



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY

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STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

East Muskingum Water Authority  
Muskingum County  
P.O. Box 2005  
Zanesville, Ohio 43702

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of the East Muskingum Water Authority, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the East Muskingum Water Authority, Muskingum County, as of December 31, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2002 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

December 18, 2002

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**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**BALANCE SHEET  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>2001</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$351,073
Investments	571,912
Accounts Receivable	162,001
Restricted Assets:	
Cash and Cash Equivalents with Fiscal/Escrow Agents	2,777,702
Inventory	46,852
Fixed Assets (Net of Accumulated Depreciation)	13,431,115
Prepaid Expenses	3,286
<b>Total Assets</b>	<b><u><u>\$17,343,941</u></u></b>
 <b>Liabilities and Equity:</b>	
<b>Liabilities:</b>	
Accounts Payable	\$90,598
Accrued Wages and Benefits	71,409
Accrued Bond Interest Payable	32,788
Mortgage Revenue Bond Payable	8,290,000
<b>Total Liabilities</b>	<b><u>8,484,795</u></b>
 <b>Equity:</b>	
Contributed Capital	3,237,561
Retained Earnings - Reserved:	
Reserved for Current Debt Service	62,464
Reserved for Future Debt Service	595,473
Reserved for Replacement and Improvement	23,702
Retained Earnings - Unreserved	4,939,946
<b>Total Equity</b>	<b><u>8,859,146</u></b>
<b>Total Liabilities and Equity</b>	<b><u><u>\$17,343,941</u></u></b>

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

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<b>2001</b>
<b>Operating Revenues:</b>	
Charges for Services	\$2,175,631
Miscellaneous	499
	2,176,130
<b>Operating Expenses:</b>	
Operating Expenses	1,022,798
Administrative Expenses	197,038
Depreciation Expenses	438,448
	1,658,284
Operating Income (Loss)	517,846
<b>Non-Operating Revenues:</b>	
Amortized Gain on Refinancing	223,905
Unrealized Gain	4,992
Interest Income	86,839
	315,736
<b>Non-Operating Expenses:</b>	
Interest and Fiscal Charges	627,017
Total Non-Operating Expenses	627,017
Net Income (Loss)	206,565
Retained Earnings at Beginning of Year	5,415,020
Retained Earnings at End of Year	5,621,585
Contributed Capital at Beginning of Year	3,237,561
Contributed Capital at End of Year	3,237,561
<b>Equity at End of Year</b>	<b>\$8,859,146</b>

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



**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<b>2001</b>
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Customers	\$2,180,359
Cash Received from Other Operating Revenues	499
Cash Payments to Suppliers of Goods and Services	(790,391)
Cash Payments to Employees for Services	(390,898)
	999,569
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>999,569</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Payments for Capital Acquisition	(906,514)
Principal Payments	(5,895,000)
Proceeds from Sale of Bond Issue	8,290,000
Interest Payments	(542,894)
Cost of Debt Issuances	(233,246)
	712,346
<b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>	<b>712,346</b>
<b>Cash Flows from Investing Activities:</b>	
Net Increase in Investment Activities	(184,068)
Interest Earned on Investments	86,839
	(97,229)
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>(97,229)</b>
Net Increase (Decrease) in Cash and Cash Equivalents	1,614,686
Cash and Cash Equivalents, January 1	1,514,089
	<b>\$3,128,775</b>
<b>Cash and Cash Equivalents, December 31</b>	<b>\$3,128,775</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>	
Operating Income(Loss)	\$517,846
	<b>438,448</b>
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>	
Depreciation Expense	438,448
<b>Change in Assets and Liabilities:</b>	
(Increase) Decrease in Inventory	2,888
(Increase) Decrease in Accounts Receivable	4,728
(Increase) Decrease in Prepaid Expenses	6,216
Increase (Decrease) in Accounts Payable	21,251
Increase (Decrease) in Accrued Wages and Benefits	8,192
	481,723
<b>Total Adjustments</b>	<b>481,723</b>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$999,569</b>

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

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**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The East Muskingum Water Authority, Muskingum County (the Authority), was established April 28, 1967, by journal entry in the Court of Common Pleas of Muskingum County, Ohio, to provide an adequate and uncontaminated water supply for the consumption of inhabitants, for industrial and business uses, and for fire protection. The Authority operates under an appointed Board of Trustees of seven members and is responsible for providing water to residents of the Authority area. The Authority services Falls, Hopewell, Licking, Muskingum, Perry, Salt Creek, Union, Washington and Wayne Townships, Muskingum County, Ohio. The Authority is organized and governed by the provisions of Chapter 6119 of the Ohio Revised Code.

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

**B. Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made. The accounting policies of the Authority conform to generally accepted accounting principles.

The Authority's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The operating statements present increases (i.e. revenues) and decreases (i.e., expenses) in net total assets.

Pursuant to GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and *Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins* issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Enterprise activity is accounted for in the manner similar to private business enterprises where the intent of management is that the costs and expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges and where management has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control and accountability.

The Authority uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. Unbilled service charges receivable are recognized as revenue at year end.

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Authority did not encumber all commitments required by Ohio law.

A summary of 2001 budgetary activity appears in Note 3.

**D. Deposits and Investments**

During 2001, investments were limited to certificates of deposit and investments in treasury securities. These investments are stated at cost or amortized cost which approximates market. Investment procedures are restricted by provisions of the Ohio Revised Code.

The Authority utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in the accounts are presented on the Balance Sheet as "Cash and Cash Equivalents with Fiscal and Escrow Agents" and represents deposits or investments.

For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**E. Restricted Assets**

Restricted assets represent cash and cash equivalents and investments set aside in the fiscal agent's accounts to meet bond debt covenants.

**F. Accounts Receivable**

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Property, Plant, and Equipment**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included or capitalized. Property, plant, and equipment of the Authority are recorded at cost. Property, plant, and equipment donated are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, and equipment reflected are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water Wells	25
Water Systems	5 - 50
Buildings	10 - 40
Machinery / Equipment	2 - 10
Furniture / Fixtures	3 - 5
Vehicles	5

**H. Long-Term Obligations**

Long-term debt and bond anticipation notes are reported as liabilities.

**I. Contributed Capital**

Contributed capital represents resources provided by other governments and private sources that is not subject to repayment. These assets are recorded at their fair market value on the date contributed.

**J. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**K. Retained Earnings – Reserved**

Reserves represent those portions of retained earnings legally segregated for a specific future use.

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

State statutes classify monies held by the Authority 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 Authority 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 the Authority has identified as not required for use within the current two year period. 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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of Authority 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.

Interim monies may be deposited or invested in the following securities:

- a. 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;
- b. 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;
- c. 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;
- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (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;

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

- f. The State Treasurer's investment pool (STAROhio);
- g. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
- h. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 with five years from the date of purchase unless matched to a specific obligation or debt of the Authority, 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 qualified trustee, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Undeposited Cash – At year end, the Authority had \$500 in undeposited cash on hand which is included on the balance sheet of the Authority as part of "Cash and Cash Equivalents."

Restricted Cash with Fiscal/Escrow Agent – At year end, the Authority had \$2,777,702 on deposit with the trustee bank (fiscal agent), JP Morgan Institutional Trust Services. The trustee bank is responsible for maintaining adequate collateral.

Deposits - At fiscal year end, the carrying amount of the Authority's deposits was \$450,573 and the bank balance was \$453,500. The bank balance was fully covered by federal depository insurance or by collateral held by the depository's trust department in the Authority's name.

Investments – The Authority's investments are required to be categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Authority's name.

At December 31, 2001, the Authority's investment balances were as follows:

	Category 2	Carrying Amount	Fair Value
U.S. Treasury Securities	\$471,912	\$471,912	\$471,912

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

The classification of "Cash and Cash Equivalents" on the financial statements is based on criteria set forth in GASB Statement No.9.

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No.3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$3,128,775	\$571,912
Undeposited Cash	(500)	0
Certificates of Deposit with Maturity > 90 Days	100,000	(100,000)
GASB Statement 3	\$3,228,275	\$471,912

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2001 follows:

Budgeted vs. Actual Receipts	
	2001
Budgeted Receipts	\$2,075,900
Actual Receipts	2,176,130
Variance	\$100,230

Budgeted vs. Actual Budgetary Basis Expenditures	
	2001
Appropriation Authority	\$1,766,500
Budgetary Expenditures	1,658,284
Variance	\$108,216

The Authority is only required to adopt an operating budget and does not budget non-operating revenue and expenditures.

Prior certification of Authority funds was not obtained for all expenditures made during 2001, contrary to Ohio Revised Code Section 5705.41 (D).



**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**4. LONG-TERM OBLIGATIONS**

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Water Resource Revenue Bonds	\$8,290,000	3.1% - 5.38%
Total	\$8,290,000	

The Authority issued water system mortgage revenue bonds to retire bond anticipation notes issued for the construction of facilities and to finance additional capital improvements. Revenues of the utility have been pledged and a trust indenture executed to secure the repayment of this debt. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for fees to customers in sufficient amounts, as defined, to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemption of principal, and maintenance of properties in good condition.

The annual requirements to amortize all debt outstanding as of December 31, 2001, including interest payments of \$6,332,496, are as follows:

<u>Year ending December 31:</u>	<u>Water Revenue Bonds</u>
2002	\$583,463
2003	587,573
2004	585,973
2005	583,798
2006	586,133
2007 - 2011	2,922,297
2012 - 2016	2,925,229
2017 - 2021	2,923,768
2022 - 2026	2,924,262
Total	\$14,622,496

The Authority exercised the call provisions of the 1985 water mortgage revenue refinancing bonds during 2001. An account "Deferred Credit-Unamortized Gain on Refinancing Bond Issues" was established to record the amortization of the gain on bonds that were refinanced during 1985. The amount in the account was to be amortized over the life of the 1985 bond issue from January 1, 1986 through July 1, 2005. Since the bond issue was retired early, the balance of the unamortized gain, \$174,148, was recognized as an amortized gain on refinancing for 2001.

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**5. RISK MANAGEMENT**

The Authority is exposed to various risks related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2001, the Authority contracted with St. Paul Insurance Company for property and general liability insurance.

Vehicles are covered by St. Paul Insurance Company and hold a \$250 deductible. Vehicle liability coverage had a \$1,000,000 limit for collision and a \$1,000,000 limit for bodily injury.

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

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

**6. DEFINED BENEFIT PENSION PLANS**

**Public Employees Retirement System**

All full-time employees of the Authority participate in the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The Authority contributed an amount equal to 13.55% of participants' gross salaries for the period January 1, 2001 through December 31, 2001. The Authority's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$54,762, \$44,339, and \$45,815, respectively. The full amounts have been contributed for 2001, 2000, and 1999.

**7. POSTEMPLOYMENT BENEFITS**

**Public Employees Retirement System**

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement Number 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by state statute. The employer contribution rate for 2001 was 13.55 percent of covered payroll and 4.3 percent was the portion that used to fund health care.

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**7. POSTEMPLOYMENT BENEFITS (Continued)**

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 411,076. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

**8. OTHER EMPLOYER BENEFITS**

The Authority provides life insurance and accidental death insurance to its employees.

The Authority contracts with Medical Mutual of Ohio for hospitalization and prescription insurance for all employees and elected officials. The Authority pays 100 percent of the total monthly premiums which varies according to employee age and number of dependents.

Dental care coverage is provided by General Electric.

Vision care coverage is provided by Vision Plus.

**9. FIXED ASSETS**

A summary of the Authority's fixed assets at December 31, 2001 is as follows:

Land	\$100,554
Water Systems	12,558,934
Buildings	4,017,776
Furniture and Fixtures	21,348
Machinery and Equipment	170,569
Motor Vehicles	244,985
Total	<u>17,114,166</u>
Accumulated Depreciation	<u>(3,683,052)</u>
Net Fixed Assets	<u><u>\$13,431,114</u></u>

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**10. CONTRIBUTED CAPITAL**

During 2001, there were no changes to contributed capital reported by the Authority.

Balance at January 1, 2001	\$3,237,561
Contributions	<u>0</u>
Balance at December 31, 2001	<u><u>\$3,237,561</u></u>

**11. COOPERATIVE WATER AGREEMENT**

The Board of Trustees of the East Muskingum Water Authority (the Authority) entered into a cooperative water agreement on December 7, 2000 with the Board of County Commissioners of the County of Muskingum (the County). The County purchased 10% interest in the Authority's water treatment plant and well field for the desire to operate a water system and provide fire protection within the territory of the Muskingum County General Sewer District (the District). A portion of the territory of the District overlaps the territory of the Authority, and the County and Authority each have authority to provide water service in the territory of the Authority. The present intention of the County and Authority is for the County and the Authority to provide water service, respectively, to the areas designated and described in Exhibit B of this agreement.

Any time the percentage of the County's consumption of water treated at the water treatment plant equals or exceeds the County's then ownership interest in the water treatment plant and well field by 3% for any 180 day period of time, the County shall acquire, and the Authority shall sell, an additional 3% of the ownership interest in the water treatment plant and well field for \$101,250; provided, however, the County's ownership interest shall never exceed 49% of the water treatment plant and well field. Any capital improvements to the water treatment plant shall be by mutual agreement by the County's Board of Commissioners and the Authority's Board of Trustees. Unless agreed to otherwise, the County shall be responsible for its percentage of ownership in the water treatment plant and well field.

**12. SUBSEQUENT EVENTS**

As of the date of this report, the Authority's Board of Trustees and Muskingum County's Board of Commissioners have discussed plans for Muskingum County to take over the Authority's operations.



STATE OF OHIO  
**OFFICE OF THE AUDITOR**  
JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

East Muskingum Water Authority  
Muskingum County  
P.O. Box 2005  
Zanesville, Ohio 43702

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of the East Muskingum Water Authority, Muskingum County, Ohio (the Authority), as of and for the year ended December 31, 2001, and have issued our report thereon dated December 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2001-61060-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated December 18, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2001-61060-002 and 2001-61060-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above as item 2001-61060-003 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Authority in a separate letter dated December 18, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

December 18, 2002

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2001**

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

**FINDING NUMBER 2001-61060-001**

**Noncompliance Citation**

Ohio Rev. Code § 5705.41 (D), states that no subdivision or taxing unit shall make any contract or any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation 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. Every contract made without such a certificate shall be null and void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirements:

Then and Now Certificates - if no certificate is furnished as required, upon receipt by the taxing authority of the subdivision or taxing unit of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order and at the time of execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or process of collection to the credit of an appropriate fund free from any previous encumbrances, such taxing authority may authorize the drawing of a warrant in payment of amounts due upon such contract, but such resolution or ordinance shall be passed within thirty days from the receipt of such certificate.

If the amount involved is less than \$1,000 dollars, the fiscal officer may authorize it to be paid without the affirmation of the Board of Trustees, if such expenditure is otherwise valid.

Contrary to the above requirement, and House Bill 262 effective June 8, 2000, documentation of the required certification was not included in 93% of voucher packages tested. Additionally, 100% of purchase orders tested did not have the signature of the fiscal officer as an indication that the amount was available for expenditure.

Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash fund balances. Therefore, we recommend the Authority obtain the fiscal officer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a purchase commitment.

**FINDING NUMBER 2001-61060-002**

**Reportable Condition**

The Authority has not adopted a formal written fixed asset policy. Failure to adopt a formal policy increases the likelihood of inconsistencies occurring when accounting for the Authority's fixed assets.

We recommend the Authority formally adopt a fixed asset policy through a Board of Trustee resolution. A formal fixed asset policy would provide a basis for the Authority to follow when recording and depreciating fixed assets. The policy should address capitalization threshold(s), useful lives, valuation determinations and classifications of fixed assets, such as buildings, land, water systems, equipment, furniture and fixtures, vehicles, construction in progress.

**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2001  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2001-61060-003**

**Material Weakness**

During our testing of fixed assets, the following weaknesses were noted in the fixed asset detail listing:

- 1981 balances for the Northwest and Southeast water systems were carried forward on the fixed asset listing with no detail or supporting documentation as to what these balances included.
- The 1981 balances for the Northwest and Southeast water systems are being depreciated over 50 years using the straight line method of depreciation with the depreciation starting in 1981; however, there is no support to show whether these two systems were brought on at the depreciated value or at cost.
- The detailed listing of water system fixed assets included no deletions since the beginning of the fixed asset record (1981).
- Many entries on the fixed asset listing are described as "Capital Materials" or "Capital Labor" with no description as to what these materials included or what project they were used for. With no detail, it would be difficult to determine what assets need deleted as they are replaced or disposed of.
- Replacement and repair items for the water systems were being capitalized with no deletions of those items being replaced.

These weaknesses could cause the overstatement of fixed assets on the Authority's financial statements.

A fixed asset detail listing should include a description of all assets to enable verification of fixed assets at any point in time. This would also provide a means of deleting assets that have been replaced or disposed of.



**EAST MUSKINGUM WATER AUTHORITY  
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2000-61060-001	No written fixed asset policy	No	Not Corrected – Repeated as Finding Number 2001-61060-002
2000-61060-002	Weakness within the fixed asset detail listing	No	Not Corrected – Repeated as Finding Number 2001-61060-003





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**EAST MUSKINGUM WATER AUTHORITY**

**MUSKINGUM 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 7, 2003**