OPERATING INCOME | 390,113 | 358,469 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Tap fee revenue | 193,600 | 102,200 |
| Grant revenue | 754,034 | 39,500 |
| Interest income | 52,677 | 94,055 |
| Interest expense | (657,472) | (684,433) |
| Loss on disposal of assets | (7,354) | (34,477) |
| Total nonoperating revenues (expenses) | 335,485 | (483,155) |
| INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS | 725,598 | (124,686) |
| CAPITAL CONTRIBUTIONS | 11,334 | 4,677 |
| INCOME(LOSS) BEFORE EXTRAORDINARY ITEM | 736,932 | (120,009) |
| INSURANCE PROCEEDS FROM FIRE LOSS | - | 26,540 |
| CHANGE IN NET ASSETS | 736,932 | (93,469) |
| NET ASSETS - BEGINNING OF YEAR | 5,805,447 | 5,898,916 |
| NET ASSETS - END OF YEAR | \$ 6,542,379 | \$ 5,805,447 |

See accompanying notes to the financial statements.

Adams County Regional Water District
Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|-----------------------------------------------------------------------------------------------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | \$ 3,586,973 | \$ 3,500,611 |
| Cash payments to employees for services | (804,202) | (755,396) |
| Cash payments to suppliers for goods and services | (1,144,274) | (1,035,698) |
| Net Cash Provided By Operating Activities | 1,638,497 | 1,709,517 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income on investments | 93,915 | 14,294 |
| Net Cash Provided By Investing Activities | 93,915 | 14,294 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of operating facilities, including construction in progress and capitalized interest | (892,847) | (399,081) |
| Demolition costs | - | (14,000) |
| Members tap fees | 193,600 | 102,200 |
| Insurance proceeds | - | 26,540 |
| Grant revenue | 754,034 | 39,500 |
| Proceeds from sale of assets | - | 6,703 |
| Payments on long term debt obligations | (589,000) | (562,442) |
| Proceeds from construction contributions | 11,334 | 4,677 |
| Interest paid on long term debt obligations | (668,971) | (695,696) |
| Net Cash Used In Capital and Related Financing Activities | (1,191,850) | (1,491,599) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 540,562 | 232,212 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 3,559,323 | 3,327,111 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 4,099,885 | \$ 3,559,323 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating Income | \$ 390,113 | \$ 358,469 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 1,269,761 | 1,335,966 |
| Amortization | 3,446 | 3,446 |
| Changes in assets and liabilities: | | |
| Accounts receivable, customers and other | (50,702) | (5,636) |
| Inventories | (24,874) | (4,890) |
| Prepaid expenses | 9,569 | (928) |
| Accounts payable and other accrued expenses-excluding capital asset additions | 33,684 | 23,490 |
| Customer deposits | 7,500 | (400) |
| Net Cash Provided by Operating Activities | \$ 1,638,497 | \$ 1,709,517 |

See accompanying notes to the financial statements.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. DESCRIPTION OF ENTITY

(a) Description of Operations

Adams County Regional Water District (the "District"), was organized under the provisions of Section 6119 of the Ohio Revised Code on January 1, 1997. Prior to that date, the District was operated as an Ohio not-for-profit corporation known as Adams County Water Co., Inc. The District provides water service to its members in Adams County. The accounting policies used by the District reflect practices common to the industry.

(b) Reporting Entity

The financial reporting entity consists of the Adams County Regional Water District (the primary government). No component units have been separately organized.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The District has elected not to follow FASB guidance issued after November 30, 1989.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers cash in operating bank accounts, money market accounts, and certificates of deposit with an original maturity of three months or less as cash.

(c) Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

(d) Deferred Financing Costs

Costs connected with obtaining and executing debt agreements are capitalized and amortized on the straight-line basis over the term of the related debt.

(e) Capital Assets

Capital assets are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 2010 and 2009, no interest was capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments, over a \$1,000 threshold, are capitalized.

(f) Depreciation

Provision for depreciation has been made on the basis of estimated lives of assets, using the straight-line method. Depreciable lives for the various assets are as follows:

| | |
|----------------------------------|-------------|
| Land improvements | 10-20 Years |
| Building | 45 Years |
| Wells and wellfield improvements | 10-20 Years |
| Mains, lines and meters | 20-50 Years |
| Storage tanks | 10-50 Years |
| Equipment | 5-10 Years |

(g) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(h) Customer Accounts Receivable

Customer accounts receivable are stated at face value, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. Doubtful accounts are charged against the allowance when management believes the collectability of the account is unlikely.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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 type 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.

(j) Net Assets

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital, net of related debt.”

Of the District's \$202,701 in restricted net assets, none were restricted by enabling legislation.

(k) Investments and Investment Policy

The District has adopted an investment and depository policy, which states that the District will invest in the following instruments, as provided by Section 135.35 of the Ohio Revised Code.

- Securities of the United States Government
- Federal agency obligations
- Repurchase agreements
- State of Ohio bonds and other obligations
- No-load money market mutual funds
- State Treasurer's investment pool (STAROhio)
- Certain bankers' acceptances and commercial paper notes

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 3. RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Restricted cash and certificates of deposit consist of savings accounts and certificates of deposit and represent amounts designated as reserved to comply with loan agreements with the U.S. Department of Agriculture Farmers Home Administration (FMHA) described more fully in Note 4.

Note 4. LONG-TERM DEBT

On April 21, 1999, the District issued \$2,639,424, in water revenue refunding bonds with rates of 4.5% to 6.5% in order to refinance the existing notes payable to FMHA. The terms of the bonds are identical to the previously issued notes and, therefore, no economic gain has been recognized by the District. During 2005, the District issued \$144,000 in a water revenue refunding bond to acquire equipment in connection with the District's water supply system. The bond has a rate of 4.25% with a final maturity date in 2015.

The original amount of each issue, the maturity date, and interest rates are summarized below:

| | Amount of Original Issue | Final Maturity Date | Interest Rate |
|----|-----------------------------|------------------------|------------------|
| \$ | 322,095 | 2034 | 4.50% |
| \$ | 242,304 | 2015 | 5.00% |
| \$ | 987,342 | 2019 | 5.00% |
| \$ | 246,725 | 2018 | 5.00% |
| \$ | 195,658 | 2023 | 6.50% |
| \$ | 144,000 | 2015 | 4.25% |

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2010, are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|----------------------|---------------------|----------------------|
| 2011 | 617,193 | 640,783 | 1,257,976 |
| 2012 | 647,297 | 611,023 | 1,258,320 |
| 2013 | 678,293 | 579,588 | 1,257,881 |
| 2014 | 711,665 | 546,414 | 1,258,079 |
| 2015 | 746,904 | 511,368 | 1,258,272 |
| 2016-2020 | 3,998,563 | 1,977,916 | 5,976,479 |
| 2021-2025 | 4,356,887 | 890,232 | 5,247,119 |
| 2026-2030 | 721,463 | 55,604 | 777,067 |
| 2031-2034 | 65,500 | 7,533 | 73,033 |
| Total | \$ 12,543,765 | \$ 5,820,461 | \$ 18,364,226 |

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

Note 4. LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2010:

| | Balance | | | | Balance Due Within | |
|----------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------------|------------------------|------------------------|---------------------------|--|
| | <u>12/31/09</u> | <u>Additions</u> | <u>Payments</u> | <u>12/31/10</u> | <u>One Year</u> | |
| 1999 water revenue refunding bonds | \$1,260,000 | \$ - | \$ 88,700 | \$1,171,300 | 93,200 | |
| 2005 water revenue refunding bond | 93,500 | - | 14,000 | 79,500 | 14,600 | |
| Note payable OWDA, payable in semiannual installments of \$342,839 starting January 1, 2002, including interest at 6.39%, due July, 2026. | 7,047,290 | - | 239,116 | 6,808,174 | 254,639 | |
| Note payable OWDA, payable in semiannual installments of \$66,981 starting Jan. 1, 2000, including interest at 2%, due July, 2024. | 1,721,340 | - | 99,535 | 1,621,805 | 101,526 | |
| Note payable OWDA, payable in 50 semiannual installments of \$54,013 starting Jan. 1, 2000, including interest at 5.86%, due July, 2024. | 1,058,204 | - | 46,015 | 1,012,189 | 48,712 | |
| Note payable OWDA, payable in 50 semiannual installments of \$25,260, starting July 1, 2000, including interest at 5.56%, due January, 2025. | 520,282 | - | 21,892 | 498,390 | 23,126 | |
| Note payable OWDA, payable in 50 semiannual installments of \$53,061, starting July 1, 2000, including interest at 2%, due January, 2025. | 1,402,268 | - | 78,078 | 1,324,190 | 79,639 | |
| Note payable OWDA, payable in 40 semiannual installments of \$1,591, starting July 1, 2003, including interest at 5.15%, due January, 2022. | 29,881 | - | 1,664 | 28,217 | 1,751 | |
| | <u>\$13,132,765</u> | <u>\$ 0</u> | <u>\$ 589,000</u> | <u>\$12,543,765</u> | <u>\$ 617,193</u> | |

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 4. LONG-TERM DEBT (Continued)

Capital assets, together with all revenue and service charges which may arise from the operations of the District, are pledged for the payment of revenue bond debt.

The notes payable OWDA are secured by operating facilities.

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2010 and 2009 was \$202,701 and \$202,297 respectively. This amount equaled the required reserve.

Note 5. CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction consist of contributions from customers and grants from FMHA and various government agencies for the construction of water mains to serve customers.

Note 6. 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 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.

State statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or securities 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;

ADAMS COUNTY REGIONAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 6. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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 (STAROhio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 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, 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.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 6. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

Cash on Hand: At December 31, 2010 and 2009, the District had \$154 and \$172 respectively, in undeposited cash on hand which is included on the statement of net assets of the District as part of “cash and cash equivalents”.

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. The District is required to categorize deposits and investments according to GASB Statement No. 3, *Deposits with Financial Institutions,*

Investments, and Reverse Repurchase Agreements. The bank balances of the District’s deposits at December 31, 2010 and 2009 were \$4,099,731 and \$3,559,151 respectively.

Of the bank balances at December 31, 2010 and 2009 all were covered either by federal depository insurance or collateral held by the pledging bank’s trust department but not in the District’s name pursuant to Section 135.181 Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Although the pledging bank has an investment and securities pool used to collateralize all public deposits, which are held in the financial institution’s name, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The deposits not covered by federal depository insurance are considered uninsured and uncollateralized under the provisions of GASB Statement No. 3 and subject to custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government’s investments in a single issuer. The District’s investment policy does not address concentration of credit risk.

Note 7. POST-EMPLOYMENT BENEFITS

Statement 45 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*, establishes standards for disclosure of information on post-employment benefits other than pension benefits by all state and local government employers.

(a) Plan Description

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 7. POST-EMPLOYMENT BENEFITS (Continued)

(a) Plan Description (Continued)

Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

(b) Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.00% of covered payroll, and public safety and law enforcement employers contributed at 17.87%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan. OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 7. POST-EMPLOYMENT BENEFITS (Continued)

(c) District Contributions

The district's contribution to OPERS for the years ended December 31, 2010, 2009 and 2008 to fund post-employment benefits were \$42,242, \$46,911, and \$53,310 respectfully

(d) OPERS Retirement Board Implements its Health Care Preservation Plan

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

Note 8. PENSION BENEFITS

Statement 27 of the Governmental Accounting Standards Board (GASB), *Accounting for Pensions by State and Local Governmental Employers*, as amended by Statement 50 of the Governmental Accounting Standards Board (GASB), *Pension Disclosures an amendment of GASB Statements No. 25 and No. 27*, establishes standards for disclosures of information on pension benefits by all state and local government employers.

- (a) Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
1. The Traditional Pension Plan-a cost sharing, multiple-employer defined benefit pension plan.
 2. The Member-Directed Plan-a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
 3. The Combined Plan-a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- (b) OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- (c) Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 8. PENSION BENEFITS (Continued)

(d) OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

(e) The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2010 member contribution rates were 10.0% of covered payroll for members in state and local classifications. Public safety and law enforcement members, contributed 10.5% and 11.1% respectively.

The 2010 employer contribution rate for state and local employers was 14.00% of covered payroll. The law enforcement and public safety division, employer contribution rate was 17.87% of covered payroll.

(f) The District contributed \$116,364, \$111,847, and \$110,619 to the plan for 2010, 2009 and 2008.

Note 9. TERMINATION BENEFITS

The District's liabilities for benefits upon termination of employment are not estimable and, therefore, have not been recognized in the financial statements.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 10. CAPITAL ASSETS

The balance of capital assets at December 31, 2010 consists of the following:

| | <u>Balance 12/31/09</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Balance 12/31/10</u> |
|--------------------------------------|-----------------------------|---------------------|---------------------|-----------------------------|
| Land and land improvements | \$ 834,640 | \$ 5,884 | \$ - | \$ 840,524 |
| Accumulated depreciation | (25,362) | (2,517) | - | (27,879) |
| Buildings | 542,065 | - | - | 542,065 |
| Accumulated depreciation | (285,833) | (17,027) | - | (302,860) |
| Wells and wellfield improvements | 1,351,191 | - | 1,896 | 1,349,295 |
| Accumulated depreciation | (1,167,874) | (27,260) | (1,896) | (1,193,238) |
| Mains, lines and meters | 24,915,041 | 134,241 | - | 25,049,282 |
| Accumulated depreciation | (12,311,935) | (1,054,965) | - | (13,366,900) |
| Storage tanks | 2,143,152 | 2,900 | 31,507 | 2,114,545 |
| Accumulated depreciation | (1,246,521) | (95,662) | (24,152) | (1,318,031) |
| Water treatment and plant equipment | 302,471 | - | - | 302,471 |
| Accumulated depreciation | (271,335) | (3,269) | - | (274,604) |
| Trucks, tractors and radio equipment | 897,727 | 92,284 | - | 990,011 |
| Accumulated depreciation | (714,352) | (58,800) | - | (773,152) |
| Office furniture and equipment | 114,525 | 3,914 | - | 118,439 |
| Accumulated depreciation | (82,286) | (10,261) | - | (92,547) |
| Construction in progress | 108,650 | 671,252 | 17,628 | 762,274 |
| Total | <u>\$ 15,103,964</u> | <u>\$ (359,286)</u> | <u>\$ 24,983</u> | <u>\$ 14,719,695</u> |

Note 11. COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to full-time, permanent employees to specified maximums. Upon termination, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2010 and 2009 were \$224,614 and \$206,149 respectively.

Note 12. ECONOMIC DEPENDENCY

Adams County Regional Water District's customer base consists of villages and individuals in Adams County, Ohio and a small portion of Brown County, Ohio.

ADAMS COUNTY REGIONAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Significant risk of losses is covered by commercial insurance.

Note 14. CONTINGENCIES

The District is involved in various open workers' compensation cases. The ultimate resolution of these matters is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

Note 15. DEFERRED COSTS

Deferred costs are the result of the capitalization of fees incurred to obtain loans from OWDA.

Note 16. ADVERTISING COSTS

The District expenses advertising costs as incurred. Advertising expenses amounted to \$3,009 and \$1,251 in 2010 and 2009 respectively.

Note 17. INSURANCE PROCEEDS

During 2009 lightning strikes damaged well field property. The District received insurance recoveries of \$25,939.

During 2009 the District received insurance recoveries of \$601 due to a truck accident.

The recoveries are reported as a separate line item on the Statement of Revenues, Expenses and Changes in Net Assets.

Note 18. BUDGETARY ACTIVITY

The District prepares its budget based on a modified cash method of accounting. The budgetary comparison schedule included in the supplemental information, presented on page 33, includes disbursements for debt retirement of \$589,000 and capital expenditures of \$892,847.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 19. LAWSHE WATER LINE EXTENSION

During 2010, the District began a water line extension for the Lawshe area. The funding for the project is provided by:

- a) Community Development Block Grant local formula funds from Adams County Commissioners - \$50,000;
- b) Community Development Block Grant from the Ohio Department of Development using ARRA funds - \$500,000;
- c) Appalachian Regional Commission Grant (ARC) - \$250,000;
- d) Ohio Public Works Commission Grant - \$100,000;
- e) Ohio Public Works Commission 0% loan - \$325,000;
- f) USDA Rural Development 2.38% loan - \$736,000.

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final</u> |
|---------------------------------------------|-------------------------|---------------------|-------------------|----------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Budget</u> |
| | | | | <u>Positive (Negative)</u> |
| RECEIPTS | | | | |
| Sales to rural customers | \$ 2,600,000 | \$ 2,600,000 | \$2,691,137 | \$ 91,137 |
| Sales to public authorities | 760,000 | 760,000 | 822,868 | 62,868 |
| Interest income | 50,000 | 50,000 | 52,677 | 2,677 |
| Other revenue | 85,000 | 85,000 | 116,170 | 31,170 |
| Tap fees collected | 104,000 | 104,000 | 193,600 | 89,600 |
| Grant revenue | - | - | 754,034 | 754,034 |
| Proceeds from construction contributions | - | - | 11,334 | 11,334 |
| Total receipts | <u>3,599,000</u> | <u>3,599,000</u> | <u>4,641,820</u> | <u>1,042,820</u> |
| DISBURSEMENTS | | | | |
| Salaries | 815,000 | 815,000 | 804,202 | 10,798 |
| Utilities | 260,000 | 290,000 | 288,567 | 1,433 |
| Repairs and inventories | 150,000 | 225,000 | 190,374 | 34,626 |
| Truck expense | 51,000 | 51,000 | 47,088 | 3,912 |
| Supplies | 38,000 | 38,000 | 34,922 | 3,078 |
| Pension expense | 140,026 | 140,026 | 138,391 | 1,635 |
| Payroll taxes | 66,000 | 66,000 | 57,574 | 8,426 |
| Insurance | 285,000 | 285,000 | 279,215 | 5,785 |
| Office supplies & postage | 33,000 | 33,000 | 32,814 | 186 |
| Legal and engineering | 5,000 | 5,000 | 3,525 | 1,475 |
| Accounting | 17,000 | 17,000 | 11,863 | 5,137 |
| Trustee fees | 31,000 | 31,000 | 28,900 | 2,100 |
| Other expenses | 60,000 | 60,000 | 49,420 | 10,580 |
| Debt service | 1,257,975 | 1,257,975 | 1,257,975 | - |
| Capital expenditures | 548,215 | 443,215 | 892,847 | (449,632) |
| Total disbursements | <u>3,757,216</u> | <u>3,757,216</u> | <u>4,117,677</u> | <u>(360,461)</u> |
| Excess receipts over disbursements | <u>\$ (158,216)</u> | <u>\$ (158,216)</u> | <u>\$ 524,143</u> | <u>\$ 682,359</u> |

Adams County Regional Water District
Adams County

Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2010

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|-----------------------------------------------------------------------|----------------------------------|---------------------------|-------------------|
| United States Department of Agriculture | | | |
| <i>Direct from Federal Government:</i> | | | |
| Water and Waste Disposal Systems for Rural Communities | N/A | 10.760 | \$ 80,838 |
| Total United States Department of Agriculture | | | <u>80,838</u> |
| United States Department of Housing and Urban Development | | | |
| <i>Passed through Ohio Department of Development:</i> | | | |
| Community Development Block Grants/States's Program Cluster: | | | |
| Community Development Block Grant | B-P-09-1AA-1 | 14.228 | 118,969 |
| Community Development Block Grant - ARRA | B-R-09-1AA-1 | 14.253 | 500,000 |
| Community Development Block Grant | B-F-09-1AA-1 | 14.228 | <u>50,000</u> |
| Total Community Development Block Grants/State's Program | | | 668,969 |
| Total United States Department of Housing and Uran Development | | | <u>668,969</u> |
| Total Federal Financial Assistance | | | <u>\$ 749,807</u> |

N/A=Pass through entity number not available
See Notes to the Schedule of Federal Awards Expenditures.

**Adams County Regional Water District
Adams County**

**Notes to the Schedule of Federal Awards Expenditures
for the Fiscal Year Ended December 31, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the District's federal award programs disbursements. The Schedule has been prepared on the cash basis of accounting.



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards***

Board of Trustees
Adams County Regional Water District
9203 State Route 136
West Union, Ohio 45693

We have audited the financial statements of the business-type activities of Adams County Regional Water District, Adams County, (the District) as of and for the years ended December 31, 2010 and 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 8, 2011. 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.

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

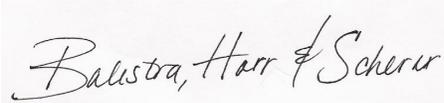
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Adams County Regional Water District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

We intend this report solely for the information and use of the management, the board of trustees, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored rectangular background.

Balestra, Harr & Scherer, CPAs, Inc.
April 8, 2011



Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Board of Trustees
Adams County Regional Water District
9203 State Route 136
West Union, OH 45693

Compliance

We have audited the compliance of the Adams County Regional Water District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Adams County Regional Water District's major federal programs for the year ended December 31, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Adams County Regional Water District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Board of Trustees
Adams County Regional Water District
Report on Compliance with Requirements Applicable to each Major Federal Program and on
Internal Control Over Compliance Required by OMB Circular A-133
Page 2

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, others within the district, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
April 8, 2011

**Adams County Regional Water District
Adams County, Ohio**

**Schedule of Findings
OMB Circular A-133 Section §.505
December 31, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other significant control deficiencies reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other significant internal control deficiencies reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Program's Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under §.510(a)? | No |
| (d)(1)(vii) | Major Programs (list): | Community Development Block Grants/ State's Program Cluster: Community Development Block Grant, CFDA #14.228, and Community Development Block Grant – ARRA, CFDA #14.253 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

**Adams County Regional Water District
Adams County, Ohio**

**Schedule of Findings
OMB Circular A-133 Section §.505
December 31, 2010**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted

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Dave Yost • Auditor of State

ADAMS REGIONAL WATER DISTRICT

ADAMS 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
MAY 17, 2011**