

Northwest Regional Water District

Scioto County

Regular Audit

January 1, 2001 Through December 31, 2002

Fiscal Years Audited Under GAGAS: 2001 & 2002

BALESTRA & COMPANY

(A division of Harr & Scherer CPAs, Inc.)

CERTIFIED PUBLIC ACCOUNTANTS

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**Auditor of State
Betty Montgomery**

Board of Trustees
Northwest Regional Water District
P.O. Box 158
McDermott, OH 45652-0158

We have reviewed the Independent Auditor's Report of the Northwest Regional Water District, Scioto County, prepared by Balestra & Company, for the audit period January 1, 2001 through December 31, 2002. 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 Northwest Regional Water District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 30, 2003

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NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the Northwest Regional Water District (the District), Scioto County, as of and for the years ended December 31, 2002 and 2001. These general purpose financial statements are the responsibility of the District'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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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 Northwest Regional Water District, as of December 31, 2002 and 2001, and the results of its operations and cash flows of its proprietary fund type for the years 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 April 4, 2003 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 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.

As described in note 13 of the notes to the general purpose financial statements, the District implemented Governmental Accounting Standards Board Statement No.33, *Accounting and Financial Reporting for Non-exchange Transactions*, and Governmental Accounting Standards Board Statement No.36, *Recipient Reporting for Certain Shared Non-exchange Revenues* (an amendment of GASB Statement No.33).

Balestra & Company

Balestra & Company

April 4, 2003

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

BALANCE SHEET
AS OF DECEMBER 31, 2002 AND 2001

	2002	2001
<u>Assets:</u>		
Current Assets:		
Cash and Cash Equivalents	\$575,187	\$509,464
Accounts Receivable Net Allowance for Doubtful Accounts	320,812	322,604
Prepaid Expense	678	16,227
Total Current Assets	896,677	848,295
Restricted Assets:		
Cash and Cash Equivalents	1,491,018	1,354,994
Net Property, Plant & Equipment	7,546,904	7,559,440
Total Assets	\$9,934,599	\$9,762,729
<u>Liabilities and Members' Equity:</u>		
Current Liabilities:		
Current Portion of Notes Payable (Note 7)	\$221,579	\$214,957
Accounts Payable	59,168	36,903
Accrued Expenses	129,783	122,710
Accrued Interest Payable	22,127	15,190
Total Current Liabilities	432,657	389,760
Long-Term Debt (Note 7):		
Notes Payable, less Current Portion	3,358,290	3,579,869
Total Liabilities	3,790,947	3,969,629
<u>Members' Equity:</u>		
Contributed Capital Member Tap Fees (Note 6)	1,385,934	1,385,934
Contributed Capital Governmental (Note 5)	2,915,005	2,915,005
Retained Earnings	1,842,713	1,492,161
Total Members' Equity	6,143,652	5,793,100
Total Liabilities and Members' Equity	\$9,934,599	\$9,762,729

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>Revenues:</u>		
Water	\$1,755,703	\$1,654,053
Tap Fees	\$76,483	\$80,566
Service Charges	124,777	107,737
Late Charges	50,442	46,472
Contract Work	22,158	17,642
Other	541	8,100
Total Revenue	<u>2,030,104</u>	<u>1,914,570</u>
<u>Expenses:</u>		
Salaries, Wages & Benefits	460,119	393,389
Utilities	106,236	96,947
Depreciation Expense	295,829	255,889
Purchased Water	496,508	476,797
Telemetry	6,338	10,268
Maintenance	75,724	108,685
Chemicals	93	2,350
Truck and Equipment Expense	32,030	39,436
Billing Expense	13,183	13,281
Pension Expense	50,966	48,671
Payroll Taxes	5,789	5,463
Insurance	30,155	22,211
Office Supplies and Postage	13,961	13,046
Legal and Accounting Fees	1,304	7,448
Travel and Auto Expense	2,546	2,658
Uncollectible Accounts	4,350	1,794
Other Expenses	1,162	1,847
Total Expenses	<u>1,596,293</u>	<u>1,500,180</u>
Operating Income	433,811	414,390
Nonoperating Revenues/(Expenses)		
Interest Income	62,964	90,142
Grants & Contributions in Aid of Construction	0	179,018
Interest Expense	<u>(146,223)</u>	<u>(155,913)</u>
Total Nonoperating Revenues/(Expenses)	<u>(83,259)</u>	<u>113,247</u>
Net Income	350,552	527,637
Retained Earnings, Beginning of Year	<u>1,492,161</u>	<u>964,524</u>
Retained Earnings, End of Year	<u><u>\$1,842,713</u></u>	<u><u>\$1,492,161</u></u>

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
<u>Cash Flows from Operating Activities:</u>		
Cash received from customers	\$2,027,546	\$1,863,232
Cash payments to employees & benefits	(458,835)	(388,376)
Cash payments for supplies	(785,455)	(881,112)
Net cash provided by operating activities	783,256	593,744
<u>Cash Flows from Investing Activities:</u>		
Interest income	62,964	129,177
Net cash used in investing activities	62,964	129,177
<u>Cash Flows from Financing Activities:</u>		
Payment for capital acquisitions	(290,230)	(355,413)
Principle paid on long-term debt	(214,957)	(200,770)
Interest payments	(139,286)	(168,933)
Proceeds from grants for construction	0	179,018
Net cash provided by financing activities	(644,473)	(546,098)
Net Increase (Decrease) in Cash and Cash Equivalents:	201,747	176,823
Cash and Cash Equivalents, beginning of year	1,864,458	1,687,635
Cash and Cash Equivalents, end of year	\$2,066,205	\$1,864,458
<u>Reconciliation of Operating Income to Net Cash</u>		
<u>Provided by Operating Activities:</u>		
Operating Income	\$433,811	\$414,390
<u>Adjustments to reconcile net income to net cash</u>		
<u>provided by operating activities:</u>		
Depreciation	295,829	255,889
<u>Changes in net assets and liabilities:</u>		
(Increase) decrease in accounts receivable	1,792	(88,579)
(Increase) decrease in interest receivable	0	39,035
(Increase) decrease in prepaid insurance	15,549	(2,457)
(Decrease) increase in accounts payable	22,265	(21,990)
(Decrease) increase in accrued interest payable	6,937	(13,020)
(Decrease) increase in accrued expenses	7,073	10,476
Net Cash Provided by Operating Activities	\$783,256	\$619,688

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Northwest Regional Water District is a water district organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Scioto County in August of 1966. The District operates under the direction of a twelve member board of trustees. An appointed staff consisting of an office manager and two clerks are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all or parts of the following political subdivisions:

Rush Township	Washington Township
Union Township	Franklin Township
Morgan Township	Jefferson Township
Rarden Village	Brushcreek Township
Otway Village	Camp Creek Township

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 the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Unbilled water utility service receivables are recorded at year end.

Expenses are recognized under the accrual basis of accounting when the liability is incurred.

The Organization has adopted all applicable Financial Accounting Standards Board Statements issued after November 30, 1989, except for those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

C. BUDGETARY PROCESS

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations

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

Estimated Resources

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BUDGETARY PROCESS (Continued)

Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

D. CONTRIBUTED CAPITAL

Contributed capital was recorded by the District for receipts of capital grants or contributions from developers and customers prior to the implementation of GASB Statements No. 33 and 36 in 2001. Contributed capital of the Northwest Regional Water District has been from capital grants and customers.

E. CASH AND INVESTMENTS

During fiscal year 2002 and 2001, investments were limited to STAROhio, savings accounts, certificates of deposit and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements, savings accounts and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal years 2002 and 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2002 and 2001.

For 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 by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. OPERATING FACILITIES

Fixed assets acquired or constructed for the general use of the District in providing service are recorded at cost. Donated assets are recorded at their estimated fair market value at the time received. Depreciation of fixed assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation. The estimated useful lives by major fixed asset class are as follows:

Lines	50 years	Office/garage building	19 years
Tanks/towers	50 years	Trucks and equipment	5-10 years
Meters	25 years		

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. COMPENSATED ABSENCES

Accumulated vacation leave and accumulated compensatory time are recorded as an expense and liability of the District as the benefits accrue to the employees. In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*, a liability is recorded for vested sick pay benefits which have been defined by District policy.

H. PENSIONS

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

I. FUND ACCOUNTING

The Water District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific revenues and expenses. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restriction associated with each type of fund is as follows:

Proprietary Fund Type:

Proprietary funds are used to account for the Water District's ongoing activities that are similar to those found in the private sector. The following is the Water District's proprietary fund type:

Enterprise Fund

This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

J. PREPAID EXPENSES

Charges entered in the accounts for benefits not yet received. Prepaid expenses for 2002 and 2001 were \$678 and \$16,227 respectively.

K. 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.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. ACCOUNTS RECEIVABLE

Claims held against customers for money which will result in an inflow of cash. Accounts receivable for 2002 and 2001 were \$341,191 and \$338,633 respectively. The allowance for doubtful accounts for 2002 and 2001 were \$20,379 and \$16,029 respectively.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS

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 the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 money deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, 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 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At December 31, 2002 and 2001, the District had \$350 in undeposited cash on hand which is included on the balance sheet of the District as part of "cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits At December 31, 2002 and 2001, the carrying amount of the District's deposits was \$1,534,317 and \$1,359,239 respectively and the bank balance was \$1,809,108 and \$1,654,622 respectively. Of the bank balance:

1. \$502,033 and \$537,003 respectively was covered by federal depository insurance; and
2. \$1,307,075 and \$1,117,619 respectively was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District held to a successful claim by the FDIC.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Investments The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District'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 District'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 District's name. The District's investment in STAR Ohio is an unclassified investment since they it is not evidenced by securities that exist in physical or book entry form.

<u>2002</u>	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$209,309	\$209,309	\$209,309
STAROhio	NA	\$322,229	\$322,229
Total Investments		<u>\$531,538</u>	<u>\$531,538</u>

<u>2001</u>	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$188,363	\$188,363	\$188,363
STAROhio	NA	\$316,506	\$316,506
Total Investments		<u>\$504,869</u>	<u>\$504,869</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."

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

<u>2002</u>	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	\$2,066,205	
Investments:		
STAROhio	(322,229)	\$322,229
Repurchase Agreement	(209,309)	209,309
Cash on Hand	(350)	0
GASB Statement 3	<u>\$1,534,317</u>	<u>\$531,538</u>

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	<u>2001</u>	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9		\$1,864,458	
Investments:			
STAROhio		(316,506)	\$316,506
Repurchase Agreement		(188,363)	188,363
Cash on Hand		(350)	0
GASB Statement 3		\$1,359,239	\$504,869

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2002 and 2001 were as follows:

2002 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	\$2,236,308	\$2,094,860	(\$141,448)

2002 Budgeted vs. Actual Budgetary Basis Disbursements

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$2,240,932	\$1,394,863	\$846,069

2001 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	\$1,986,000	\$2,160,130	\$174,130

2001 Budgeted vs. Actual Budgetary Basis Disbursements

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$1,421,941	\$1,427,195	(\$5,254)

The District's expenditures exceeded appropriations for the year ended December 31, 2001 by \$5,254. The District's appropriations exceeded estimated receipts for the year ended December 31, 2002 by \$4,624.

NOTE 4 - RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents 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 7.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 5 - CONTRIBUTED CAPITAL - GOVERNMENTAL

Contributed capital - governmental consist of grants from FmHA, FEMA, and amounts contributed to the District by various government agencies for the construction of water mains to serve customers prior to implementing GASB Statements No. 33 and 36 in 2001.

NOTE 6 - CONTRIBUTED CAPITAL - MEMBERS' TAP FEES

The District uses the member's tap fees account to record tap fees collected from new customers (members) prior to implementing GASB Statements No. 33 and 36 in 2001.

NOTE 7 - LONG-TERM DEBT

The District has the following notes payable at December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
5% note payable FmHA, payable in yearly installments of \$59,280, due in 2009, secured by property and equipment	\$ 337,866	\$ 381,419
5% note payable FmHA, payable in yearly installments of \$46,417, due in 2010, secured by property and equipment	276,011	309,659
5% note payable FmHA, payable in yearly installments of \$24,099, due in 2012 secured by property and equipment	181,942	196,383
0% note payable OPWC, payable in semi-annual installments of \$2,569, due in 2014, secured by property and equipment	59,086	64,224
0% note payable OPWC, payable in semi-annual installments of \$10,707, due in 2022, secured by property and equipment	406,849	425,013
5% note payable FmHA, payable in semi-annual installments of \$28,245, due in 2017, secured by property and equipment	273,800	290,084
7.56% note payable OWDA, payable in semi-annual installments of \$21,895, including interest at 7.56%, due in 2017, secured by property and equipment	370,430	385,105
2% note payable OWDA, payable in semi-annual installments of \$42,559, due in 2018, secured by property and equipment	1,093,712	1,155,716
6.39% note payable OWDA, payable in semi-annual installments of \$19,309, due in 2026, secured by property and equipment	463,002	467,936

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

5% note payable FmHA, payable in yearly installments of \$8,064, due in 2029, secured by property and equipment	<u>117,171</u>	<u>119,287</u>
	3,579,869	3,794,826
Less current maturities	<u>221,579</u>	<u>214,957</u>
Total long-term debt	<u>\$ 3,358,290</u>	<u>\$ 3,579,869</u>

The annual requirements to amortize all bonded debt outstanding as of December 31, 2002, including interest payments of \$1,491,844 are as follows:

Year Ending	FmHA Notes Payable	OWDA Notes Payable	OPWC Notes Payable	Total Notes Payable
<u>December 31</u>				
2003	\$ 166,105	\$ 167,526	\$ 26,551	\$ 360,182
2004	166,105	167,526	26,551	360,182
2005	166,105	167,526	26,551	360,182
2006	166,105	167,526	26,551	360,182
2007	166,105	167,526	26,551	360,182
2008-2013	510,405	837,628	132,755	1,480,788
2014-2018	141,842	793,838	114,772	1,050,452
2019-2023	40,320	193,092	96,359	329,771
Thereafter	<u>53,049</u>	<u>135,164</u>	<u>0</u>	<u>188,213</u>
Totals	<u>\$1,576,141</u>	<u>\$2,797,352</u>	<u>\$476,641</u>	<u>\$4,850,134</u>

Under its loan agreements with Farmers Home Administration, the District is required to maintain a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2002 and 2001 was \$1,491,018 and \$1,354,994, respectively. These amounts exceeded the required reserve amount for the respective year.

NOTE 8 - PENSION PLAN

A. Defined Benefit Retirement Plan

Ohio Public Employees Retirement System: All District full-time employees participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan created by the State of Ohio. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-6705 or 1-800-222-PERS(7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees. The 2002 employer contribution rate for local government employer units was 13.55% of covered payroll.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 8 - PENSION PLAN (Continued)

A. Defined Benefit Retirement Plan (Continued)

The District's contributions to PERS for the years ended December 31, 2002, 2001 and 2000 were \$50,966, \$48,671 and \$36,449, respectively. These contributions were equal to the required contributions for each of the years.

B. Postemployment Benefits

Ohio Public Employees Retirement System: The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement service is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The portion of the 2002 employer contribution rate that was used to fund health care for the year 2002 for local government employer units was \$278,887, 5% of covered payroll.

The health inflation and significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the OPERS of Ohio's latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

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

The investment assumption rate for 2001 was 8.00%

An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase 4.00% annually.

OPEBs are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. \$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Accounts.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 9 - COMPENSATED ABSENCES

The County uses the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation and sick benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The amount is based on accumulated leave and employees' wage rates at year end.

All full-time District employees earn vacation at varying rates based upon length of service. Upon separation from the Water District, the employee (or his estate) is paid for his accumulated unused vacation leave balance. All full-time District employees earn sick leave at the rate of 1.25 days per calendar month of active service. Upon retirement from the District, an employee shall receive monetary compensation for a portion of each day of unused sick leave; the monetary compensation shall be at the hourly rate of the employee at the time of retirement.

District employees who work on holidays and in an occasional overtime status are primarily paid on a current basis. However, in some instances the employees are permitted to accrue compensatory time to be taken as time off or to be paid at a later date. At December 31, 2002 and 2001, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$126,201 and \$120,934, respectively.

NOTE 10 - DEFERRED COMPENSATION

District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 11 - PROPERTY, PLANT & EQUIPMENT

A summary of the District's property, plant and equipment as of December 31, 2002 and 2001, are as follows:

	2002	2001
Land	\$ 106,654	\$ 51,454
Buildings	61,382	55,094
Mains, lines and meters	9,150,928	7,574,237
Storage Tanks	884,149	697,679
Radio Telemetry	277,295	215,831
Trucks, tractors and equipment	540,707	486,378
Office furniture and equipment	75,071	68,062
Construction in progress	13,379	1,677,536
Total Operating Facilities	11,109,565	10,826,271
Less: Accumulated Depreciation	(3,562,661)	(3,266,831)
Total Net Property, Plant & Equipment	\$ 7,546,904	\$ 7,559,440

NOTE 12 - 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; injuries to employees; and natural disasters. For fiscal years 2002 and 2001, the District contracted with Ohio Casualty Group for real property, building contents, and vehicle insurance coverage.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

NOTE 12 - RISK MANAGEMENT (Continued)

Coverages provided by the program are as follows:

General Liability	\$2,000,000
Products Operations	\$2,000,000
Personal & Advertising Injury	\$1,000,000
Each Occurrence	\$1,000,000
Fire Damage	\$100,000
Medical Expense	\$5,000

Vehicle policies include liability coverage for bodily injury and property damage. Real property and building contents are 90% insured.

Health insurance was provided by a private carrier for the year.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. The District pays all elected officials' bonds by statute.

The District has not incurred significant reductions in insurance coverage from the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 13 - CHANGES IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2001, the District implemented GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues*. These statements establish accounting and financial reporting standards for non-exchange transactions.

NOTE 14 - CHANGE IN PRESENTATION OF THE STATEMENT OF CASH FLOWS

For the year ended December 31, 2001, the District changed its presentation of the Statement of Cash Flows to include restricted cash and cash equivalents.

BALESTRA & COMPANY

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Ohio Society of Certified Public Accountants

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

Board of Trustees
Northwest Regional Water District
P.O.Box 158
McDermott, Ohio 45652-0158

We have audited the general purpose financial statements of the Northwest Regional Water District (the District), Scioto County, as of and for the years ended December 31, 2002 and 2001, in which we indicated the District had changed its method of accounting for non-exchange transactions, and have issued our report thereon dated April 4, 2003. 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 District's general purpose 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 and 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance, which we have reported to the management of the District in a separate letter dated April 4, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 general purpose 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Trustees
Northwest Regional Water District
McDermott, Ohio 45652
Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
Page 2

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

Balestra & Company

Balestra & Company

April 4, 2003

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-570541-001	Section 5705.41(B)	Yes	



**Auditor of State
Betty Montgomery**

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800-282-0370
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NORTHWEST REGIONAL WATER DISTRICT

SCIOTO 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 15, 2003**