



**SWANCREEK WATER DISTRICT
FULTON COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Swan creek Water District
Fulton County
5565 County Road D
Delta, Ohio 43515

To the Board of Trustees:

We have audited the accompanying financial statements of Swan creek Water District, Fulton County, Ohio, (the District) as of and for the years ended December 31, 2000 and 1999. 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B, the District prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances and reserves for encumbrances of the District as of December 31, 2000 and 1999, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note B.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2001 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.

Swan creek Water District
Fulton County
Report of Independent Accountants
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This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

March 20, 2001

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999**

	2000	1999
Operating Cash Receipts:		
Miscellaneous	\$761	
Operating Cash Disbursements:		
Personal Services	13,661	\$12,649
Utilities	394	395
Other Contractual Services	101,112	72,950
Office Supplies and Materials	2,195	684
Insurance	1,300	1,250
Capital Outlay	212,940	10,526
Total Operating Cash Disbursements	331,602	98,454
Operating Loss	(330,841)	(98,454)
Non-Operating Cash Receipts:		
Intergovernmental Revenues	194,850	
Proceeds from Loans	375,643	94,351
Other Non-Operating Revenues	697	161
Total Non-Operating Cash Receipts	571,190	94,512
Non-Operating Cash Disbursements:		
Debt Service	149,975	
Excess of Receipts Over/(Under) Disbursements	90,374	(3,942)
Cash Balances, January 1	6,693	10,635
Cash Balances, December 31	\$97,067	\$6,693
Reserve for Encumbrances, December 31	\$287,654	

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

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**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

NOTE A - NATURE OF ORGANIZATION

The Swancreek Water District, Fulton 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 District was created on April 4, 1997, by the Court of Common Pleas of Fulton County to provide water services to the residents of Swancreek Township in accordance with the provisions of Ohio Revised Code Section 6119.01. The District is managed by a five (5) member appointed Board of Trustees. The District is currently in the planning process and will eventually provide water services to residents of the District.

The District's management believes this financial statement presents all activities for which the District is financially accountable.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in preparation of the accompanying financial statement follows:

1. Basis of Presentation - Fund Accounting

This financial statement follows the basis of accounting prescribed or permitted by the Auditor of State, similar to the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

2. Cash and Deposits

The District utilizes only an interest bearing checking account.

3. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the year ended December 31, 2000, and passed annual appropriations and resolutions.

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

Estimated Resources – Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1.

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

Encumbrances – The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2000 budgetary activity appears in Note D.

4. Property, Plant, and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statement.

5. Income Tax

The District operates as a public water system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

NOTE C – CASH - LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS

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

Inactive deposits are public deposits that the Board of Trustees have 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 monies may be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Protection of the District's deposits are provided by the Federal Deposit Insurance Corporation.

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 are the carrying amount of deposits and their classifications at December 31:

	<u>2000</u>	<u>1999</u>
Demand deposits (Swan creek carrying amount)	<u>\$97,067</u>	<u>\$6,693</u>
Total deposits	<u>\$97,067</u>	<u>\$6,693</u>
Bank carrying amount of deposits	<u>\$99,762</u>	<u>\$6,868</u>
Insured by the FDIC	<u>\$99,762</u>	<u>\$6,868</u>

NOTE D – BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2000 follows:

Budgeted vs. Actual Receipts	
	2000
Budgeted Receipts	\$824,063
Actual Receipts	<u>571,951</u>
Variance	<u>(\$252,112)</u>

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>	
	<u>2000</u>
Appropriation Authority	\$790,430
Budgetary Expenditures	<u>769,231</u>
Variance	<u><u>\$21,199</u></u>

NOTE E – DEBT

Debt outstanding at December 31, 2000, is as follows:

<u>Loan</u>	<u>Payable to</u>	<u>Interest Rate</u>	<u>First Payment</u>	<u>Contract Term</u>	<u>Principal Due in 2001</u>	<u>Principal Due after 2001</u>
A	OWDA	5.88%	1/1/03	5 years		\$177,356
B	OWDA	6.39%	1/1/03	25 years		182,546
C	OWDA	6.39%	7/1/03	25 years		92,604
D	Swanecreek Township	0.00%	See below			10,000
E	Swanecreek Township	0.00%	See below			41,403

The long-term debts listed above are planning and construction loans with Ohio Water Development Authority (OWDA) and Swanecreek Township. The principal due OWDA includes \$32,390 of interest through December 31, 2000. An amortization schedule will be prepared upon completion of the project with the interest included. The loans with OWDA are collateralized with water receipts. The District has agreed to set water rates sufficient to cover OWDA debt service requirements. In Fiscal Year 2000 the District used \$66,500 and \$83,475 from Loan B and Loan C, respectively, to partially pay down Loan A.

As required by the debt covenant, the District did not name OWDA as an additional insured under the public liability insurance policy and did not obtain prior approval from OWDA for a change order in excess of 1% of the contract.

The agreement with Swanecreek Township allows for the District to repay loans D and E once they have funds available. The District did not sell water until the end of 2000.

NOTE F – COMMUNITY DEVELOPMENT BLOCK GRANT

In 2000, the District was granted a Community Development Block Grant (CDBG). The grant was used to pay half the project costs of Phase II (County Road 5 South).

NOTE G – DEFINED BENEFIT RETIREMENT PLAN

All District officials and the part time employee participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. 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 the 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 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

The Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2000. The rate rollback was 20%. The 2000 employer contribution rate was 10.84% of covered payroll. The District's contributions to PERS for the years ended December 31, 2000, 1999, and 1998, were \$1,327, \$1,529 and \$1,505, respectively.

NOTE H – POSTEMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (the "System") provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the System is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate was rolled back for the year 2000. The rate was 10.84% of covered payroll; 4.3% was the portion that was used to fund health care for 2000. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 1999. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 1999 was 7.75%. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 401,339. The District contributions actually made to fund postemployment benefits during fiscal year 2000 were \$526.32. \$10,805.5 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 1999 (the most recent data available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively.

The Retirement Board initiated significant policy changes during 2000. The Retirement Board enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for both the state and local government divisions and 6% for law enforcement divisions. The Board reallocated employer contributions from 4.20% to 4.30% at the beginning of the year to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons. PERS elected to return to an actuarially pre-funded type of disclosure because they believe it is a better presentation of PERS's actual funding methodology.

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

NOTE I – RISK MANAGEMENT

Swan creek Water District contracted with V. S. Beck Insurance Agency for commercial general liability insurance. The coverage insures the District up to \$1,000,000 for each occurrence and \$3,000,000 for an aggregate total.

The public liability insurance is provided by the V. S. Beck Insurance.

NOTE J – CONTINGENT LIABILITIES

The District's general legal counsel is the O'Keefe Law Office, Bexley, Ohio. During the year ended, December 31, 2000, the Swan creek Water District had no legal contingent liabilities pending or threatened.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Swan creek Water District
Fulton County
5565 County Road D
Delta, Ohio 43515

To the Board of Trustees:

We have audited the accompanying financial statements of Swan creek Water District, Fulton County, Ohio, (the District) as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated March 20, 2001. 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.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2000-40126-001. Also, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 20, 2001.

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 March 20, 2001.

Swan creek Water District
Fulton County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended 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.

Jim Petro
Auditor of State

March 20, 2001

**SWANCREEK WATER DISTRICT
FULTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2000-40126-001

Noncompliance Citation

Section 3.1(g) of the Cooperative Agreement with the Ohio Water Development Authority (OWDA) for the Phase II project requires that any change or changes in a construction contract that would increase the contract price by an amount in excess of one percent (1%) be submitted to the OWDA for prior approval. Also, Section 5.6 of the Cooperative Agreement with the Ohio Water Development Authority for the Phase II Project requires the OWDA to be made an additional insured under the public liability insurance policies carried by the District with reference to the Project Facilities.

Change order #1 approved by the District for the Phase II contract was for \$2,409 which is 1.3% of the original contract. There is no evidence that this was submitted to the OWDA for prior approval. Also, OWDA is not named as an additional insured on the Districts liability insurance.

We recommend the District receive prior approval on change orders in excess of one percent of the contract and name OWDA as an additional insured in accordance with the cooperative agreement or receive a written waiver from OWDA for these requirements.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

SWANCREEK WATER DISTRICT

FULTON 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
MAY 8, 2001**