

Northwest Regional Water District

Scioto County

Regular Audit

January 1, 2003 through December 31, 2004

Fiscal Years Audited Under GAGAS: 2003 & 2004



**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Northwest Regional Water District

We have reviewed the Independent Auditor's Report of the Northwest Regional Water District, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period January 1, 2003 through December 31, 2004. 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

August 29, 2005

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Northwest Regional Water District  
Table of Contents

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<u>Title</u>	<u>Page</u>
Independent Auditor's Report .....	1
Management Discussion and Analysis .....	3
Financial Statements:	
Statement of Net Assets .....	8
Statement of Revenues, Expenses and Changes in Net Assets .....	10
Statement of Cash Flows.....	11
Notes to the Basic Financial Statements .....	13
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	25

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the business-type activities of the Northwest Regional Water District (the "District") as of December 31, 2004 and 2003, 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinions.

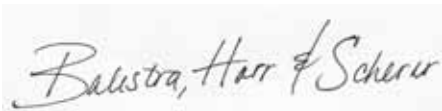
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2004 and 2003, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 17, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Board of Trustees  
Northwest Water District  
Page Two

As described in Note K to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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

Balestra, Harr & Scherer, CPAs, Inc.

June 17, 2005

# NORTHWEST REGIONAL WATER DISTRICT SCIOTO COUNTY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003

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

### FINANCIAL HIGHLIGHTS

The total assets of NRWD exceeded total liabilities on December 31, 2004 by \$6.91 million. The District's net assets increased by \$484 thousand (7.5%) in 2004.

The District's Operating Revenues increased by \$16 thousand (0.8%) and Operating and Maintenance Expenses (excluding depreciation expense) decreased \$45 thousand (-3.2%) in 2004. Depreciation expense increased \$7 thousand (2.6%) in 2004.

### OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statements of Net Assets** include all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past year and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. They summarize the net changes in cash resulting from operating, investing and financing activities.



**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003**

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**STATEMENTS OF NET ASSETS**

Table 1 summarizes the Statements of Net Assets of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", are Capital Assets less accumulated depreciation and outstanding debt that was used to acquire those assets.

**Table 1**

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Current and Other Assets	\$1,461,041	\$1,374,319	\$86,722
Capital Assets, Net	7,859,466	7,576,277	283,189
<b>Total Assets</b>	<b>9,320,507</b>	<b>8,950,596</b>	<b>369,911</b>
Long Term Liabilities	2,010,671	2,118,294	(107,623)
Other Liabilities	395,062	401,718	(6,656)
<b>Total Liabilities</b>	<b>2,405,733</b>	<b>2,520,012</b>	<b>(114,279)</b>
Net Assets			
Invested in Capital Assets, Net of Related Debt	5,650,250	5,262,063	388,187
Unrestricted	1,264,524	1,168,521	96,003
<b>Total Net Assets</b>	<b><u>\$6,914,774</u></b>	<b><u>\$6,430,584</u></b>	<b><u>\$484,190</u></b>

The District's Net Assets increased by \$484 thousand (7.5%) in 2004. This increase is a result of excess revenues over expenses.

Unrestricted net assets increased by \$96 thousand in 2004. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents increased \$82 thousand in 2004 which is primarily due to decreased maintenance and repair expenses in 2004.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

Table 2 below summarizes the changes in Revenues, Expenses and Net Assets.

**Table 2**

	<u>2004</u>	<u>2003</u>	<u>Difference</u>
Operating Revenues	\$2,032,144	\$2,016,174	\$15,970
<b>Total Operating Revenues</b>	<b>2,032,144</b>	<b>2,016,174</b>	<b>15,970</b>
Operating Expenses (Excluding Depreciation)	1,362,991	1,407,598	(44,607)
Depreciation Expense	293,592	286,255	7,337
<b>Total Operating Expenses</b>	<b>1,656,583</b>	<b>1,693,853</b>	<b>(37,270)</b>
Operating Income	375,561	322,321	53,240
Non-Operating Revenues	15,853	34,937	(19,084)
Non-Operating Expenses	74,220	112,473	(38,253)
Capital Contributions	166,996	51,082	115,914
<b>Changes in Net Assets</b>	<b>484,190</b>	<b>295,867</b>	<b>188,323</b>
<b>Net Assets at Beginning of Year</b>	<b>6,430,584</b>	<b>6,134,717</b>	<b>295,867</b>
<b>Net Assets at End of Year</b>	<b><u>\$6,914,774</u></b>	<b><u>\$6,430,584</u></b>	<b><u>\$484,190</u></b>

Operating revenues increased slightly from 2003 to 2004. Water revenues increases by \$11 thousand; however, this increase was offset by a decrease in tap fees of \$11 thousand. Other operating revenues increased by \$36 thousand; however, this increase was partially offset by decreases in contract work revenue of \$21 thousand.

Operating expenses decreased about \$37 thousand from 2003 to 2004 primarily due to decreased repairs and maintenance expenses in 2004 which were slightly offset by increases in depreciation expense of \$7 thousand due to new capital assets being placed into service during 2004.

Non-Operating revenues decreased by \$19 thousand from 2003 to 2004 as the result of the decrease in cash during 2003 for the Rural Development loan repayments which resulted in less interest income during year 2004. Non-Operating expenses decreased by \$38 thousand due to the payoff of Rural Development loans during fiscal year 2003 which resulted in a reduction in interest expense from 2003 to 2004. Capital contributions increased as the District received a construction grant in 2004.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003**

**CAPITAL ASSETS**

The District had \$11.8 million invested in Capital Assets (before depreciation) at the end of 2004, an increase of \$461 thousand (4.1%) from the previous year. This increase is due to an ongoing construction project which is being funded through a loan from the Ohio Water Development Authority and through District reserves.

**Table 3**

	<u>2004</u>	<u>2003</u>	<u>Change Amount</u>
Non-depreciable Capital Assets			
Land	\$113,254	\$109,654	\$3,600
Construction in progress	146,957	85,959	60,998
Total Non-depreciable Capital Assets	<u>260,211</u>	<u>195,613</u>	<u>64,598</u>
Depreciable Capital Assets			
Utility plant - lines	9,364,386	9,012,260	352,126
Utility plant - towers	884,149	884,149	0
Utility plant - meters	269,127	263,374	5,753
Utility plant - office and garage	130,738	114,683	16,055
Office equipment and furniture	39,696	39,696	0
Radio telemetry system	279,697	279,697	0
Trucks and equipment	550,656	528,202	22,454
Totals Before Accumulated Depreciation	<u><b>11,518,449</b></u>	<u><b>11,122,061</b></u>	<u><b>396,388</b></u>
Accumulated Depreciation	(3,919,194)	(3,741,397)	(177,797)
Net Depreciable Capital Assets	<u>7,599,255</u>	<u>7,380,664</u>	<u>218,591</u>
<b>Total Capital Assets</b>	<u><u><b>\$ 7,859,466</b></u></u>	<u><u><b>\$ 7,576,277</b></u></u>	<u><u><b>\$ 283,189</b></u></u>

For additional information regarding capital assets please see Note C to the Basic Financial Statements.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003**

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**DEBT**

The District issues long term debt to finance much of its construction. Ohio Water Development Authority (OWDA) loans and U.S.D.A. Rural Development loans (paid off during fiscal year 2003) were used to finance most general improvement projects.

**Table 4**

	<u>2004</u>	<u>2003</u>	<u>Change Amount</u>
Ohio Public Works Commission (OPWC)	\$461,654	\$475,332	(\$13,678)
Ohio Water Development Authority (OWDA)	1,747,562	1,838,882	(91,320)
<b>Total Long Term Debt</b>	<b><u>2,209,216</u></b>	<b><u>2,314,214</u></b>	<b><u>(104,998)</u></b>
Less: Current Maturities	198,545	195,920	2,625
<b>Net Total Long Term Debt</b>	<b><u><u>\$2,010,671</u></u></b>	<b><u><u>\$2,118,294</u></u></b>	<b><u><u>(\$107,623)</u></u></b>

The District's debt is paid from operating revenues generated by the District. For additional information regarding debt please see Note E to the Basic Financial Statements.

**CASH**

Cash and cash equivalents were \$1,100,924 on December 31, 2004 and \$1,019,131 on December 31, 2003.

**CONTACT INFORMATION**

Questions regarding this report and requests for additional information should be forwarded to Northwest Regional Water District, P.O. Box 158, McDermott, Ohio 45652 or (740) 259-2789.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

STATEMENTS OF NET ASSETS

As of December 31, 2004 and 2003

<b>ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,100,924	\$ 1,019,131
Accounts receivable, net allowance for doubtful accounts	333,433	329,978
Prepaid expenses	26,684	25,210
<b>TOTAL CURRENT ASSETS</b>	<u>1,461,041</u>	<u>1,374,319</u>
<b>NONCURRENT ASSETS</b>		
Capital Assets:		
Non-depreciable capital assets	260,211	195,613
Depreciable capital assets, net	<u>7,599,255</u>	<u>7,380,664</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 9,320,507</u></u>	<u><u>\$ 8,950,596</u></u>

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

STATEMENTS OF NET ASSETS - Continued

As of December 31, 2004 and 2003

	<b>2004</b>	<b>2003</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Notes payable - current portion	\$ 198,545	\$ 195,920
Accounts payable	61,006	73,265
Accrued expenses	135,511	132,533
<b>TOTAL CURRENT LIABILITIES</b>	<b>395,062</b>	<b>401,718</b>
<b>LONG-TERM LIABILITIES</b>		
Notes payable - less current portion	2,010,671	2,118,294
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>2,010,671</b>	<b>2,118,294</b>
<b>TOTAL LIABILITIES</b>	<b>2,405,733</b>	<b>2,520,012</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	5,650,250	5,262,063
Unrestricted	1,264,524	1,168,521
<b>TOTAL NET ASSETS</b>	<b>\$ 6,914,774</b>	<b>\$ 6,430,584</b>

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES</b>		
Water	\$ 1,736,037	\$ 1,724,985
Tap fees	65,803	76,475
Service charges	110,117	107,212
Late charges	51,187	51,838
Contract work	2,900	23,747
Surcharge	20,962	22,330
Other	45,138	9,587
TOTAL OPERATING REVENUES	<u>2,032,144</u>	<u>2,016,174</u>
<b>OPERATING EXPENSE</b>		
Salaries, wages and benefits	471,553	467,334
Utilities	106,094	102,616
Depreciation expense	293,592	286,255
Purchased water	504,531	509,168
Telemetry	9,445	8,547
Maintenance	57,140	89,271
Truck and equipment expense	36,288	40,293
Billing expense	17,600	19,843
Pension expense	87,227	87,562
Payroll taxes	6,345	6,166
Insurance	43,293	49,705
Office supplies and postage	12,368	8,999
Legal and accounting fees	3,036	13,289
Travel and auto expense	1,411	1,320
Other expenses	6,660	3,485
TOTAL OPERATING EXPENSES	<u>1,656,583</u>	<u>1,693,853</u>
Operating Income	<u>375,561</u>	<u>322,321</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	15,853	34,937
Interest expense	(74,220)	(112,473)
Net other income (expense)	<u>(58,367)</u>	<u>(77,536)</u>
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	317,194	244,785
Capital Contributions - Grants	<u>166,996</u>	<u>51,082</u>
CHANGES IN NET ASSETS	484,190	295,867
NET ASSETS, BEGINNING OF YEAR (AS RESTATED SEE NOTE K)	<u>6,430,584</u>	<u>6,134,717</u>
NET ASSETS, END OF YEAR	<u>\$ 6,914,774</u>	<u>\$ 6,430,584</u>

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

# NORTHWEST REGIONAL WATER DISTRICT

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004 and 2003

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 2,023,502	\$ 2,007,740
Cash payments to suppliers for goods and services	(857,036)	(930,890)
Cash payments for employee services and benefits	(511,523)	(507,252)
Net cash provided by operating activities	654,943	569,598
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments - Rural Development loans	-	(1,186,790)
Principal payments - OPWC loans	(28,394)	(27,473)
Principal payments - OWDA loans	(91,320)	(88,262)
Interest payments - Rural Development loans	-	(69,944)
Interest payments - OWDA loans	(76,206)	(79,263)
Grants Received	166,996	51,082
Proceeds from notes payable	14,716	36,870
Proceeds from sale of capital assets	11,945	28,665
Purchase of capital assets	(586,740)	(316,494)
Net cash used for capital and related financing activities	(589,003)	(1,651,609)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on cash and investments	15,853	34,937
 Net increase in cash and cash equivalents	81,793	(1,047,074)
Cash and cash equivalents, beginning of year	1,019,131	2,066,205
Cash and cash equivalents, end of year	\$ 1,100,924	\$ 1,019,131

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



# NORTHWEST REGIONAL WATER DISTRICT

## STATEMENTS OF CASH FLOWS - Continued

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 375,561	\$ 322,321
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	293,592	286,255
<b>Changes in assets and liabilities:</b>		
(Increase)/Decrease in accounts receivable	(3,455)	(9,166)
(Increase)/Decrease in prepaids	(1,474)	(24,532)
Increase/(Decrease) in accounts payable	(12,259)	14,097
Increase/(Decrease) in accrued expenses	2,978	2,750
Increase/(Decrease) in accrued interest payable	-	(22,127)
Total adjustments	<u>279,382</u>	<u>247,277</u>
Net cash provided by operating activities	<u>\$ 654,943</u>	<u>\$ 569,598</u>

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

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**NOTE A - NATURE OF ORGANIZATION**

Northwest Regional Water District (hereafter referred to as NRWD) was created by the Court of Common Pleas of Scioto County in August of 1966 in accordance with the provisions of Section 6119 et.seq of the Ohio Revised Code. 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 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

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the District follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Interpretations, Accounting Principles Board Opinions (APBO), and Accounting Research Bulletins issued on or after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**1. Reporting Entity**

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity," and as amended by GASB Statement No. 39. The financial statements include the fund for which the District is "accountable." Accountability as described in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the District and whether exclusion would cause the District's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the District.

Based on the foregoing criteria, there were no PCU's for the years reported on in the financial statements in accordance with GASB Statement No. 14 or 39.

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

The accounts of NRWD are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The fund type which NRWD uses is described below:

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

**Enterprise Fund** - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**3. Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the statement of net assets. This measurement focus emphasizes the determination of net income.

Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**4. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District adopted a budget and adopted and passed annual appropriation resolutions for the years ended December 31, 2004 and 2003.

**Appropriations** - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. 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 unencumbered cash as of the beginning of the year.

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**5. Cash and Cash Equivalents**

Cash balances of the District's enterprise fund are presented as "Cash and Cash Equivalents" on the statement of net assets. Interest income earned by the District totaled \$15,853 and \$34,937, respectively, for the years ended December 31, 2004 and 2003.

During fiscal year 2004 and 2003, 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 non-negotiable certificates of deposit are recorded at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal years 2004 and 2003. 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, 2004 and 2003.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an initial maturity of more than three months are reported as investments.

**6. Capital Assets**

Capital 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 capital assets of the District is calculated utilizing the straight-line method. All assets reported in the basic financial statements are at cost less accumulated depreciation. The estimated useful lives by major capital asset class are as follows:

Lines	50 years	Office/garage building	19 years
Tanks/towers/meters	50 years	Trucks and equipment	5-10 years
Radio telemetry system	25 years	Office equipment and furniture	5-10 years

**7. Compensated Absences**

Compensated absences of the District consist of vacation and sick time to the extent that payment to the employees for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and its employees.

In accordance with provisions of GASB Statement No. 16, "Accounting for Compensated Absences," a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

Unused sick pay is recorded as a liability based on the Ohio Revised Code Section 124.38. Employees are entitled to 4.6 hours of sick leave for each completed 80 hours up to a maximum of 960 hours and are entitled to a lump sum payment of 1/3 of accumulated sick pay upon retirement or termination if they have more than ten years of service. At December 31, 2004 and 2003, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$126,843 and \$128,027, respectively.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**8. Interest Expense**

Interest expense represents the interest portion on loan payments to U.S.D.A.Rural Development (paid off loan in 2003) and on loan payments to the Ohio Water Development Authority (OWDA).

**9. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2004 and 2003, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are provided.

**10. Accounts Receivable**

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Increases to the allowance are recorded by a provision for bad debt expense. The allowance is maintained by management at a level considered adequate to cover possible losses that are currently anticipated based on past experience, general economic conditions, information about specific account situations, and other factors and estimates which are subject to change over time.

Management considers all accounts receivable to be collected in full and may periodically allocate portions of the allowance for specific problem accounts, with the whole allowance available for any debts that occur. An account is charged off by management as a loss when deemed uncollectible, although most delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Receivables are presented at net on the statement of net assets.

**11. Estimates**

The preparation of the financial statements in accordance with generally accepted accounting principles 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.

**12. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The District does not have any restricted net assets.

**13. Long Term Obligations**

The District records fund obligations not expected to be paid within one year by available financial resources as long-term debt, which consists of OPWC notes and OWDA loans.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

**NOTE C – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2004 was as follows:

	Ending Balance 12/31/03	Additions	Deletions	Ending Balance 12/31/04
Capital Assets, Not Being Depreciated				
Land	\$109,654	\$3,600	\$0	\$113,254
Construction in progress	85,959	143,345	(82,347)	146,957
Total Capital Assets, Not Being Depreciated	195,613	146,945	(82,347)	260,211
Capital Assets Being Depreciated				
Utility plant - lines	9,012,260	352,126	0	9,364,386
Utility plant - towers	884,149	0	0	884,149
Utility plant - meters	263,374	5,753	0	269,127
Utility plant - office and garage	114,683	16,055	0	130,738
Office equipment and furniture	39,696	0	0	39,696
Radio telemetry system	279,697	0	0	279,697
Trucks and equipment	528,202	148,208	(125,754)	550,656
Total Capital Assets, Being Depreciated	11,122,061	522,142	(125,754)	11,518,449
Less Accumulated Depreciation:				
Utility plant - lines	(2,740,187)	(181,057)	0	(2,921,244)
Utility plant - towers	(238,771)	(17,683)	0	(256,454)
Utility plant - meters	(134,192)	(8,273)	0	(142,465)
Utility plant - office and garage	(53,640)	(6,411)	0	(60,051)
Office equipment and furniture	(18,398)	(4,157)	0	(22,555)
Radio telemetry system	(221,554)	(11,123)	0	(232,677)
Trucks and equipment	(334,655)	(64,888)	115,795	(283,748)
Total Accumulated Depreciation	(3,741,397)	(293,592)	115,795	(3,919,194)
Total Capital Assets Being Depreciated, Net	7,380,664	228,550	(9,959)	7,599,255
Total Capital Assets, Net	\$7,576,277	\$375,495	(\$92,306)	\$7,859,466

**NOTE D – ACCOUNTS RECEIVABLE**

Accounts receivables are presented at net realizable value and consist of amounts due from customers for sewer fees for services rendered and contract amounts billed. Uncollectible accounts receivable are charged to operations during the period they are determined to be uncollectible. Uncollectible water account balances are certified to the County Auditor after administrative collection efforts have been exhausted. The balance at year end, including billed and unbilled accounts, are due as follows:

	2004	2003
Accounts receivable, net allowance for doubtful accounts	\$ 333,433	\$ 329,978

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

**NOTE E – DEBT**

The District has the following notes payable at December 31, 2004 and 2003:

	2004	2003
0% note payable OPWC, payable in semi-annual installments of \$2,569, due in 2014, secured by property and equipment	48,810	53,948
0% note payable OPWC, payable in semi-annual installments of \$10,707, due in 2022, secured by property and equipment	364,023	385,436
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	337,666	354,644
2% note payable OWDA, payable in semi-annual installments of \$42,559 due in 2018, secured by property and equipment	965,961	1,030,469
6.39% note payable OWDA, payable in semi-annual installments of \$19,309 due in 2026, secured by property and equipment	443,935	453,769
0% note payable OPWC, payable in semi-annual installments of \$922 due in 2023, secured by property and equipment	34,105	35,948
0% note payable OPWC, payable in semi-annual installments of \$368 due in 2025, secured by property and equipment, payments beginning 7/1/2005	14,716	-
	2,209,216	2,314,214
Less current maturities	198,545	195,920
Total long-term debt	\$ 2,010,671	\$ 2,118,294

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

**NOTE E – DEBT - Continued**

The annual requirements to amortize all bonded debt outstanding as of December 31, 2004 are as follows:

	Principal	Interest	Total
2005	\$ 123,663	\$ 72,994	\$ 196,657
2006	127,039	69,617	196,656
2007	130,590	66,066	196,656
2008	134,327	62,329	196,656
2009	138,263	58,393	196,656
2010-2014	755,675	225,038	980,713
2015-2019	555,841	100,145	655,986
2020-2024	206,099	39,951	246,050
2025-2026	37,719	1,775	39,494
Total	\$ 2,209,216	\$ 696,308	\$ 2,905,524

**NOTE F – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS**

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 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 or deposit accounts including passbook accounts.

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.

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at



**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

**NOTE F – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS - Continued**

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;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) and (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer’s investment pool (STAR Ohio);
7. 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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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, 2004 and 2003, the carrying amounts of the District's deposits were \$391,677 and \$771,778, respectively and the bank balances were \$835,213 and \$829,080, respectively. Of the bank balances as of December 31, 2004 and 2003, \$120,878 and \$160,437, respectively were covered by federal depository insurance and \$100,000 and \$100,000, respectively were covered by the Securities Investor Protection Corporation (SIPC), and \$614,335 and \$568,643, respectively were 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 to a successful claim by the FDIC or SIPC.

**Investments** The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at fiscal 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 which are held by the counterpart’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.

	Category 3	Unclassified	Value
STAR Ohio	\$ -	\$ 75,802	\$ 75,802
Repurchase Agreements	632,995	-	632,995
Total	\$ 632,995	\$ 75,802	\$ 708,797

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

**NOTE F – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS - Continued**

As of December 31, 2003

	<u>Category 3</u>	<u>Unclassified</u>	<u>Fair/Carrying Value</u>
STAR Ohio	\$ -	\$ 74,844	\$ 74,844
Repurchase Agreements	<u>172,059</u>	<u>-</u>	<u>172,059</u>
Total	<u>\$ 172,059</u>	<u>\$ 74,844</u>	<u>\$ 246,903</u>

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:

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	Cash and Cash Equivalents/ <u>Deposits</u>		Cash and Cash Equivalents/ <u>Deposits</u>	
	<u>Investments</u>		<u>Investments</u>	
<i>GASB Statement No. 9</i>	\$ 1,100,924	\$ -	\$ 1,019,131	\$ -
Cash on Hand	(450)	-	(450)	-
Repurchase Agreements	(632,995)	632,995	(172,059)	172,059
STAR Ohio	<u>(75,802)</u>	<u>75,802</u>	<u>(74,844)</u>	<u>74,844</u>
<i>GASB Statement No. 3</i>	<u>\$ 391,677</u>	<u>\$ 708,797</u>	<u>\$ 771,778</u>	<u>\$ 246,903</u>

**NOTE G – DEFINED BENEFIT RETIREMENT PLAN**

A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
- 2) The Member-Directed Plan (MD) – 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 thereon.
- 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to 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.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

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**NOTE G – DEFINED BENEFIT RETIREMENT PLAN Continued**

- B. OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both 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 by state statute per Chapter 145 of the Ohio Revised Code.
- D. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans. The 2004 District contribution rate was 8.5% of covered payroll for employees and 13.55% of covered payroll for employers.

The District's contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$53,602, \$53,808, and \$50,966, respectively.

**NOTE H – POSTEMPLOYMENT BENEFITS**

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

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

In order to qualify for post-retirement 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 is considered to be 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 for employer contributions. For local government employer units, the rate was 13.55% of covered payroll for both fiscal years 2004 and 2003; 4.0% was used to fund health care for the year 2004 and 5.0% was used to fund health care for the year 2003.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

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**NOTE H – POSTEMPLOYMENT BENEFITS Continued**

C. Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2003.

Funding Method – 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.

Assets Valuation Method – 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 annually.

Investment Return – The investment assumption rate for 2003 was 8.00%.

Active Employee Total Payroll – An annual increase of 4.0%, 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 4.0% base increase, were assumed to range from .50% to 6.30%.

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885 for 2004 and 364,881 for 2003.
2. The employer contributions that were used to fund postemployment benefits were \$15,823 for 2004 and \$15,884 for 2003.
3. \$10.5 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2003.
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

E. OPERS Retirement Board adopts a Health Care Preservation Plan

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2004 and 2003

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**NOTE I – CONTINGENT LIABILITIES**

There were no contingent liabilities as of December 31, 2004.

**NOTE J – 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 2004 and 2003, the District contracted with Riffe-Dyer Insurance for real property, building contents, and vehicle insurance coverage.

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

**NOTE K – CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT**

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* were adopted by the District effective January 1, 2004. GASB 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows all prepared on the accrual basis of accounting. The accompanying financial statements for 2003 have been restated for comparative purposes. The net changes to the 2003 financial statements relate to the net assets at the beginning of the year and the end of the year containing the sum of retained earnings and contributed capital previously reported as of December 31, 2002 and December 31, 2003, respectively. The District has made a prior period adjustment to record the purchase of small office equipment as an expense rather than as Capital Assets. These restatements had the following effect on total net assets:

Retained Earnings, 12/31/02	\$ 1,842,713
Add: Contributed Capital, 12/31/02	\$ 4,300,939
Total Net Assets, 12/31/02 - Prior to Correction	<u>\$ 6,143,652</u>
Less: Restatement Amount for Correction	<u>(8,935)</u>
Total Restated Net Assets, 1/1/03	<u><u>\$ 6,134,717</u></u>

**NOTE L – SUBSEQUENT EVENTS**

The District received an interest-free loan from the Ohio Public Works Commission in 2005 in the amount of \$52,500. Payments will be semi-annual in the amount of \$1,312.50 beginning July 1, 2005.

**BALESTRA, HARR & SCHERER, CPAS, INC.**  
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Ohio Society of Certified Public Accountants

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 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 financial statements of the business-type activities of the Northwest Regional Water District (the District), as of and for the years ended December 31, 2004, and 2003, and have issued our report thereon dated June 17, 2005 in which we indicated the District implemented Governmental Accounting Standards Board Statements No. 34, 37, 38, and Interpretation 6. 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.

**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 financial statements and not to provide an opinion 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 over the financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated June 17, 2005.

This report is intended solely 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, Harr & Scherer, CPAs, Inc.

June 17, 2005



**Auditor of State  
Betty Montgomery**

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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  
SEPTEMBER 13, 2005**