



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**TRI-COUNTY WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
General Purpose Financial Statements:	
Balance Sheet – As of December 31, 2001 and 2000	3
Statement of Revenues, Expenses, and Changes in Retained Earnings – For the Years Ended December 31, 2001 and 2000	4
Statement of Cash Flows – For the Years Ended December 31, 2001 and 2000	5
Notes to the General Purpose Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19

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REPORT OF INDEPENDENT ACCOUNTANTS

Tri-County Rural Water and Sewer District
Washington County
Route 1, Box 238
Waterford, Ohio 45786

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of Tri-County Rural Water and Sewer District, Washington County, Ohio (the District), as of and for the years ended December 31, 2001 and 2000. 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 audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Tri-County Rural Water and Sewer District, Washington County, as of December 31, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Jim Petro
Auditor of State

October 8, 2002

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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**BALANCE SHEET
AS OF DECEMBER 31, 2001 AND 2000**

	2001	2000
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 199,263	\$ 233,408
Accounts Receivable-Customers	69,206	54,611
Accrued Interest Receivable	1,227	2,020
Restricted Assets:		
Cash Equivalents	46,125	66,676
Total Current Assets	315,821	356,715
Fixed Assets:		
Land	258,508	258,508
Buildings	23,617	20,816
Furniture and Fixtures	15,072	14,552
Machinery and Equipment	40,482	32,896
Motor Vehicles	13,968	13,968
Construction-In-Progress	281,070	698,719
Water System - Wells	199,576	199,576
Water System - Meters/Taps/Hydrants	377,086	321,921
Water System - Water Lines	5,534,960	4,814,108
Water System - Stations	920,258	845,580
Water System - Tanks/Towers	1,308,052	1,058,394
Less: Accumulated Depreciation	(1,828,339)	(1,525,986)
Total Fixed Assets	7,144,310	6,753,052
Other Assets:		
Loan Closing Fees	\$ 18,980	\$ 19,714
Right-of-Ways	36,072	35,680
Advance Deposits	300	300
Total Other Assets	55,352	55,694
TOTAL ASSETS	\$ 7,515,483	\$ 7,165,461
LIABILITIES AND EQUITY:		
Current Liabilities:		
Accounts Payable	\$ 8,776	\$ 9,166
Accrued Wages	3,373	4,557
Customer Deposits	962	1,208
Current Portion of Long-Term Debt	92,963	119,174
Total Current Liabilities	106,074	134,105
Long-Term Liabilities:		
OPWC/OWDA Loans	6,405,210	6,182,762
Total Long-Term Liabilities	6,405,210	6,182,762
Equity:		
Contributed Capital	2,292,237	2,292,237
Retained Earnings - Unreserved	(1,288,038)	(1,443,643)
Total Equity	1,004,199	848,594
TOTAL LIABILITIES AND EQUITY	\$ 7,515,483	\$ 7,165,461

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
Operating Revenues:		
Charge for Services	\$577,622	\$562,322
Tap Fees	22,900	20,600
Finance Charges	7,398	5,301
	607,920	588,223
Operating Expenses:		
Advertising	58	224
Amortization	828	5,734
Auto-Truck Travel	997	366
Chemicals	2,595	1,238
Casual Labor	1,301	
Contract Labor	14,086	12,703
Depreciation	302,352	295,927
Fuel, Oil and Grease	1,282	1,063
Dues and Subscriptions	708	108
Insurance	5,862	530
Hospital Insurance	11,943	9,263
Legal and Accounting	3,557	23,478
Repairs and Maintenance	575	230
Miscellaneous	180	49
Office	4,464	2,884
Pension - PERS	9,590	7,174
Postage	2,626	2,406
Recording/Filing Fees	1,313	462
Rent	1,200	1,200
Salaries	69,298	67,940
Supplies	8,373	11,355
Payroll Taxes	1,465	1,887
Other Taxes	3	
Telephone	3,669	3,214
Travel and Entertainment	2,769	1,595
System Electric	24,585	23,663
Training	0	460
Utilities	3,017	1,947
Sewer/Beverly Hills	1,181	933
Water Testing	4,160	2,033
	484,037	480,066
Total Operating Expenses		
Operating Income	123,883	108,157
Non-Operating Revenues (Expenses):		
Interest Income	14,453	16,458
Surcharge/Financed Taps	1,364	467
Miscellaneous	6,672	4,665
Interest Expense	(345,035)	(353,800)
Other Non-Operating Revenues	354,268	
	31,722	(332,210)
Total Non-Operating Revenues (Expenses)		
Net Income/(Loss)	155,605	(224,053)
Retained Earnings - January 1	(1,443,643)	(1,219,590)
Retained Earnings - December 31	(\$1,288,038)	(\$1,443,643)

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
Cash Flows from Operating Activities:		
Net Income/(Loss)	\$155,605	(\$224,053)
Adjustments to Reconcile Net Loss to Cash Provided by Operating Activities:		
Depreciation	303,180	295,926
(Increase) Decrease in Accounts Receivable	(14,595)	(22,699)
(Increase) Decrease in Accrued Interest Receivable	794	(730)
Increase (Decrease) in Accounts Payable	(390)	(13,996)
Increase (Decrease) in Customer Security Deposits	(246)	(601)
Increase (Decrease) in Payroll Withholdings	1,260	(109)
Increase (Decrease) in Accrued Payroll Payroll Taxes	24	72
Increase (Decrease) in Accrued Payroll	<u>(2,468)</u>	<u>733</u>
Total Adjustments	<u>287,559</u>	<u>258,596</u>
Net Cash Provided by (Used by) Operating Activities	443,164	34,543
Cash Flows from Capital and Capital-Related Financing Activities:		
Capital Provided from Membership Fees		7,900
Proceeds from Capital Grants		575,102
Proceeds from Long-Term Debt	440,358	173,842
Principal Payments on Long-Term Debt	(244,122)	(115,455)
Acquisition of Fixed Assets	<u>(694,096)</u>	<u>(634,251)</u>
Net Cash Provided by (Used by) Capital and Capital-Related Financing Activities	<u>(497,860)</u>	<u>7,138</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(54,696)	41,681
Cash and Cash Equivalents - Beginning of Year	<u>300,084</u>	<u>258,403</u>
Cash and Cash Equivalents - End of Year	<u>\$245,388</u>	<u>\$300,084</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash Paid During the Period For Interest	\$345,035	\$348,987

Disclosure of Accounting Policy:

For purposes of the statement of cash flows, the District considers all highly liquid financial instruments with a maturity of one year or less to be cash equivalents.

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

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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Tri-County Rural Water and Sewer District, Washington County (the District), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Water District was established as a separate political subdivision of the State of Ohio under provision of Chapter 6119 of the Ohio Revised Code. The Water District is directed by an elected seven-member Board of Trustees. These board members are elected by the membership (any consumer who has paid for a tap). An appointed staff consisting of a general manager, distribution operator, and one office clerk are responsible for fiscal control of the resources of the District. The District provides water and sewer services to residents of the District.

B. Measurement Focus and Basis of Accounting

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

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

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

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

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Note: Under HB 262, effective for fiscal years ending December 2000 and subsequent, Water and Sewer Systems not levying property taxes must follow most of the Ohio Revised Code Chapter 5705 budget requirements, but need not seek approval of a county budget commission for any budgetary actions.

The Ohio Revised Code requires the District adopt an annual budget.

Appropriations

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

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 reappropriated in the subsequent year.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

D. Property, Plant and Equipment

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

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

<u>Assets</u>	<u>Years</u>
Water Systems	25
Buildings	15
Furniture / Equipment	5 – 7
Vehicles	5

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Long-Term Liabilities

OWDA and OPWC notes are reported as liabilities. See Note 5.

F. Contributed Capital

Contributed capital consists of grants restricted to capital acquisitions, fixed assets received from developers and tap fees in excess of related costs. These assets are recorded at their fair market value on the date contributed. Capital contributions received in 2001 have been recorded as revenues and are reported as increases in retained earnings based on new guidelines established by GASB Statement 33, "Accounting and Reporting for Non-Exchange Transactions."

G. 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.

2. CASH AND CASH EQUIVALENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that 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 or deposit accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the District by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. CASH AND CASH EQUIVALENTS (Continued)

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United State 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. Bonds 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

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

Deposits: At December 31, the carrying amount of the District's deposits was as follows:

	<u>2001</u>	<u>2000</u>
Demand Deposits	\$245,388	\$247,723
Certificate of Deposit		52,361
	\$245,388	\$300,084
Total Deposits	\$245,388	\$300,084

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. CASH AND CASH EQUIVALENTS (Continued)

At December 31, the bank balance of the District's deposits was as follows:

	<u>2001</u>	<u>2000</u>
Demand Deposits	\$332,684	\$253,695
Certificate of Deposit		52,361
Total Deposits	<u>\$332,684</u>	<u>\$305,056</u>

At December 31, 2001, \$100,000 of the bank balance was insured by the Federal Deposit Insurance Corporation. \$232,684 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The District did not have any investments during 2001.

The classification of cash and cash equivalents on the 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." For the purposes of Statement of Cash Flows and for presentation on the Balance Sheet, investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2001 and 2000 follows:

Budgeted vs. Actual Receipts		
	<u>2001</u>	<u>2000</u>
Budgeted Receipts	\$660,000	\$660,000
Actual Receipts	1,402,546	1,345,067
Variance	<u>\$742,546</u>	<u>\$685,067</u>

Budgeted vs. Actual Expenditures		
	<u>2001</u>	<u>2000</u>
Appropriation Authority	\$523,884	\$506,868
Actual Expenditures	1,464,938	1,287,645
Variance	<u>(\$941,054)</u>	<u>(\$780,777)</u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY

Contrary to Ohio law, expenditures exceeded appropriations at the legal level of control by \$941,054 for the year ended December 31, 2001 and \$780,777 for the year ended December 31, 2000.

Contrary to Ohio law, the District did not obtain the Clerk's prior certification for some obligations.

4. LONG-TERM LIABILITIES

Debt outstanding at December 31, 2001 consisted of the following:

Ohio Water Development Authority

	<u>Currently Due</u>	<u>Long-Term</u>	<u>Total</u>
Note dated January 1, 1995, due 2021, with interest at 6.72%	\$56,582	\$4,386,741	\$4,443,323
Note dated July 1, 1995, due due 2021, with interest at 6.51%	3,138	237,651	240,789
Note dated January 30, 1997, due 2022, with interest at 6.12%	970	76,690	77,660
Note dated July 24, 1997, due 2023, with interest at 6.11%	343	27,467	27,810
Note dated February 26, 1998, due 2023, with interest at 5.73%	125	10,264	10,389
Note dated March 25, 1999, due 2026, with interest at 2.0%	1,332	79,734	81,066
Note dated June 24, 1999, due 2024, with interest at 5.56%	2,437	210,967	213,404
Note dated December 14, 2000, due 2021 with interest at 2.0%	<u>4,510</u>	<u>208,157</u>	<u>212,667</u>
 Totals	 <u>\$69,437</u>	 <u>\$5,237,671</u>	 <u>\$5,307,108</u>

The notes listed above are for the various fixed assets constructed to provide service from the wells to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these debts.

Ohio Public Works Commission

The District incurred various debt under Issue II funding of the Ohio Public Works Commission (OPWC). Terms of all existing notes payable include twenty (20) year maturity dates and an interest rate of zero (0) percent per annum.

The notes payable to the Ohio Public Works Commission are pursuant to Ohio Rev. Code § 164.05 and Ohio Admin. Code § 164-1-21. This Project Agreement entered into between the Ohio Public Works Commission and the District states that the above sums are to be used for the purpose of financing or reimbursing the costs of the indicated projects.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

4. LONG-TERM LIABILITIES (Continued)

Balances on the OPWC notes payable as of December 31, 2001, are as follows:

Round 3	\$108,591
Round 5	198,900
Round 7	261,885
Round 9	348,113
CR14C	<u>273,576</u>
Totals	<u>\$1,191,065</u>

Additional funding available from OPWC for the current Phase III Extension Project (CR14C) includes a grant in the amount of \$150,000, a credit enhancement of \$16,000 and a loan of \$331,000 at an interest rate of 2 percent. As of December 31, 2001, \$2,845 had been drawn down on the credit enhancement and \$273,576 drawn down on the loan.

The following is a schedule of future maturities of long-term debt, including interest of \$4,151,588 on the OWDA loans as of December 31, 2001.

	<u>OWDA</u>	<u>OPWC</u>	<u>Total</u>
2002	\$241,013	\$47,051	\$288,064
2003	482,026	47,051	529,077
2004	482,026	47,051	529,077
2005	482,026	47,051	529,077
2006	482,026	47,051	529,077
Thereafter	<u>7,289,579</u>	<u>955,810</u>	<u>8,245,389</u>
Total	<u>\$9,458,696</u>	<u>\$1,191,065</u>	<u>\$10,649,761</u>

5. FIXED ASSETS

A summary of the enterprise funds' fixed assets at December 31, 2001 and 2000, follows:

	<u>2001</u>	<u>2000</u>
Land	\$258,508	\$258,508
Furnitures/Fixtures	15,072	14,552
Buildings	23,617	20,816
Machinery/Equipment	40,482	32,896
Motor Vehicles	13,968	13,968
Construction-In-Progress	281,070	698,719
Water Systems	<u>8,339,932</u>	<u>7,239,579</u>
Total	8,972,649	8,279,038
Less: Accumulated Depreciation	(1,828,339)	(1,525,986)
Net Fixed Assets	<u><u>\$7,144,310</u></u>	<u><u>\$6,753,052</u></u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RISK MANAGEMENT

Risk Pool Membership

The Government belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-occurrence limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including

automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2001 and 2000 (the latest information available):

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	19,358,458	\$17,112,129
Liabilities	<u>(8,827,588)</u>	<u>(7,715,035)</u>
Retained earnings	<u>\$10,530,870</u>	<u>\$9,397,094</u>

<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	1,890,323	\$1,575,614
Liabilities	<u>(469,100)</u>	<u>(281,561)</u>
Retained earnings	<u>\$1,421,223</u>	<u>\$1,294,053</u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RISK MANAGEMENT (Continued)

General liability insurance is covered with a \$1,000,000 per occurrence. Automobile liability has a \$1,000,000 limit with a \$250 deductible for comprehensive and collision coverage.

Officials' liability coverage is \$1,000,000 per occurrence and in the aggregate, including a \$500 deductible. Property insurance coverage is subject to a \$250 deductible for buildings, contents, and miscellaneous property. Settled claims have not exceeded insurance coverage in any of the past four years.

7. DEFINED BENEFIT RETIREMENT SYSTEM

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

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For plan members the District was required to contribute 9.25 percent of covered salary for 2001, increased from 6.54 percent in 2000. Contributions are authorized by State statute. The contribution rates are determined actuarially. The District's contributions to PERS for the years ended December 31, 2001, 2000 and 1999 were \$9,590, \$7,174, and \$7,965, respectively. These contributions were equal to the required contributions for each year.

8. POSTEMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement service is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate for local government employer units was 13.55% of covered payroll; 4.3% was the portion that was used to fund health care for 2001.

Benefits are advance-funded using the entry age cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000 include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional annual pay increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually. All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

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



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

Tri-County Rural Water and Sewer District
Washington County
Route 1, Box 238
Waterford, OH 45786

To the Board of Trustees:

We have audited the accompanying financial statements of Tri-County Water and Sewer District, Washington County, Ohio (the District), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated October 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2001-61084-001 and 2001-61084-002.

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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated October 8, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

October 8, 2002

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-61084-001

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states, in part, that no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures exceeded appropriations in 2001 by the amount of \$941,054 and in 2000 by the amount of \$780,777.

We recommend the District should appropriate the amount of their unencumbered cash balance and, in addition, should prepare an appropriation amount for principal payments on notes and loans. The District should compare expenditures to appropriations and the Clerk should deny any expenditure when appropriations are not available.

FINDING NUMBER 2001-61084-002

Noncompliance Citation

Ohio Revised Code § 5705.41 (D)(1) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two “exceptions” to the above requirements:

- A. Then and Now Certificate – This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time the certification is being completed, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Trustees may authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the District.

- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Board of Trustees.

The District did not document the General Manager’s prior certification for any of the transactions tested in 2001 and 2000. There was no indication of the use of a “Then and Now” certificate for any of these transactions. The major expenditures were approved by the Board before the obligations were incurred but the District did not formally document the general manager’s approval of the obligations from the review of available appropriations (clerk certification).

We recommend the District obtain the General Manager’s prior certification for all disbursements and in cases where it is not practicable, the Board should approve a “then and now” certificate for each disbursement in excess of \$1,000 that did not have the General Manager’s prior certification.



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TRI-COUNTY RURAL WATER AND SEWER DISTRICT

WASHINGTON 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 7, 2002**