

Scioto County Regional Water District #1

Scioto County

Regular Audit

January 1, 2004 through December 31, 2004

Fiscal Years Audited Under GAAS: 2004



BALESTRA, HARR & SCHERER, CPAS, INC.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Scioto County Regional Water District Number One
P.O. Box 310
Lucasville, Ohio 45648

We have reviewed the Independent Auditor's Report of the Scioto County Regional Water District Number One, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period January 1, 2004 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 Scioto County Regional Water District Number One is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 18, 2005

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Scioto County Regional Water District
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Scioto County Regional Water District Number One
P.O. Box 310
Lucasville, Ohio 45648

We have audited the accompanying statement of net assets of the Scioto County Regional Water District Number One (the "District") as of December 31, 2004, and the related statement of revenue, expenses and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 District as of December 31, 2004, and the results of its operations and its cash flows for the year 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 April 29, 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 and budgetary comparison information on pages 3 through 8 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods or 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
Scioto County Regional Water District Number One
Page Two

As described in Note 1F 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 - 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*,

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.

April 29, 2005

Scioto County Regional Water District Number One
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Our discussion and analysis of the Scioto County Regional Water District Number One (the District's) financial performance provides an overview of the District's financial activities for the year ended December 31, 2004. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two parts – Management's Discussion and Analysis (this section) and the Basic Financial Statements and Notes.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments such as the SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1. GASB No. 34 required the following changes to the District's financial statements:

1. The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The net assets section is displayed in three categories: 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted.
2. The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the District's net assets changed during the most recent fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine the District's creditworthiness.
3. The *Statement of Cash Flows* now includes a summary of the cash flows from operations and investments during the reporting period. As in the past, the *Statement of Cash Flows* continues to reconcile the reasons why cash from operating activities differs from operating income.

Overview of the Basic Financial Statements

The District operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the District's basic financial statements include four components:

- *Statement of Net Assets*
- *Statement of Revenues, Expenses and Changes in Net Assets*
- *Statement of Cash Flows*
- *Notes to the Financial Statements*

The *Statement of Net Assets* includes all of the District's assets and liabilities, with the difference between the two reported as net assets. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

Scioto County Regional Water District Number One
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

The *Statement of Net Assets* provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The *Statement of Revenue, Expenses and Changes in Net Assets* presents information which shows how the District's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The Statement of Revenues, Expenses and Changes in Net Assets measures the success of the District's operations over the past year and determines whether the District has recovered its costs through water sales, user fees and other charges.

The *Statement of Cash Flows* provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Non-capital Financing
- Capital Financing
- Investing

This statement differs from the *Statement of Revenues, Expenses and Changes in Net Assets* in that it accounts only for transactions that result in cash receipts and cash disbursements.

The *Notes to the Financial Statements* provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

During the year ending December 31, 2004, the District's operating revenues increased \$337,877 (or 12%) and operating expenses increased \$46,283 (or 2%) resulting in \$528,622 of income from operations. The increase in operating revenues for this year was a result of higher water and tap sales as compared to last year. The higher water sales are consistent with increased production within the system and increased usage by residential and bulk users.

During six months of 2004, we provided water to the Southern Ohio Correctional Facility (SOCF). We are customarily a back-up source for this facility and would not normally see any significant revenues from this user. However, during 2004 SOCF was responsible for over \$61,000 in water sales.

In addition to operating revenue, capital contributions were received from OPWC grant funds as well as from Northwest Regional Water. The funds were used in the complete of the Northwest Interconnect project which started in 2003 and was finished in 2004. This project provided an additional supply line to this bulk customer who accounts for approximately \$472,491 in operating revenues each year.

Several upgrades to the plant and distribution were completed in 2004. A new lime slaker was installed in the plant. This replaced a slaker that was approximately 40 years old and reduced the amount of maintenance required resulting in a higher water quality. Upgrades in the distribution system included the installation of approximately 2000 radio read meters which accounts for approximately 1/3 of the meters in our system. These meters replaced old manual read meters and increased the accuracy and frequency of the meter reading process. The District is in the process of upgrading all meters in the distribution system to radio read meters and expects to have the upgrade completed by 2006.

Scioto County Regional Water District Number One
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Financial Analysis of the District

Net Assets - The District's net assets grew between fiscal years 2003 and 2004, increasing from \$5,189,284 to \$5,787,506. The \$598,222 increase in net assets is largely due to the upgrades in our plant and distribution system. Another factor that led to an increase in net assets was an increase in water and tap revenue which resulted in higher cash and investment reserves.

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 or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Scioto County Regional Water District No. 1 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1
Statement of Net Assets

Net Assets	2004	2003
Total Current Assets	\$ 1,669,840	\$ 1,413,899
Total Non-Current Assets	6,803,037	6,531,263
Total Assets	8,472,877	7,945,162
Total Current Liabilities	448,649	360,689
Total Noncurrent Liabilities	2,236,722	2,395,189
Total Liabilities	2,685,371	2,755,878
Net Assets		
Invested in capital asset net of related debt	3,998,342	2,632,747
Restricted for:		
Debt Service	364,644	359,649
Unrestricted	1,424,520	2,196,888
Total Net Assets	\$ 5,787,506	\$ 5,189,284

Scioto County Regional Water District Number One

Management's Discussion and Analysis

For the Fiscal Year Ended December 31, 2004

Unaudited

Change in Net Assets – The District's income from operations increased in 2004 by \$291,594 to \$528,622 due to an increase in revenues; operating expenses remained stable with a modest increase of \$46,283. A portion of this increase can be attributed to the rising cost of fuel and chemicals. However, no across-the-board increases were given in hourly wage rates and health insurance costs remained stable. In fiscal year 2004, 99% of the District's operating revenues came from water and tap sales. These revenues increased primarily due to higher water consumption and tap sales. A portion of the increase in operating expense was due to an increase in depreciation expense on the newly capitalized plant and distribution upgrades.

SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1

Changes in Net Assets

	2004	2003	Percent Change
Total Operating Revenues	\$ 3,263,079	\$ 2,925,202	12%
Total Operating Expenses	2,734,457	2,688,174	2%
Operating Income	528,622	237,028	123%
Proceeds from sale of assets	20,915	-	
Interest Income	8,476	7,710	10%
Interest Expense	(110,034)	(116,570)	-6%
Total Non-Operating Revenues/Expenses	(80,643)	(108,860)	-26%
Income Before Capital Contributions	447,979	128,168	250%
Total Capital Contributions	150,243	167,276	-10%
Change in Net Assets	\$ 598,222	\$ 295,444	102%

The District's interest revenue increased by \$766 (or 10%) to \$8,476 due to slightly higher rates of return and an increase in the amount of the District's reserves. This trend is expected to continue as yield on investments will be higher during 2005. The non-operating expenses decreased by \$6,536 (or -6%) as a result of lower interest payments on debt service. The debt acquired with Ohio Public Works Commission within the past two years has been interest free, and the lower principal balance on the bonds payable has decreased the interest costs associated with this debt.

The District's operating expenses increased by \$46,283 (or 1.7%) to \$2.7 million in year 2004. Operating expenses increased primarily due to an increase in depreciation expense on the capitalized equipment and projects. Other increases in operating expenses were caused by fuel and chemicals.

Scioto County Regional Water District Number One

Management's Discussion and Analysis

For the Fiscal Year Ended December 31, 2004

Unaudited

Capital Assets

As of December 31, 2004, the District had invested \$6.4 million in capital assets net of \$8.2 million of accumulated depreciation. This amount represents a net increase (including additions and deductions) of \$271,203 (or 4%) over the prior year. The greatest increases to capital assets were additions and replacement of the District's distribution lines. Construction in progress was decreased by \$10,220. This decrease was primarily due to the completion of the Northwest Interconnect project. More detailed information about the District's capital assets is presented in Note 8 to the basic financial statements.

SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1

Capital Assets

	2003	Additions	Deletions	2004
Capital Assets, Not Being Depreciated				
Land	\$ 160,482	\$ -	\$ -	\$ 160,482
Construction in Progress	309,081	386,849	(397,069)	298,861
Total Capital Assets, Not Being Depreciated	<u>469,563</u>	<u>386,849</u>	<u>(397,069)</u>	<u>459,343</u>
 Capital Assets Being Depreciated				
Supply, Facilities, Wells, & Pumps	899,851	93,470	-	993,321
Water Treatment Plant	3,435,233	92,918	(38,729)	3,489,422
Distribution System & Lines	7,661,536	667,345	(192,770)	8,136,111
Transportation Equipment	349,178	123,267	(67,207)	405,238
Furniture and Office Equipment	179,189	6,295	-	185,484
Other Equipment	929,922	4,900	(19,135)	915,687
Total Capital Assets, Being Depreciated	<u>13,454,909</u>	<u>988,195</u>	<u>(317,841)</u>	<u>14,125,263</u>
 Less Accumulated Depreciation:				
Supply, Facilities, Wells, & Pumps	(605,398)	(39,553)	-	644,951
Water Treatment Plant	(2,180,581)	(114,811)	29,111	2,266,281
Distribution System & Lines	(4,094,312)	(359,522)	190,332	4,263,502
Transportation Equipment	(260,168)	(63,833)	53,225	270,776
Furniture and Office Equipment	(100,831)	(18,492)	-	119,323
Other Equipment	(547,035)	(73,726)	8,335	612,426
Total Accumulated Depreciation	<u>(7,788,325)</u>	<u>(669,937)</u>	<u>281,003</u>	<u>8,177,259</u>
 Total Capital Assets Being Depreciated, Net	<u>5,666,584</u>	<u>318,258</u>	<u>(36,838)</u>	<u>5,948,004</u>
 Total Capital Assets, Net	<u>\$6,136,147</u>	<u>\$705,107</u>	<u>(\$433,907)</u>	<u>\$6,407,347</u>

Scioto County Regional Water District Number One
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Budget Analysis

The District exceeded the budgeted revenue for 2004 by \$492,470. Total receipts collected were over \$3.2 million which exceeded the original budget of \$2.8 million by 23%. In addition, the District's expenses remained under budget by \$809,952. This does not include depreciation expense of \$669,476. Excluding depreciation, the District budgeted expenses totaled \$2,844,492 compared to a budget of \$3,654,444.

Debt Administration

At December 31, 2004, the District had \$2.06 million in bonds payable. This brings the total OPWC debt to \$322,105. More detailed information about the District's long-term debt is presented in Note 4 to the Basic Financial Statements.

Economic Factors

The District's financial condition continues to improve as the District proceeds through another year of periodic flood conditions and increased cost of fuel and chemicals. Effective January 1, 2005, a rate increase was implemented to help cover these costs as well as the additional cost of upgrades and labor. The local economic conditions continue to challenge the district with customer delinquency and water theft. By implementing a consistent collection approach the District has been able to keep customer delinquency at a reasonable level.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Kathie Martin, Treasurer at Scioto County Regional Water District Number One located at 326 Robert Lucas Road, Lucasville Ohio 45648, (740) 259-2301.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2004

Assets	<u>2004</u>
Current Assets	
Cash and Cash Equivalents	\$ 1,125,953
Accounts Receivable	434,940
Deposits	3,225
Prepaid Expenses	25,561
Inventories	<u>80,161</u>
Total Current Assets	1,669,840
 Non-Current Assets	
Deferred Charges:	
Deferred Charges	31,045
 Restricted Assets:	
Cash and Cash Equivalents	364,644
 Capital Assets	
Nondepreciable Capital Assets	459,343
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>5,948,005</u>
Total Non-Current Assets	<u>6,803,037</u>
Total Assets	<u><u>\$ 8,472,877</u></u>

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
STATEMENT OF NET ASSETS, CONTINUED
December 31, 2004

2004

Liabilities

Current Liabilities

Accounts Payable	\$ 170,551
Employee Withholding Payable	7,666
Unset Water Taps Payable	23,700
Compensated Absences Payable	62,977
Customer Deposits	425
Current Bonds Payable	160,000
Current OPWC Payable	21,303
Current Capital Lease Payable	<u>2,027</u>

Total Current Liabilities 448,649

Noncurrent Liabilities

Long Term Compensated Absences	11,046
Capital Lease Payable	3,571
OPWC Loan Payable	322,105
Revenues Bonds Payable	<u>1,900,000</u>

Total Noncurrent Liabilities 2,236,722

Total Liabilities 2,685,371

Net Assets

Invested in capital asset net of related debt	3,998,342
Restricted for:	
Debt Service	364,644
Unrestricted	<u>1,424,520</u>

Total Net Assets \$ 5,787,506

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended December 31, 2004

	<u>2004</u>
Operating Revenues	
Water Sales	\$ 3,191,587
Water Tap Sales	49,310
Lab Test Fees	2,740
Miscellaneous	<u>19,442</u>
Total Operating Revenues	3,263,079
 Operating Expenses	
Water Taps and New Line Extensions	8,864
Supply and Treatment	882,278
Distribution	765,703
Administration, Billing, and Office	400,170
Board Expenses	7,966
Depreciation Expenses	<u>669,476</u>
Total Operating Expenses	<u>2,734,457</u>
Operating Income	528,622
 Non-Operating Revenues	
Proceeds from sale of assets	20,915
Interest Income	8,476
Interest Expense	<u>(110,034)</u>
Total Non-Operating Revenues/Expenses	(80,643)
Income Before Contributions	447,979
 Capital Contributions	
Capital Contributions from Other Governments	31,385
Capital Contributions from OPWC Funds	<u>118,858</u>
Total Capital Contributions	150,243
Change in Net Assets	598,222
Net Assets January 1, 2004 (restated - see note 10)	<u>5,189,284</u>
Net Assets December 31, 2004	<u><u>\$ 5,787,506</u></u>

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
STATEMENT OF CASH FLOWS
Year Ended December 31, 2004

	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 3,186,787
Receipts from Others	19,442
Payments to Suppliers and Vendors	(683,682)
Payments to Employees	<u>(1,310,328)</u>
Net cash provided by operating activities	<u><u>1,212,219</u></u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal on Bond	(150,000)
Interest on Bond	(109,808)
OPWC principal	(18,834)
Xerox principal	(1,857)
Xerox interest	(340)
Proceeds from Grant funds	118,858
Proceeds from Contributed Revenue	31,385
Proceeds from Sale of Capital Assets	20,915
Payments for Capital Acquisitions	<u>(927,353)</u>
Net cash provided by/(used for) capital financing activities	(1,037,034)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	<u>8,476</u>
Net cash Provided by/ (Used for) by Investing Activities	<u>8,476</u>
Net increase/decrease in cash and cash equivalents	178,456
Cash and cash equivalents, January 1, 2004 (Reclassified)	1,312,141
Cash and cash equivalents, December 31, 2004	<u><u>\$ 1,490,597</u></u>
Reconciliation of Operating Income to Net Cash Provided by	
Operating Income	\$ 528,622
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation Expense	669,476
Change in Assets	
(Increase) Decrease in Accounts Receivable	(56,850)
(Increase) Decrease in Prepaid Items	(14,972)
(Increase) Decrease in Materials and Supplies Inventory	(12,159)
Change in Liabilities	
Increase (Decrease) in Accounts Payable	85,312
Increase (Decrease) in Employee's Withholding Payable	7,665
Increase (Decrease) in Compensated Absences Payable	<u>5,125</u>
Total Adjustments	683,597
Net Cash Provided by Operating Activities	<u><u>\$ 1,212,219</u></u>

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Scioto County Regional Water District Number One 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 Regional Water District Number One operates under the direction of a seven member board of trustees. An appointed staff consisting of a superintendent, a plant superintendent, a distribution superintendent, and an office manager are responsible for fiscal control of the resources of the Scioto County Regional Water District Number One. The Scioto County Regional Water District Number One 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:

Bloom Township
Clay Township
Harrison Township
Jefferson Township
Madison Township
Porter Township
Valley Township
Vernon Township
South Webster Village

B. BASIS OF ACCOUNTING

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental enterprise funds. In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provided for significant changes in financial reporting and was scheduled for phased implementation based on size of the government starting fiscal year ending 2002.

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The focus of enterprise fund measurement is based upon determination of operating income, changes in net assets, financial position, and cash flows. Under the provisions of Governmental Accounting Standards Board (GASB) Pronouncement No. 20, the District has elected to follow all GASB pronouncements and Financial Accounting Standards Board pronouncements issued on or after November 30, 1989, except for those that conflict with GASB pronouncements. The District's operating revenues are those that result from providing services and producing and delivering goods, and include all other revenues that do not result from transactions defined by GASB Statement No. 9 as capital and related financing, non-capital financing, or investing activities.

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 Scioto County Regional Water District Number One 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. FUND ACCOUNTING

The District uses fund accounting to segregate cash that is restricted as to use. The District classifies its fund into the Enterprise Fund Type.

D. MEASUREMENT FOCUS

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operations of the District are included on the statement of net assets. The statement of changes in net assets presents increase (i.e. revenue) and decrease (i.e. expenses) in net total assets. The statement of cash flows provided information about how the District finances and meets the cash flow needs of its enterprise activity.

E. 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, 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 cash as of January 1.

Encumbrances

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

A summary of 2004 budgetary activity appears in Note 3.

F. CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 34, *Basic Financial Statement – 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.

There was no restatement of net assets as a result of implementation; however, reclassifications were made to show retained earnings and contributed capital as net assets.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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 financial statements are at cost less accumulated depreciation. The estimated useful lives by major capital asset class are as follows:

Supply Facilities, Wells & Pumps	8 years
Transportation Equipment	5 years
Water Treatment Plant	40 years
Other Equipment	5 years
Distribution System & Lines	40 years
Furniture and Other Equipment	10 years

H. INVENTORY

The District maintains material inventory for its proprietary fund. Inventory is valued at cost and the District uses the first-in, first-out (FIFO) flow assumption in determining cost.

I. 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 Statement No.16, Accounting for Compensated Absences, a liability is recorded for vested sick pay benefits which have been defined by District policy as available to those employees with ten years or more of service up to a maximum of four-hundred-eighty hours.

J. PENSIONS

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

K. CASH & CASH EQUIVALENTS

To improve cash management, cash received by the District is pooled. The Proprietary fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

During fiscal year 2004, investments were limited to U.S. Treasury Obligations 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 and nonnegotiable certificates of deposit are reported at cost.

The District's cash and cash equivalents are considered to be cash on hand, deposits and short term investments (including restricted assets) with maturities of three months or less from the date of acquisition.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. DEFERRED CHARGES

Deferred charges are non-regularly recurring, non-capital costs of operations that benefit future periods. These costs include those incurred in connection with deferred hydrology, hydrology study, and long and short term sludge plan. Deferred charges expense for 2004 was \$4,422 leaving a balance of \$31,045.

M. PREPAID EXPENSES

Charges entered in the accounts for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operation. Prepaid expenses for 2004 were \$25,561.

N. ESTIMATES

The preparation of financial statements in conformity 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.

O. NET ASSETS

Net assets represent the differences between assets and liabilities. Net Assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted net assets consist of monies and other resources which are restricted to satisfy debt service requirements as specified in debt agreements.

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 can be withdrawn 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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

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;
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.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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

Cash on Hand - At year end, the District had \$400 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 year end, the carrying amount of the District's deposits was \$121,496 and the bank balance was \$151,430. The bank balance was covered by federal depository insurance.

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.

	Category 1	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$0	\$81,679	\$81,679	\$81,679
U.S. Treasury Obligations	\$1,287,022	\$0	\$1,287,022	\$1,287,022
Total Investments			\$1,368,701	\$1,368,701

The classification of cash and cash equivalents, and investments on the basic 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 basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	\$1,490,597	\$0
Cash on Hand	(400)	0
Investments:		
Repurchase Agreements	(81,679)	81,679
U.S. Treasury Obligations	(1,287,022)	1,287,022
GASB Statement 3	\$121,496	\$1,368,701

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2004 is as follows:

2004 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	\$2,800,000	\$3,292,490	\$492,470

2004 Budgeted vs. Actual Budgetary Basis Disbursements

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$3,654,444	\$2,844,492	\$809,952

NOTE 4 - DEBT OBLIGATIONS

Debt outstanding at December 31, 2004, consisted of the following:

Water System Revenue Refunding & Improvement Bonds	Total Due
Principal Outstanding	\$ 2,060,000
Interest Rate	4.50%
OPWC Loan	
Principal Outstanding	\$ 322,105
Interest Rate	0.00%
Xerox Lease	\$ 5,598

The revenue refunding and improvement bonds are special obligations of the District, payable solely from the pledged revenues of its water system and the revenue fund created under the indenture. The bonds were issued to fund capital expenditures to improve the system.

The OPWC loans were issued for the purpose of financing the fairgrounds road waterline and Clarktown Water Tank, respectively. Revenue of the District has been pledged to repay this debt.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4 - DEBT OBLIGATIONS (Continued)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2004, including interest payments of \$599,553 are as follows:

Year Ending <u>December 31</u>	Revenue Refunding <u>Bonds</u>
2005	\$262,752
2006	260,195
2007	262,074
2008	258,330
2009	258,748
2010-2014	<u>1,357,454</u>
Total	<u>\$2,659,553</u>

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

Year Ending <u>December 31</u>	OPWC <u>Loan</u>
2005	\$10,651
2006	20,171
2007	20,171
2008	20,171
2009	20,171
2010-2015	127,818
2016-2025	<u>102,952</u>
Total	<u>\$ 322,105</u>

The Water district entered into an agreement to lease a copier during fiscal year 2004. The terms of the agreement provide options to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The capital asset acquired by the lease has been capitalized in the statement of net assets for governmental activities in the amount of \$8,440 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal years totaled \$949.67

The asset acquired through the capital lease is as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Asset: Xerox Copier	\$ 8,440	\$ 3,235	\$ 5,205

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4 - DEBT OBLIGATIONS (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2004:

<u>Year Ending</u> <u>December 31</u>	<u>Xerox</u> <u>Lease</u>
2005	2,027
2006	2,027
2007	2,027
2008	<u>1,144</u>
Total Lease Payments	\$7,225
Less: Amount Representing Interest	<u>(1,627)</u>
Present Value of Minimum Lease Payments	<u>\$5,598</u>

NOTE 5 - 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 year 2004, the district contracted with Ohio Government Risk Management for real property, building contents, and vehicle insurance coverage.

Coverage provided by the program are as follows:

General Liability	\$5,000,000
Public Officials	\$5,000,000
Automobile	\$5,000,000
Faithful Performance & Employee Bond	\$100,000

Vehicle policies include liability coverage for bodily injury and property damage. Real property and building contents are 80% insured.

Health insurance was provided by a private carrier, Anthem Blue Cross & Blue Shield, 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 coverage in 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6 - PENSION PLAN

A. Public Employees Retirement System

1. Pension Benefit Obligation

Statement 27 of the Governmental Accounting Standards Board (GASB), *Accounting for Pensions by State and Local Governmental Employers*, requires public employers to provide detailed disclosure of pension information in financial statements and accompanying information.

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

- The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan.
- The Member-Directed Plan—a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- The Basic Plan—a cost sharing, multiple-employer defined benefit pension plan. Under the Basic 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.

B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Basic Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-6701 or 800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2004 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. Public safety division members contributed at 9%.

The 2004 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units, the rate was 13.55% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2004 was 16.7%.

F. The Water District's contributions to the OPERS of Ohio for the year ended December 31, 2002, 2003, and 2004 was \$222,273, \$220,477, and \$215,176 respectively which were equal to the total required contributions.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6 - PENSION PLAN (continued)

A. Public Employees Retirement System (Continued)

2. Other Post-employment Benefits

Statement 12 of the Governmental Accounting Standards Board (GASB), *Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Governmental Employers*, establishes standards for disclosure of information on post-employment benefits other than pension benefits by all state and local government employers.

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

In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Basic 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 Post-employment Benefit (OPEB) as described in GASB Statement 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety with separate employee contribution rates and benefits. The 2004 employer contribution rate for state employers was 13.31% of covered payroll, of which 4.00% was used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. For both the public safety and law enforcement divisions the 2004 employer rate was 16.70%, and 4.00% was used to fund health care.

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

C. Summary of Assumptions:

Actuarial Review—The assumptions and calculations below were based on OPERS' latest actuarial review 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 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 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6 - PENSION PLAN (continued)

Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health Care—Health care costs 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. At year-end 2004, the number of active contributing participants in the Traditional Pension and Basic Plans totaled 369,885.
2. The rates stated in Section A, above, are the actuarially determined contribution requirements for OPERS. The portion of your employer contributions that were used to fund post-employment benefits were total PERS wages \$893,283 times .2952 which equals \$263,697
3. The amount of \$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 actuarially 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 the 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.

NOTE 7 - COMPENSATED ABSENCES

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, 2004, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$74,023.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 -CAPITAL ASSETS

A summary of the District's capital assets as of December 31, 2004, are as follows:

	2003	Additions	Deletions	2004
Capital Assets, Not Being Depreciated				
Land	\$ 160,482	\$ -	\$ -	\$ 160,482
Construction in Progress	309,081	386,849	(397,069)	298,861
Total Capital Assets, Not Being Depreciated	<u>469,563</u>	<u>386,849</u>	<u>(397,069)</u>	<u>459,343</u>
Capital Assets Being Depreciated				
Supply, Facilities, Wells, & Pumps	899,851	93,470	-	993,321
Water Treatment Plant	3,435,233	92,918	(38,729)	3,489,422
Distribution System & Lines	7,661,536	667,345	(192,770)	8,136,111
Transportation Equipment	349,178	123,267	(67,207)	405,238
Furniture and Office Equipment	179,189	6,295	-	185,484
Other Equipment	929,922	4,900	(19,135)	915,687
Total Capital Assets, Being Depreciated	13,454,909	988,195	(317,841)	14,125,263
Less Accumulated Depreciation:				
Supply, Facilities, Wells, & Pumps	(605,398)	(39,553)	-	644,951
Water Treatment Plant	(2,180,581)	(114,811)	29,111	2,266,281
Distribution System & Lines	(4,094,312)	(359,522)	190,332	4,263,502
Transportation Equipment	(260,168)	(63,833)	53,225	270,776
Furniture and Office Equipment	(100,831)	(18,492)	-	119,323
Other Equipment	(547,035)	(73,726)	8,335	612,426
Total Accumulated Depreciation	(7,788,325)	(669,937)	281,004	8,177,258
Total Capital Assets Being Depreciated, Net	<u>5,666,584</u>	<u>318,258</u>	<u>(36,837)</u>	<u>5,948,005</u>
Total Capital Assets, Net	<u>\$6,136,147</u>	<u>\$705,107</u>	<u>(\$433,906)</u>	<u>\$6,407,348</u>

NOTE 9 -CONTINGENCIES

The District is party to legal proceedings. The District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 10 - PRIOR PERIOD ADJUSTMENTS

For the year ended December 31, 2004 the following prior period adjustments have resulted in fund equity restatements due to accounting errors:

Retained Earnings at 12/31/2003	Prior Period Adjustments	Restated Net Assets at 1/1/2004
\$5,201,801	(\$12,517)	\$5,189,284

Cash and cash equivalents at the beginning of the year were restated by \$1,165,900 to include amounts which were previously reported as investments.

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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
Scioto County Regional Water District Number One
P.O. Box 310
Lucasville, Ohio 45648

We have audited the financial statements of Scioto County Regional Water District Number One (the District), as of and for the year ended December 31, 2004, and have issued our report thereon dated April 29, 2005, in which we indicated the District implemented Governmental Accounting Standards Board Statements number 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, regulation, 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 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 April 29, 2005.

This report is intended solely for the information and use of 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.

April 29, 2005



**Auditor of State
Betty Montgomery**

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SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE

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 1, 2005**