

NORTHERN AREA WATER AUTHORITY

Basic Financial Statements

December 31, 2005

with

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Northern Area Water Authority
333 James E. Bohanan Memorial Drive
Vandalia, Ohio 45377

We have reviewed the *Independent Auditors' Report* of the Northern Area Water Authority, Miami County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2005 through December 31, 2005. 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 Northern Area Water Authority is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

November 8, 2006

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NORTHERN AREA WATER AUTHORITY

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report

Board of Trustees
Northern Area Water Authority
333 James E. Bohanan Memorial Drive
Vandalia, Ohio 45377

We have audited the accompanying financial statements of the Northern Area Water Authority (the Authority) as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Area Water Authority as of December 31, 2005, and the changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2006, on our consideration of the Authority'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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 2 through 4 is not a required part of the basic financial statements but is 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 of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
August 2, 2006

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005

The discussion and analysis of the Northern Area Water Authority's (NAWA) financial performance provides an overall review of NAWA for the year ended December 31, 2005. The intent of this discussion and analysis is to look at NAWA's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of NAWA's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- In total, net assets decreased \$96,683. Virtually all revenues (loan proceeds) and expenses (contractual services and capital outlay) have been capitalized into balance sheet accounts, loans payable and construction in progress.
- Operating expenses increased \$85,483 as a result of increases in contractual services due to charges for fiscal services.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements.

The basic financial statements include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS

A comparative analysis of 2005 and 2004 is presented below:

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Current and other assets	\$69,558	\$164,587	(\$95,029)
Capital assets, net	<u>10,700,629</u>	<u>1,464,154</u>	<u>9,236,475</u>
Total assets	<u>10,770,187</u>	<u>1,628,741</u>	<u>9,141,446</u>
Long-term loans outstanding	9,487,900	1,492,924	7,994,976
Current liabilities	<u>1,369,844</u>	<u>126,691</u>	<u>1,243,153</u>
Total liabilities	<u>10,857,744</u>	<u>1,619,615</u>	<u>9,238,129</u>
Net assets			
Invested in capital assets, net of related debt	1,212,729	(28,770)	1,241,499
Unrestricted (Deficit)	<u>(1,300,286)</u>	<u>37,896</u>	<u>(1,338,182)</u>
Total net assets (Deficit)	<u><u>(\$87,557)</u></u>	<u><u>\$9,126</u></u>	<u><u>(\$96,683)</u></u>

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005

NAWA's experienced a decrease in net assets for 2005. Until the construction phase of the treatment plant is complete and the plant begins operation and revenue is generated from charges for services, net assets will continue to decrease. The construction phase is anticipated to be completed in 2006 and operations are anticipated to commence in October of 2006.

Changes in Net Assets

The following table shows the changes in net assets for the fiscal year 2005 and 2004:

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Revenues			
Nonoperating revenues:			
Investment income	\$231	\$199	\$32
Other non-operating income	32	0	32
Total revenues	<u>263</u>	<u>199</u>	<u>64</u>
Operating expenses			
Contractual services	94,846	11,463	83,383
Material and supplies	797	0	797
Other	1,303	0	1,303
Total operating expenses	<u>96,946</u>	<u>11,463</u>	<u>85,483</u>
Change in net assets	(96,683)	(11,264)	(85,419)
Beginning net assets	<u>9,126</u>	<u>20,390</u>	<u>(11,264)</u>
Ending net assets	<u>(\$87,557)</u>	<u>\$9,126</u>	<u>(\$96,683)</u>

Total expenses increased \$85,483 from 2004 to 2005. The primary increase was due to an increase in contractual services due to charges for fiscal services. Other expenses increased due to crop damage reimbursement.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, NAWA had \$10,700,629 invested in construction in progress. The following table shows 2005 and 2004 balances:

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Construction in progress	<u>\$10,700,629</u>	<u>\$1,464,154</u>	<u>\$9,236,475</u>

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005

The increase in construction in progress reflects the engineering costs and construction costs association with the water plant facilities. Construction of the facilities began in late 2004.

Additional information on NAWA's capital assets can be found in note 4.

Debt

At December 31, 2005, NAWA had \$9,487,900 in Ohio Water Development Authority (OWDA) loans outstanding for the construction of the water treatment plant facilities. The following table summarizes NAWA's debt outstanding at December 31, 2005 and December 31, 2004:

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
OWDA Loans Payable	<u>\$ 9,487,900</u>	<u>\$ 1,492,924</u>	<u>\$ 7,994,976</u>

Additional information on NAWA's long-term debt can be found in note 5.

CURRENT FINANCIAL ISSUES AND CONCERNS

At December 31, 2005, NAWA had total assets of \$10,770,187 and total net assets of (\$87,557) which was resulted from a decrease in net assets of \$96,683. Property insurance and contractual services related to the preparation of the financial statements and fiscal services accounted for the net loss in 2005.

REQUESTS FOR INFORMATION

This financial report is designed to provide the citizens, taxpayers, and consumers of the Cities of Tipp City and Vandalia, creditors and investors with a general overview of NAWA's finances and to show NAWA's accountability for the monies it receives. If you have questions about this report or need additional information contact the Finance Department by calling (937) 898-5891 or writing to City of Vandalia Finance Department, 333 James E. Bohanan Memorial Drive, Vandalia, OH 45377.

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

Assets:

Current Assets:

Cash and Cash Equivalents \$ 69,558

Noncurrent Assets:

Construction in Progress 10,700,629

Total Assets 10,770,187

Liabilities:

Current Liabilities:

Accounts Payable 51,732

Contracts Payable 712,792

Retainage Payable 605,320

Total Current Liabilities 1,369,844

Noncurrent Liabilities:

Ohio Water Development Authority Loans Payable 9,487,900

Total Liabilities 10,857,744

Net Assets:

Invested in Capital Assets, Net of Related Debt 1,212,729

Unrestricted (Deficit) (1,300,286)

Total Net Assets (Deficit) \$ (87,557)

See accompanying notes to the basic financial statements

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

Operating Revenues:	\$ -
Operating Expenses:	
Contractual Services	94,846
Materials and Supplies	797
Other Operating Expenses	<u>1,303</u>
Total Operating Expenses	<u>96,946</u>
 Operating Loss	 (96,946)
Nonoperating Revenues:	
Interest Income	231
Other	<u>32</u>
Total Nonoperating Revenues	<u>263</u>
 Change in Net Assets	 (96,683)
 Net Assets Beginning of Year	 <u>9,126</u>
 Net Assets End of Year	 <u>\$ (87,557)</u>

See accompanying notes to the basic financial statements

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Payments to Suppliers for Goods and Services	\$ <u>(75,479)</u>
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Cash Flows from Non-Capital Financing Activities:

Cash Received for Miscellaneous Items	<u>32</u>
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Cash Flows from Capital and Related Financing Activities:

Prinicipal Paid on Ohio Water Development Authority Loan	(1,704,571)
Proceeds from Ohio Water Development Authority Loan	9,744,919
Acquisition and Construction of Capital Assets	<u>(8,014,789)</u>

Net Cash Provided by Capital and Related Financing Activities	<u>25,559</u>
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Cash Flows from Investing Activities:

Interest	<u>231</u>
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Net Decrease in Cash and Cash Equivalents	(49,657)
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Cash and Cash Equivalents Beginning of Year	<u>119,215</u>
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Cash and Cash Equivalents End of Year	<u>\$ 69,558</u>
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**Reconciliation of Operating Loss to
Net Cash Used for Operating Activities:**

Operating Loss	(96,946)
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Adjustments to reconcile operating loss to cash used for operating activities:

Increase in Accounts Payable	<u>21,467</u>
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Net Cash Used for Operating Activities	<u>\$ (75,479)</u>
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Non-cash Investing Activities, Capital and Financing Activities:

During 2005, NAWA recorded \$1,348,377 in capitalized assets that were not paid until subsequent to year-end.

See accompanying notes to the basic financial statements

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 - REPORTING ENTITY

The Northern Area Water Authority (NAWA) is joint venture between the Cities of Tipp City and Vandalia, Ohio. NAWA will oversee the design, construction and operation of the new water treatment plant that will be located in Tipp City and provide water treatment services to both communities. NAWA is governed by a five-member management board, which will have complete authority over all aspects of the plant's operation. The City of Tipp City was the fiscal agent through May 31, 2005. The City of Vandalia served as the fiscal agent from June 1, 2005 thru December 31, 2005. NAWA is reported as an agency fund of the City of Vandalia. The accompanying financial statement present only NAWA and are not intended to present the financial position of either City participating in the joint venture.

The accompanying basic financial statements of NAWA present the financial position, results of operations and the cash flows of the entity. The financial statements are presented as of December 31, 2005, and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles.

The reporting entity is comprised of the stand-alone government, component units and other organizations that are included to ensure that the financial statements of NAWA are not misleading. The stand-alone government consists of all departments, boards and agencies that are not legally separate from NAWA.

Component units are legally separate organizations for which NAWA is financially accountable. NAWA is financially accountable for an organization if NAWA appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on NAWA in that NAWA approves their budget, the issuance of their debt or the levying of their taxes. Based upon the application of these criteria, NAWA has no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pursuant to GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*," the financial statements of the NAWA have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to proprietary funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. NAWA also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. NAWA has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the NAWA accounting policies are described below.

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

NAWA's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

NAWA uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of NAWA are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how NAWA finances and meets the cash flow needs of its enterprise activity.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. NAWA financial statements are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

D. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits.

E. Capital Assets

Capital assets utilized by NAWA are reported on the statement of net assets. All capital assets are capitalized at cost and updated for additions and retirements during the year. Contributed capital assets are recorded at their fair market values as of the date received. NAWA maintains a capitalization policy of recording assets with an initial, individual cost of more than \$750 and an estimated useful life threshold of three or more years. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation will be computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings	50 years
Improvements Other Than Buildings	10-45 years
Machinery, Equipment, Furniture and Fixtures	3-35 years

Depreciation on capital assets will be charged to net assets. At December 31, 2005, the only capital assets in existence are construction in progress. These assets will not be depreciated until they are completed and placed in service.

NAWA' policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2005, no material interest costs were incurred on construction projects for NAWA.

F. Net Assets

Net assets represent the difference 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by NAWA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. NAWA applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. NAWA did not have any restricted net assets for 2005.

G. Operating and Nonoperating Revenues and Expenses

NAWA distinguishes operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are directly from the primary activity of NAWA. For NAWA, these revenues are charges for services for water treatment and distribution. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of NAWA. All revenues and expenses not meeting this definition are reported as nonoperating.

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. NAWA did not have any capital contributions during 2005.

I. Estimates

The preparation of the 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.

J. Budgetary Process

An operating budget for NAWA is prepared and approved annually by the Board of Directors. Budgetary modifications may only be made by resolution of the Board.

NOTE 3 - DEPOSITS AND INVESTMENTS

Ohio law requires the classification of funds held by NAWA into three categories:

Active funds are those funds required to be kept in "cash" or "near cash" status for immediate use by NAWA. Such funds must be maintained either as cash in the NAWA Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Inactive funds are those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Interim funds are those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be 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 or 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;

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions apply for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. 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; and
7. The State Treasurer's investment pool (STAR Ohio).

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of NAWA's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

At year-end, the carrying amount of the NAWA's deposits was \$69,558. Cash balances per the bank were \$69,558. The entire bank balance was insured by Federal depository insurance.

Investments

NAWA's did not have any investments at June 30, 2005.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

Concentration of Credit Risk - NAWA places no limits on the amount NAWA may invest in any one issuer.

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Capital Assets, not being Depreciated:				
Construction in Progress	\$1,464,154	\$9,236,475	\$0	\$10,700,629

NOTE 5 – LONG-TERM OBLIGATIONS

Changes in loans payable during 2005 were as follows:

	Balance at 12/31/2004	Issued	Retired	Balance 12/31/2005
Ohio Water Development Authority Loans:				
2002 Planning Loan - 5.64%	\$1,492,924	\$211,647	\$1,704,571	\$0
2005 Water Treatment Plant - 3.99%	0	9,487,900	0	9,487,900
Totals	\$1,492,924	\$9,699,547	\$1,704,571	\$9,487,900

Principal and interest requirements on the OWDA loan will not be established until all proceeds have been received by NAWA. The planning loan was approved in the original amount of \$2,500,000. The planning loan was rolled into the water treatment plant loan during 2005. The original loan amount approved for the water treatment plant is \$24,162,446. Principal and interest payments on the water treatment plant loan are not scheduled to begin until July 2007. The water treatment plant loan is a 30 year loan.

NOTE 6 - RISK MANAGEMENT

NAWA 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. As of December 31, 2005, NAWA has acquired Directors and Officers Liability Coverage in the amount of \$3,000,000 with a deductible of \$10,000. The City of Tipp City provides property and general liability coverage for NAWA as part of its operating contract with NAWA.

There were no significant reductions in coverage from prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

NORTHERN AREA WATER AUTHORITY
TIPP CITY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 - CONTRACTUAL COMMITMENTS

As of December 31, 2005, NAWA had contractual purchase commitments as follows:

Contractor	Remaining Construction Commitment
Howell Contractors, Inc.	\$748,377
Shook, Inc.	\$10,216,827
Total	\$10,965,204

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLES

NAWA adopted the provisions of GASB Statement No. 40, *“Deposit and Investment Risk Disclosures”* for the year ended December 31, 2005. This statement modifies and expands existing disclosure requirements for deposits and investments. These additional disclosures can be found in note 3. NAWA also adopted the provisions of Technical Bulletin 2004-2, *“Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers”*. This technical bulletin requires governments to recognize pension expenditures/expenses in the period to which a payment relates even if the payment is not due until the next fiscal period. This bulletin had no effect on net assets of NAWA. Finally, NAWA adopted the provisions of GASB Statement No. 42, *“Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.”* This statement establishes accounting and financial reporting standards for the impairment of capital assets. This statement had no effect on net assets.

NOTE 9 – DEFICIT NET ASSETS

The deficit net assets reported at December 31, 2005 resulted from the recognition of liabilities but remaining unpaid as of the end of the year. These obligations will be submitted to OWDA when they become due for payment in early 2006. When payment is made, that amount will become part of the Water Treatment Plant Loan. Management continues to monitor the financial situation of NAWA and operating capital will be provided by the participating cities as needed.

NOTE 10 – SUSEQUENT EVENTS

As construction of the Water Treatment Plant continued during 2006, the Water Treatment Plant Loan obligation from OWDA continued to increase. For the time period January 1, 2006 to August 2, 2006 the Loan amount increased \$7,941,588. The total obligation NAWA had under the Loan as of August 2, 2006 is \$17,429,488.



Clark, Schaefer, Hackett & Co.

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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*

To the Board of Trustees
Northern Area Water Authority
333 James E. Bohanan Memorial Drive
Vandalia, Ohio 45377

We have audited the financial statements of the Northern Area Water Authority (the Authority), as of and for the year ended December 31, 2005, and have issued our report thereon dated August 2, 2006. 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 Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 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 with in 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 Authority'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*.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
August 2, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NORTHERN AREA WATER AUTHORITY

MIAMI 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
NOVEMBER 28, 2006**