

**ADAMS COUNTY REGIONAL
WATER DISTRICT**

**GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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OFFICE OF THE AUDITOR

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To the Board of Directors
Adams County Regional Water District
West Union, Ohio

We have reviewed the independent auditor's report of the Adams County Regional Water District, prepared by Reynolds & Company, Certified Public Accountants, for the audit period January 1, 1999 through December 31, 1999. 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 Adams County Regional Water District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Jim Petro".

JIM PETRO
Auditor of State

July 12, 2000

REYNOLDS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Adams County Regional Water District
West Union, Ohio

We have audited the accompanying general purpose financial statements of Adams County Regional Water District as of and for the years ended December 31, 1999 and 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of Adams County Regional Water District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide 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 Adams County Regional Water District as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2000, on our consideration of Adams County Regional Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.


Reynolds & Company
Certified Public Accountants

Portsmouth, Ohio
March 22, 2000

FINANCIAL STATEMENTS

ADAMS COUNTY REGIONAL WATER DISTRICT

**BALANCE SHEETS
DECEMBER 31, 1999 AND 1998**

ASSETS	<u>1999</u>	<u>1998</u>
OPERATING FACILITIES (at cost)		
Land and land improvements	\$ 410,837	\$ 406,338
Buildings	476,504	469,780
Wells and wellfield improvements	966,792	962,813
Mains, lines and meters	7,430,071	7,369,357
Storage tanks	595,369	591,529
Water treatment and plant equipment	401,991	386,352
Trucks, tractors and equipment	402,400	365,100
Office furniture and equipment	79,144	70,790
Construction in progress	<u>7,167,580</u>	<u>5,207,707</u>
	17,930,688	15,829,766
Less: accumulated depreciation	<u>(5,284,239)</u>	<u>(4,963,924)</u>
Net operating facilities	<u>12,646,449</u>	<u>10,865,842</u>
 OTHER ASSETS		
Restricted cash and certificates of deposit	229,845	228,325
Deferred costs, net	<u>51,256</u>	<u>19,739</u>
Total other assets	<u>281,101</u>	<u>248,064</u>
 CURRENT ASSETS		
Cash and cash equivalents	1,812,045	1,374,249
Certificates of deposit	796,768	764,097
Accounts receivable:		
Customers, net of allowance for doubtful accounts of \$11,201 and \$11,201 at December 31, 1999 and 1998	279,338	270,362
Other receivables	29,930	7,348
Accrued interest receivable	18,347	13,545
Inventories	118,954	94,242
Prepaid expenses	18,160	15,075
Deferred costs		<u>822</u>
Total current assets	<u>3,073,542</u>	<u>2,539,740</u>
 Total assets	<u>\$ 16,001,092</u>	<u>\$ 13,653,646</u>

LIABILITIES AND MEMBERS' EQUITY

	<u>1999</u>	<u>1998</u>
MEMBERS' EQUITY		
Members' tap fees	\$ 1,809,286	\$ 1,550,886
Retained earnings	<u>1,904,613</u>	<u>1,463,881</u>
Total members' equity	<u>3,713,899</u>	<u>3,014,767</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>2,850,549</u>	<u>2,659,155</u>
LONG-TERM DEBT, less current portion	<u>8,865,553</u>	<u>7,613,551</u>
CURRENT LIABILITIES		
Current portion of long-term debt	208,567	104,886
Accounts payable	157,761	58,207
Accrued expenses	145,016	155,613
Accrued interest	36,347	24,067
Customer deposits	<u>23,400</u>	<u>23,400</u>
Total current liabilities	<u>571,091</u>	<u>366,173</u>
Total liabilities, contributions and members' equity	<u>\$ 16,001,092</u>	<u>\$ 13,653,646</u>

The Notes to Financial Statements are an integral part of these statements.

ADAMS COUNTY REGIONAL WATER DISTRICT

**STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
REVENUES		
Sales to customers	\$ 1,505,558	\$ 1,406,473
Sales to public authorities	639,561	635,057
Other revenues	<u>94,197</u>	<u>58,098</u>
Total revenues	2,239,316	2,099,628
EXPENSES		
Salaries	576,321	494,898
Utilities	157,277	171,297
Depreciation expense	320,315	326,869
Meter reader expense	48,850	47,536
Repairs	106,796	59,246
Truck expense	14,588	10,250
Supplies	34,585	20,846
Pension expense	104,105	93,055
Payroll taxes	14,503	28,168
Insurance	86,648	80,727
Office supplies and postage	23,605	23,488
Legal and engineering fees	92,260	91,197
Accounting fees	14,067	12,827
Director fees	28,394	27,040
Bad debts		5,212
Other expenses	49,500	62,904
Amortization	<u>1,687</u>	<u>822</u>
Total expenses	<u>1,673,501</u>	<u>1,556,382</u>
OPERATING INCOME	565,815	543,246
NON-OPERATING INCOME (EXPENSES)		
Grants		18,153
Interest income	122,149	101,459
Interest expense	(247,232)	(137,744)
Gain (loss) on disposition of fixed assets		<u>(2,005)</u>
Total other income (expenses)	<u>(125,083)</u>	<u>(20,137)</u>
NET INCOME	440,732	523,109
RETAINED EARNINGS, BEGINNING	<u>1,463,881</u>	<u>940,772</u>
RETAINED EARNINGS, ENDING	<u>\$ 1,904,613</u>	<u>\$ 1,463,881</u>

The Notes to Financial Statements are an integral part of these statements.

ADAMS COUNTY REGIONAL WATER DISTRICT

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operations	\$ 565,815	\$ 543,246
Items not requiring cash:		
Depreciation	320,315	326,869
Amortization	1,687	822
(Gain) loss on disposition		2,005
Changes in:		
Accounts receivable, customers and other	(36,360)	23,566
Inventories	(24,712)	(5,478)
Prepaid expenses	(3,085)	4,374
Accounts payable and other accrued expenses	43,662	34,854
Customer deposits		
Net cash provided by operating activities	<u>867,322</u>	<u>930,258</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income on investments	122,149	101,459
Net cash provided by investing activities	<u>122,149</u>	<u>101,459</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Members' tap fees	258,400	163,401
Grants		18,153
Net cash provided by non-capital financing activities	<u>258,400</u>	<u>181,554</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of operating facilities, including construction in progress and capitalized interest	(2,100,922)	(4,905,115)
Net increase in restricted cash and certificates of deposit	(34,191)	(500,344)
Payment of loan origination fees	(32,382)	
Proceeds from issuance of long-term debt	1,507,091	4,565,966
Payments on long-term debt obligations	(151,408)	(103,454)
Proceeds from construction contributions	191,394	6,908
Interest paid on long-term debt obligations	(189,657)	(137,031)
Net cash used in capital and related financing activities	<u>(810,075)</u>	<u>(1,073,070)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	437,796	140,201
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,374,249</u>	<u>1,234,048</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,812,045</u>	<u>\$ 1,374,249</u>

The Notes to Financial Statements are an integral part of these statements.

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background and Nature of Operations

Adams County Regional Water District (the "District"), was organized under the provisions of Section 6119 of the Ohio Revised Code on January 1, 1998. Prior to that date, the District was operated as an Ohio not-for-profit corporation known as Adams County Water Co., Inc. The District provides water service to its members in Adams County. The accounting policies used by the District reflect practices common to the industry.

Proprietary Fund

The District's activities are accounted for as a proprietary fund which uses the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting

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

Expenses are recognized as liabilities are incurred.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers cash in operating bank accounts, money market accounts, and certificates of deposit with an original maturity of three months or less as cash. Restricted assets are considered to be assets with limited use and, therefore, are not considered as cash equivalents.

ADAMS COUNTY REGIONAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

Deferred Financing Costs

Costs connected with obtaining and executing debt agreements are capitalized and amortized on the straight-line basis over the term of the related debt.

Operating Facilities

Operating facilities are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 1999, and 1998, the District capitalized \$22,544 and \$71,124 interest, respectively. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments are capitalized.

Estimates

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Customer Accounts Receivable

Customer accounts receivable are stated at face value, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. Doubtful accounts are charged against the allowance when management believes the collectibility of the account is unlikely.

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

Note 2. RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Restricted cash and certificates of deposit consist of savings accounts and certificates of deposit and represent amounts designated as reserved to comply with loan agreements with the U.S. Department of Agriculture Farmers Home Administration (FMHA) described more fully in Note 3.

Note 3. LONG-TERM DEBT

On April 21, 1999, the District issued \$2,639,424 in water revenue refunding bonds with rates of 4.5% to 6.5% in order to refinance the existing notes payable to FmHA. The terms of the bonds are identical to the previously issued notes and, therefore, no economic gain has been recognized by the District.

The original amount of each issue, the maturity date, and interest rates are summarized below:

<u>Amount of Original Issue</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>
\$ 322,095	2034	4.5%
242,304	2015	5.0%
987,342	2019	5.0%
645,300	2008	5.0%
195,658	2023	6.5%

The following is a summary of changes in long-term debt for the year ended December 31, 1999:

	<u>Balance 12/31/98</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/99</u>
Note payable FmHA, payable in yearly installments of \$86,514, including interest at 5%, due in 2010.	\$ 645,301		\$ 645,301	\$ 0

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

Note 3. LONG-TERM DEBT (Continued)

	<u>Balance</u> <u>12/31/98</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/99</u>
Note payable FmHA, payable in yearly installments of \$21,543, including interest at 5%, due in 2015.	242,304		242,304	0
Note payable FmHA, payable in yearly installments of \$47,872, including interest at 5%, due in 2019.	611,435		611,435	0
Note payable FmHA, payable in yearly installments of \$29,920, including interest at 5%, due in 2019.	375,907		375,907	0
Note payable FmHA, payable in yearly installments of \$20,398, including interest at 5%, due in 2020.	246,725		246,725	0
Note payable FmHA, payable in yearly installments of \$15,998, including interest at 6.5%, due in 2027.	195,658		195,658	0
Note payable FmHA with interest only payable until November, 1996, following with monthly installments of \$1,520, including interest at 4.5%, due in 2034.	323,034		323,034	0
1999 water revenue refunding bonds	0	2,639,424	96,262	2,543,162
Note payable OWDA, payable in semiannual installments of \$66,620 starting Jan. 1, 2000, including interest at 2%, due July 2024.	2,582,759	32,665	40,827	2,574,597

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

Note 3. LONG-TERM DEBT (Continued)

	<u>Balance</u> <u>12/31/98</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/99</u>
Note payable OWDA, payable in 50 semiannual installments of \$59,644 starting Jan. 1, 2000, including interest at 5.86%, due July 2024.	944,356	388,592	13,379	1,319,569
Note payable OWDA, payable in 50 semiannual installments of \$22,396, starting July 1, 2000, including interest at 5.56%, due January 2025.		601,007		601,007
Note payable OWDA, payable in 50 semiannual installments of \$56,297, starting July 1, 2000, including interest at 2%, due January 2025.	<u>1,550,958</u>	<u>484,827</u>		<u>2,035,785</u>
	<u>\$ 7,718,437</u>	<u>\$ 4,146,515</u>	<u>\$ 2,790,832</u>	<u>\$ 9,074,120</u>

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 1999, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 257,148	\$ 188,294	\$ 445,442
2001	331,361	319,037	650,398
2002	343,791	306,607	650,398
2003	356,782	293,616	650,398
2004	370,359	280,039	650,398
Thereafter	<u>7,414,679</u>	<u>2,408,914</u>	<u>9,823,593</u>
Total	<u>\$ 9,074,120</u>	<u>\$ 3,796,507</u>	<u>\$ 12,870,627</u>

Operating facilities, together with all revenue and service charges which may arise from the operations of the Company, are pledged for the payment of revenue bond debt.

The note payable OWDA is secured by operating facilities.

ADAMS COUNTY REGIONAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

Note 3. LONG-TERM DEBT (Continued)

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 1999 and 1998 was \$229,845 and \$228,325, respectively. These amounts equaled the required reserve.

Note 4. CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction consist of grants from FMHA and amounts contributed to the District by various government agencies for the construction of water mains to serve customers. The District capitalizes the costs of such mains as an asset of the District and becomes responsible for the future expense relating to the operation and maintenance of such assets.

Note 5. MEMBERS' TAP FEES

The District uses the members' tap fees account to record tap fees collected from new customers (members). Tap fees collected for the years December 31, 1999 and 1998 amount to \$258,400 and \$163,401, respectively.

Note 6. DEPOSITS

The District's pooled deposits are categorized to give an indication of the level of risk assumed by the District at December 31, 1999 and 1998. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Uncollateralized.

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

Note 6. DEPOSITS (Continued)

Deposits, categorized by level of risk, at December 31, 1999 and 1998 were:

	Bank Balance	Category		
		1	2	3
<u>Pooled deposits 12/31/98</u>				
Pooled cash	<u>\$ 2,395,045</u>	<u>\$1,383,125</u>	<u>\$1,011,920</u>	<u>\$ -</u>
<u>Pooled deposits 12/31/99</u>				
Pooled cash	<u>\$ 2,860,596</u>	<u>\$1,428,437</u>	<u>\$1,432,159</u>	<u>\$ -</u>

Note 7. PENSION PLAN

The District has elected early implementation of the provisions of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers".

A. Public Employees Retirement System

1. Plan Description and Funding Policy

All employees of the District participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 466-2085.

ADAMS COUNTY REGIONAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

Note 7. PENSION PLAN (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees is 8.5%. The 1999 and 1998 employer rate for local government employer units was 13.55% of covered payroll, 8.44% to fund the pension benefit obligation and 5.11% to fund health care. The contribution requirements of plan members and the Commission are established and may be amended by the Public Employees Retirement Board. The District's contributions to the PERS of Ohio for the years ended December 31, 1999 and 1998 were \$104,105 and \$93,055 which is equal to 13.55% of covered payroll.

2. Other Postemployment Benefits

In addition to the pension benefit obligation described above, the PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio revised Code provides statutory authority for employer contributions and requires employers to fund postemployment health care through their contributions to the PERS of Ohio.

The health inflation and significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 1995. There were 369,467 active contributing participants in the PERS of Ohio as of December 31, 1995. An entry age normal actuarial cost method of valuation was used in determining the present value of benefit liabilities and normal cost. The difference between assumed and actual experience (actuarial gains and losses) became part

ADAMS COUNTY REGIONAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

Note 7. PENSION PLAN (Continued)

of unfunded actuarial accrued liability. Short-term securities consisting of commercial paper and U.S. Treasury obligations were carried at cost, which approximates market value. Equity securities, fixed income investments and investments in real estate were carried at market. Using the smoothed market approach for actuarial valuation purposes, assets were adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 1995 was 7.75%. An annual increase of 5.25% compounded annually was the base portion of the individual pay increase assumptions, which assumed no change in the number of active employees. Additionally, annual pay increases over and above the 5.25% base increase were assumed to range for 0% to 5.1%. Health care premiums were assumed to increase 5.25% annually.

The "Other Postemployment Benefit Obligation" at December 31, 1995 for the PERS of Ohio as a whole determined through an actuarial valuation performed as of that date was \$8,597,000,000. The PERS of Ohio's net assets available for other postemployment benefits as of that date was \$7,226,000,000, leaving an unfunded actuarial accrual liability based on the actuarial cost method of \$1,371,000,000.

Note 8. COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to full-time, permanent employees to specified maximums. Upon termination, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 1999 and 1998 were \$129,878 and \$101,858, respectively.

Note 9. CONCENTRATION OF CREDIT RISK

Adams County Regional Water District's customer base consists of villages and individuals in Adams County, Ohio.

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

Note 10. OPERATING FACILITIES

The balance of operating facilities at December 31, 1999 consists of the following:

	<u>Balance</u> <u>12/31/98</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/99</u>
Land and land improvements	\$ 406,338	\$ 4,499		\$ 410,837
Buildings	469,780	6,724		476,504
Wells and well field improvements	962,813	3,979		966,792
Mains, lines and meters	7,369,357	60,714		7,430,071
Storage tanks	591,529	3,840		595,369
Water treatment and plant equipment	386,352	15,639		401,991
Trucks, tractors and equipment	365,100	37,300		402,400
Office furniture and equipment	70,790	8,354		79,144
Construction in progress	<u>5,207,707</u>	<u>1,959,873</u>		<u>7,167,580</u>
Total	<u>\$ 15,829,766</u>	<u>\$ 2,100,922</u>	<u>\$</u>	<u>\$ 17,930,688</u>

Note 11. 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, inquiries to employees and natural disasters. Significant risk of losses are covered by commercial insurance.

Note 12. CONTINGENCIES

The District is involved in various legal actions arising in the normal course of business. The District intends to vigorously defend these actions. The ultimate resolution of these matters is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

Note 13. DEFERRED COSTS

Deferred costs are the result of the capitalization of fees incurred to obtain loans from OWDA.

COMPLIANCE AND INTERNAL CONTROL

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Adams County Regional Water District
West Union, Ohio

We have audited the general purpose financial statements of Adams County Regional Water District as of and for the year ended December 31, 1999 and have issued our report thereon dated March 22, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 Adams County Regional Water District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adams County Regional Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control

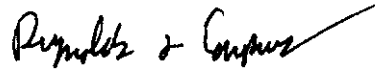
over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Adams County Regional Water District's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described below.

Segregation of Duties

The limited number of accounting personnel at Adams County Regional Water District make it impractical to establish an adequate segregation of duties for all types of transactions. Under a desirable internal control structure, the origination and completion of a single transaction should never be under the control of the same individual. Each transaction passing through two or more individuals will result in the constant review of another's work. Often this is not practicable due to the limited number of employees and the cost benefit of hiring additional employees to achieve a proper segregation of duties. The District has attempted to mitigate any potential loss by maintaining bond coverage on its employees, as well as implementing offsetting checks and balances where possible to reduce risk to manageable levels.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, none are considered to be a material weakness.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


Reynolds & Company
Certified Public Accountants

March 22, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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ADAMS COUNTY REGIONAL WATER DISTRICT

ADAMS 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.

By: Susan Babbitt

Date: AUG 15 2000