

NORTHWESTERN WATER AND SEWER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001



**Auditor of State
Betty Montgomery**

Board of Trustees
Northwestern Water & Sewer District
P.O. Box 348
12560 Middletown Pike
Bowling Green, OH 43402

We have reviewed the Independent Auditor's Report of the Northwestern Water & Sewer District, Wood County, prepared by Weber O'Brien LTD, for the audit period January 1, 2002 through December 31, 2002. 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 Northwestern Water & Sewer District is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

June 16, 2003

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NORTHWESTERN WATER AND SEWER DISTRICT

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Balance Sheets	3
Statements of Revenues, Expenses, and Retained Earnings	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 23
Schedules of Balance Sheet Information by Division	24 - 25
Schedules of Revenues and Expenses by Division	26 - 27
Schedules of Cash Flows by Division	28 - 29
Schedule of Expenditures of Federal Awards	30
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31 - 32
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	33 - 34
Schedule of Findings and Questioned Costs	35
Summary Schedule of Prior Audit Findings	36

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Northwestern Water and Sewer District
P.O. Box 348
12560 Middleton Pike
Bowling Green, Ohio 43402

We have audited the accompanying balance sheets of the Northwestern Water and Sewer District (the "District") as of December 31, 2002 and 2001, and the related statements of revenues, expenses and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2003 on our consideration of the District's internal controls over financial reporting and on 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.

The Board of Trustees
Northwestern Water and Sewer District
Page Two

Our audits were performed for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the additional information on pages 24-29, which is presented for purposes of additional analysis, are not a required part of the financial statements. Such additional information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

Walter D. Brown, CPA.

April 28, 2003

NORTHWESTERN WATER AND SEWER DISTRICT

BALANCE SHEETS

December 31, 2002 and 2001

ASSETS

	<u>2002</u>	<u>2001</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,673,871	\$ 244,206
Investments - (Note 2)	4,406,980	4,107,759
Accounts receivable - trade	1,805,077	1,620,779
Other receivables	2,980	627,958
Special assessments receivable - current portion	474,907	369,660
Inventory	190,146	166,851
Prepaid expenses	48,116	46,400
Total Current Assets	8,602,077	7,183,613
RESTRICTED ASSETS (Note 2)		
Board restricted:		
Cash and cash equivalents	998,870	-0-
Investments	1,862,420	1,275,640
Restricted for debt retirement:		
Cash and cash equivalents	609,492	400,179
Investments	2,833,591	798,000
Total Restricted Assets	6,304,373	2,473,819
OTHER ASSETS		
Special assessments receivable	5,975,434	5,500,813
Reserve with County Commissioners (Note 6)	258,769	258,769
Deferred loan costs - net of accumulated amortization of \$6,057 and \$46,230, respectively	82,329	36,521
FIXED ASSETS		
Land	200,578	200,578
Sewer and water lines	103,781,229	96,614,932
Buildings, pumps and lift stations	8,670,434	4,824,318
Machinery and equipment	1,867,531	1,035,134
Vehicles	871,248	877,093
Furniture and fixtures	46,613	32,969
Computer equipment	323,962	253,047
Improvements-Oregon Waste Water Trtmt. Plant	3,589,929	3,539,929
Construction in progress	2,937,443	7,167,945
Total Fixed Assets	122,288,967	114,545,945
Accumulated depreciation and amortization	(45,682,721)	(43,363,203)
Net Fixed Assets	76,606,246	71,182,742
TOTAL ASSETS	\$ 97,829,228	\$ 86,636,277

"The Accompanying Notes are an Integral
Part of These Financial Statements"

LIABILITIES

	<u>2002</u>	<u>2001</u>
CURRENT LIABILITIES		
Notes payable (Note 4)	\$ 2,148,092	\$ 2,965,000
Current portion of long-term debt (Note 5)	1,042,025	710,387
Accounts payable - trade	159,197	254,641
Accounts payable - other	82,640	674,880
Compensated absences payable (Note 9)	127,465	104,300
Accrued payroll and payroll taxes	93,322	77,660
Accrued interest payable	478,946	323,481
Amounts due others	<u>418,644</u>	<u>129,302</u>
Total Current Liabilities	4,550,331	5,239,651
Long-term debt, less current portion (Note 5)	<u>20,190,129</u>	<u>13,027,218</u>
TOTAL LIABILITIES	<u>24,740,460</u>	<u>18,266,869</u>
EQUITY		
Contributed capital (Note 7)	61,883,793	63,760,952
Retained earnings	<u>11,204,975</u>	<u>4,608,456</u>
TOTAL EQUITY	<u>73,088,768</u>	<u>68,369,408</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 97,829,228</u>	<u>\$ 86,636,277</u>

NORTHWESTERN WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND RETAINED EARNINGS
Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES		
Utility revenue	\$ 4,498,300	\$ 4,028,301
Fees and permits	285,107	173,963
Contract services	99,522	111,745
Other	<u>69,523</u>	<u>54,496</u>
Total Operating Revenues	4,952,452	4,368,505
OPERATING EXPENSES		
Depreciation and amortization	2,343,751	2,230,902
Labor	1,031,222	1,030,419
Employee Benefits	441,830	393,127
Professional services	486,245	419,747
Purchased water	528,894	599,660
Materials and supplies	429,764	464,433
Utilities	253,830	261,239
Rent	25,196	24,274
Other	<u>141,439</u>	<u>126,422</u>
Total Operating Expenses	<u>5,682,171</u>	<u>5,550,223</u>
Operating Expenses Over		
Operating Revenues	(729,719)	(1,181,718)
NONOPERATING REVENUES (EXPENSES)		
Aid in Construction	5,710,288	-0-
Interest income	629,298	668,883
Interest expense	(906,094)	(771,955)
Other	<u>15,587</u>	<u>(63,983)</u>
Net Nonoperating Revenues (Expenses)	<u>5,449,079</u>	<u>(167,055)</u>
Net Revenues Over (Under) Expenses	4,719,360	(1,348,773)
Transfer from contributed capital to retained earnings amount equal to current depreciation and amortization on assets acquired through contributed capital and capital grants (Note 7)	<u>1,877,159</u>	<u>1,808,095</u>
Net Change to Retained Earnings	6,596,519	459,322
RETAINED EARNINGS - BEGINNING	<u>4,608,456</u>	<u>4,149,134</u>
RETAINED EARNINGS - ENDING	<u>\$ 11,204,975</u>	<u>\$ 4,608,456</u>

"The Accompanying Notes are an Integral
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NORTHWESTERN WATER AND SEWER DISTRICT
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATIONS		
Excess of operating expenses over revenues	\$ (729,719)	\$ (1,181,718)
Adjustments to reconcile to net cash:		
Depreciation and amortization	2,343,751	2,230,902
Changes in operating assets and liabilities that increase (decrease) cash flows:		
Special assessments receivable	(579,868)	390,592
Accounts and grants receivable	440,680	428,270
Inventory	(23,295)	52,636
Other	(24,359)	(9,942)
Accounts payable	(687,684)	15,688
Accrued payroll and payroll taxes	15,662	(14,833)
Amounts due others	289,342	9,994
Total adjustments	<u>1,774,229</u>	<u>3,103,307</u>
NET CASH PROVIDED (USED) BY OPERATIONS	1,044,510	1,921,589
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING		
Aid in construction	1,623,303	233,292
Proceeds from capital grant	1,113,619	2,990
System development fees	931,497	817,318
Acquisition and construction of fixed assets, net of related payables	(5,725,386)	(4,241,469)
Proceeds on sale of fixed assets	-0-	-0-
Proceeds from issuance of short-term notes	2,148,092	2,965,000
Proceeds from issuance of long-term debt	9,416,349	-0-
Repayment of short-term notes	(2,965,000)	(400,000)
Repayment of long-term debt	(1,921,800)	(746,216)
Interest paid	<u>(750,629)</u>	<u>(784,392)</u>
NET CASH PROVIDED (USED) BY FINANCING	3,870,045	(2,153,477)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	629,298	668,883
Proceeds on sale of investments	6,943,751	6,017,716
Purchases of investments	<u>(9,849,756)</u>	<u>(10,224,178)</u>
NET CASH PROVIDED (USED) BY INVESTING	<u>(2,276,707)</u>	<u>(3,537,579)</u>
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,637,848	(3,769,467)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>644,385</u>	<u>4,413,852</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,282,233</u>	<u>\$ 644,385</u>
 Restricted cash	\$ 1,608,362	\$ 400,179
Unrestricted cash	<u>\$ 1,673,871</u>	<u>\$ 244,206</u>

"The Accompanying Notes are an Integral
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NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Northwestern Water and Sewer District (District) commenced operations on January 1, 1994. The District was created upon approval by the Wood County Court of Common Pleas pursuant to Section 6119 of the Ohio Revised Code for the purpose of supplying water and providing for the collection, treatment, and disposal of wastewater to users within and without the District. The District was previously known as the Wood County Sanitary Engineer's Office and was under the control of Wood County (the County). Upon commencement, the County transferred the use of all related assets and liabilities to the District at carrying value.

The District is governed by a nine-member Board of Trustees (Board), three appointed by the participating municipalities, three by the participating townships, and three by the County Commissioners. Board members serve staggered terms of six years. The Board controls the employment of the Executive Director of the District, who is responsible for staffing the respective departments and overseeing the day-to-day operations.

The District is authorized to issue revenue bonds and notes to finance the cost of projects which are payable from the revenues of the District. The District is also authorized to levy taxes for the current expenses of the District or for the issuance of bonds upon approval of a majority of the electorate. The District may also assess real estate for certain improvements and issue bonds in anticipation of the collection of such special assessments. The District has not exercised these taxing powers.

As a political subdivision, the District is distinct from, and is not an agency of, the State of Ohio or any other local governmental unit. The District is not subject to federal, state, or local income taxes or sales taxes.

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government." A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability is the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The District does not have financial accountability over any entities.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund.

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.

Use of Estimates

The preparation of financial statements in accordance 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Process

The District is required by law to budget its funds, through adoption of an operating budget by July 15 of each year for the following fiscal year. The operating budget includes estimates for total revenues, total expenses, and debt service requirements for the fiscal year. The District prepares its operating budget on the accrual basis of accounting, the same basis on which its financial statements are prepared.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

Cash and Cash Equivalents

The District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounts Receivable - Trade

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is included in the financial statements. When amounts are deemed to be uncollectible, they are expensed in the year in which that determination is made.

Deferred Loan Costs

Deferred loan costs are amortized using the straight-line method over the term of the related debt.

Special Assessments Receivable

Special assessments receivable include amounts due from property owners that benefited from projects constructed by the District. The District receives proceeds from the property owners through assessments collected by the County over a 20-year period.

Inventory

Inventory items are stated at lower of cost or market. Inventory consists primarily of water meters and maintenance parts and supplies for the water and sewer lines.

Fixed Assets

Fixed assets are recorded at cost. Costs that materially add to the productive capacity or extend the life of an asset are capitalized while maintenance and repair costs are expensed as incurred. Contributed assets are stated at fair value at the time of contribution.

Depreciation is recorded using the straight-line method over the estimated lives of the depreciable assets.

Construction in process includes all of the District's costs to develop fixed asset projects. The projects are funded through Board restriction of assets and construction loans. Interest expense incurred throughout the construction phase of a project is capitalized as part of the cost of the asset under construction to the extent it exceeds interest income on the related invested debt proceeds. The District capitalized interest of \$148,000 and \$72,000 for the years ended December 31, 2002 and 2001, respectively.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investments

Investments are stated at fair value.

Restricted Assets

Restricted assets consist of monies and other resources which are restricted by the District's Board of Trustees or as specified in debt agreements. These restrictions are described below:

Board Restricted Assets - These assets are restricted for capital and operating expenditures, and debt service.

Restricted in Accordance with Debt Agreements - These assets are restricted in accordance with the debt agreements to satisfy debt service requirements.

Contributed Capital, Grants and Assistance

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was adopted by the District effective January 1, 2002. In accordance with this Statement, certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions have been reported as nonoperating revenue. Prior to 2002, this revenue was recorded as a credit to contributed capital. These amounts include system development fees, assets whose construction was financed by special assessments, donations from private sources, and grants for the acquisition of fixed assets.

Depreciation on fixed assets resulting from contributed capital and capital grants, and is included in contributed capital, is computed using the straight-line method and such depreciation is transferred from retained earnings and reported as a reduction to contributed capital.

User Rates and Expenses

The District's sewer and water utility rates are determined in conjunction with periodic rate studies performed by independent third parties. Nondirect expenses are generally allocated based upon management's estimate of costs applicable to the respective divisions. Nondirect expenses were allocated to the sewer and water divisions, 62% and 38%, respectively.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated Absences

The District follows GASB Statement No. 16, Accounting for Compensated Absences, which requires that a liability be accrued if it is probable that the employee will be compensated through cash payment.

NOTE 2 - CASH AND INVESTMENTS

Deposits

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's 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 District 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 finance director 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.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 2 - CASH AND INVESTMENTS, Continued

The District's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the District or its safekeeping agent in the District's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the District's name. Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the District's name.

The carrying value of the District's deposits was \$2,625,059 and \$140,393 and at December 31, 2002 and 2001, respectively. The following shows the bank balances of the District's deposits in each category:

- Category 1. \$100,000 was covered by federal depository insurance.
- Category 3. \$2,742,996 and \$91,019 as of December 31, 2002 and 2001, respectively, was covered by collateral held by the pledging financial institution, but not in the name of the District.

A reconciliation of the carrying value of the District's deposits above to the balance sheet follows:

	<u>2002</u>	<u>2001</u>
Unrestricted Deposits	\$1,673,871	\$140,393
Unrestricted Cash Equivalents	<u>-0-</u>	<u>103,813</u>
Unrestricted Cash and Cash Equivalents Total	<u>\$1,673,871</u>	<u>\$244,206</u>
Board Restricted Deposits	951,188	-0-
Board Restricted Cash Equivalents	<u>47,682</u>	<u>-0-</u>
Board Restricted Cash and Cash Equivalents Total	<u>\$ 998,870</u>	<u>\$ -0-</u>

Collateral is required for demand deposits and certificates of deposit at 105 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 2 - CASH AND INVESTMENTS, Continued

Investments

State Statute and Board Resolutions authorize the District to invest in obligations of U. S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. 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 finance director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2002 and 2001.

The District's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category A includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category B includes uninsured and unregistered investments for which the securities are held by the counterparty's Trust department or agent in the District's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty or its Trust department but not in the District's name. Star Ohio is not classified, since it is not evidenced by securities that exist in physical or book entry form.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 2 - CASH AND INVESTMENTS, Continued

The District's investments consist of the following:

<u>INVESTMENT</u>	<u>2002</u>		<u>2001</u>	
	<u>CATEGORY B</u>	<u>CARRYING/ FAIR VALUE</u>	<u>CATEGORY B</u>	<u>CARRYING/ FAIR VALUE</u>
U.S. Treasuries and Federal Agency Obligations	\$9,102,991	\$9,102,991	\$6,181,398	\$6,181,398
Money Market Mutual Funds	-0-	-0-	56,977	56,977
Star Ohio		<u>657,174</u>		<u>447,016</u>
Total Investments (including restricted)		<u>\$9,760,165</u>		<u>\$6,685,391</u>

The above amounts are included in the balance sheet as follows:

	<u>2002</u>	<u>2001</u>
Unrestricted	\$4,406,980	\$4,211,572
Restricted	<u>5,353,185</u>	<u>2,473,819</u>
Total	<u>\$9,760,165</u>	<u>\$6,685,391</u>

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2002 was as follows:

	<u>Budget</u>	<u>Actual</u>	Favorable/ (Unfavorable) <u>Variance</u>
Total Revenue	\$5,000,000	\$11,292,037	\$ 6,292,037
Total Expenses	5,367,500	4,695,519	671,981
Debt Service - Principal	732,500	4,886,800	(4,154,300)

Budgetary activity for the year ended December 31, 2001 was as follows:

	<u>Budget</u>	<u>Actual</u>	Favorable/ (Unfavorable) <u>Variance</u>
Total Revenue	\$4,748,563	\$5,037,388	\$288,825
Total Expenses	4,735,294	4,578,066	157,228
Debt Service - Principal	885,993	746,216	139,777

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 3 - BUDGETARY ACTIVITY, Continued

The above budget vs. actual comparison was prepared on the same accrual basis of accounting used to prepare the District's financial statements.

NOTE 4 - NOTES PAYABLE

Notes payable issued to provide temporary financing of sewer and water construction projects outstanding at December 31, 2002 and 2001 are as follows:

Date of Issue	Purpose	Interest Rate	Maturity Date	2002	2001	
				Amount Outstanding	Maturity Date	Amount Outstanding
11/01/02	Tracy/Emch/Ayers WL	3.15%	05/01/03	598,832		\$ -0-
11/08/02	Rudolph SS	3.12%	11/07/03	1,549,260		-0-
11/01/01	MidStar/Stearnscrest SS	3.32%	11/01/02	-0-	11/01/02	\$2,750,000
05/11/01	Rudolph SS	4.50%	05/09/02	-0-	05/09/02	<u>215,000</u>
	Total Notes Payable			<u>\$2,148,092</u>		<u>\$2,965,000</u>

The notes are secured by the underlying fixed assets.

NOTE 5 - DEBT

Ohio Water Development Authority Loans Payable

The District has four loans with the Ohio Water Development Authority (OWDA) to finance the cost of developing and improving the water and sewer systems. The following table shows remaining principal amounts outstanding on the individual loans as of December 31, 2002 and 2001:

Project Number	Date of Loan	Original Amount	Interest Rate	Final Payment Date	2002	2001
					Amount Outstanding	Amount Outstanding
SS #140	9/29/94	1,065,000	4.18%	7/01/14	\$ 740,460	\$ 787,138
WL #234	7/27/95	5,496,313	6.36%	1/01/16	4,380,592	4,582,443
WL #167-183	5/27/99	3,503,947	5.56%	7/01/20	3,300,311	3,404,920
SS #904 & WL #904	8/31/00	1,660,596	3.0% -6.39%	1/01/21	<u>1,567,412</u>	<u>1,629,996</u>
					<u>\$9,988,775</u>	<u>\$10,404,497</u>

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 5 - DEBT, Continued

Other long-term loans at December 31, 2002 and 2001 are as follows:

<u>Date of Issue</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>2002 Amount Outstanding</u>	<u>2001 Amount Outstanding</u>
1/01/87	Sewer Improvement - SS #220	7.76%	12/31/06	\$ 255,261	\$ 295,830
12/01/97	Jerry City SS/Cygnnet Lagoon	6.04%	12/01/36	213,044	214,956
8/13/98	Jerry City SS #1800 OPWC Loan	0.00%	7/01/19	417,196	455,122
9/08/98	Jerry City SS #1800 USDA Loan	4.75%	9/08/38	276,300	279,200
				<u>\$1,161,801</u>	<u>\$1,245,108</u>

Bonded debt at December 31, 2002 and 2001 are as follows:

<u>Date of Issue</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>2002 Amount Outstanding</u>	<u>2001 Amount Outstanding</u>
6/06/96	1996 Revenue Refunding Bond	\$1,775,000	5.70%	12/01/06	\$-0-	\$ 935,000
9/17/96	Special Assessments Bond	277,159	6.20%	12/01/16	194,000	208,000
10/1/98	Special Assessments Bond	360,000	4.25 - 5.25%	10/01/18	285,000	305,000
9/23/99	Special Assessments Bond	500,000	5.85%	12/01/19	455,000	470,000
9/20/00	Special Assessments Bond	175,000	6.13%	12/01/20	160,000	170,000
1/4/02	Building Construction	3,000,000	3.20%	01/03/03	3,000,000	-0-
3/1/02	2002 Revenue Bond	4,235,000	3.00 - 5.25%	12/01/21	3,835,000	-0-
6/7/02	Special Assessments Bond	957,578	4.75%	11/01/22	957,578	-0-
9/1/02	Special Assessments Bond	74,000	2.91 - 5.10%	12/01/22	74,000	-0-
9/1/02	Special Assessments Bond	1,121,000	2.91 - 5.10%	12/01/22	1,121,000	-0-
					<u>\$10,081,578</u>	<u>\$2,088,000</u>

Debt is secured by the underlying fixed assets, assessments against property owners or general revenues of the District.

The annual principal and interest requirements on all long-term debt outstanding at December 31, 2002 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 1,042,025	\$ 936,617	\$ 1,978,642
2004	1,123,691	873,984	1,997,675
2005	1,160,038	947,198	2,107,236
2006	1,183,958	916,896	2,100,854
2007	1,008,868	881,918	1,890,786
2008 and Thereafter	<u>15,713,574</u>	<u>7,020,112</u>	<u>22,733,686</u>
Total	<u>\$21,232,154</u>	<u>\$11,576,725</u>	<u>\$32,808,879</u>

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 5 - DEBT, Continued

On March 20, 2003 the District issued \$2,975,000 in 30-year bonds to the United States Department of Agriculture to finance construction of its new operating facilities. This debt replaced interim financing of \$3,000,000 in a bank construction loan. Due to replacement of this short-term debt shortly after year end with long-term financing, the \$3,000,000 interim construction note is shown here and on the balance sheet as part of bonded debt, and the above principal and interest maturity requirements are based on the required debt service payments on the USDA bonds issued in 2003.

At December 31, 2002 and 2001, respectively, the District had \$3,443,083 and \$1,198,179 in cash and cash equivalents and investments restricted in accordance with loan agreements.

NOTE 6 - COUNTY DEBT OBLIGATIONS

The County has issued special assessment debt on behalf of the District to fund District projects. This debt will be paid from the proceeds of special assessments levied against those property owners that benefited from the projects. In the event that property owners fail to make their special assessment payments, the County is responsible for the annual principal and interest payments. At December 31, 2002 and 2001, \$2,985,000 and \$3,276,000, respectively, in special assessment debt related to the District is outstanding. This debt is backed by the full faith and credit of the County and is not reflected in the District's financial statements.

During the formation of the District, the County retained \$208,000 to establish a reserve to fund shortfalls in the collection of the above special assessments. Further, the District has agreed to advance additional funds, if necessary, to the extent shortfalls exceed the reserve. The County has agreed to remit to the District any balance that may be remaining in this reserve. During 2002 and 2001, the County did not make any withdrawals from the reserves; withdrawals in prior years have reduced this reserve to \$183,769 as of December 31, 2002 and 2001.

The County is also obligated for loans received from the Ohio Sewer and Rotary Commission (Rotary Commission) for the District's sewer and water line assessments, the collection of which is deferred or exempt pursuant to Section 6103.051 of the Ohio Revised Code. The County is responsible for collecting the assessments when the property no longer meets the exemption criteria. This money must be remitted to the Rotary Commission within one year, even if not collected by the County.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 6 - COUNTY DEBT OBLIGATIONS, Continued

At both December 31, 2002 and 2001, \$2,197,000 in loans from the Rotary Commission is outstanding. These amounts have not been reflected in the District's financial statements, since the County is ultimately responsible for the payment of this debt. The County retained \$75,000 during the formation of the District to establish a reserve to fund shortfalls in the collection of amounts due. Further, the District has agreed to advance additional funds, if necessary, to the extent shortfalls exceed the reserve. The County has agreed to remit to the District any balance that may be remaining in this reserve. No withdrawals from the reserve were made during 2002 and 2001, or in prior years on this reserve.

NOTE 7 - CONTRIBUTED CAPITAL

Changes in contributed capital for the year ended December 31, 2002 and 2001 were as follow:

	<u>2002</u>	<u>2001</u>
Balances at January 1	\$63,760,952	\$61,081,437
Capital contributed	-0-	3,042,302
System development fees	-0-	817,318
Capital grant	-0-	627,990
Transfer from retained earnings the depreciation on assets acquired through contributed capital and capital grants	(<u>1,877,159</u>)	(<u>1,808,095</u>)
Balance at December 31	<u>\$61,883,793</u>	<u>\$63,760,952</u>

The additions to contributed capital include sewer and water lines financed through special assessments, system development fees, or private developers.

NOTE 8 - RETIREMENT AND OTHER BENEFIT PLANS

The employees of the District are covered by the Public Employees Retirement System of Ohio (PERS), a statewide cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001

NOTE 8 - RETIREMENT AND OTHER BENEFIT PLANS, Continued

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50% of qualifying gross wages for all employees. The total 2002 and 2001 employer contribution rate was 13.55% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The District's contributions to P.E.R.S. for the years ending December 31, 2002, 2001 and 2000 were \$162,200, \$154,900 and \$126,800, respectively. All required contributions were made prior to each of those fiscal year ends.

Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and to 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 PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 and 2001 employer contribution rate was 13.55% of covered payroll; 5.0% and 4.3% was the portion that was used to fund health care for 2002 and 2001, respectively, which is \$59,900 and \$49,100 for 2002 and 2001, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contribution to PERS.

OPEB is financed through employer contributions and investment earnings thereon. P.E.R.S. uses advance funding of its OPEB's on an actuarially determined basis. The most recent actuarial valuation of P.E.R.S.' OPEB liability was performed as of December 31, 2001. The following significant actuarial assumptions were used in this valuation:

Funding Method An entry age normal actuarial cost method of valuation is used in the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

Assets Valuation Method All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Investment Return The investment assumption rate was 8.00%.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 8 - RETIREMENT AND OTHER BENEFIT PLANS, Continued

Active Employee Total Payroll An annual increase of 4.00% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.5% to 6.3%.

Health Care Costs Health care costs was assumed to increase 4.00% annually.

The number of active contributing participants of P.E.R.S. as of December 31, 2001 was 402,041. The contribution rates discussed above are the actuarially determined contribution requirements for P.E.R.S. The Retirement System's net assets available for OPEB had an actuarial value of \$11.6 billion as of December 31, 2001. The actuarial accrued liability as of that date was \$16.4 billion resulting in an unfunded actuarial accrued liability of \$4.8 billion.

NOTE 9 - COMPENSATED ABSENCES

Vacation and sick leave policies are established by agreement between the District and the American Federation of State, County and Municipal Employees, for members of the bargaining unit, and by personnel policy for management employees not covered by the labor agreement.

For both union and non-union employees, these agreements provide for two weeks of paid vacation after one year of service, three weeks after eight years of service, four weeks after fifteen years of service, and five weeks after twenty-five years of service. Vacation time relating to a maximum of two years of service may be accumulated before it is lost.

For union personnel, the labor agreement provides for sick leave pay to be credited at a rate of 4.6 hours for each eighty hours "in active pay status." By limiting the use of sick leave during the fiscal year, an employee may receive a bonus.

In the event of termination of employment after ten consecutive years of service, or due to retirement, such employees are entitled to receive payment for one fourth of their accumulated sick leave, up to a maximum of 120 days.

At December 31, 2002 and 2001, \$127,500 and \$104,300, respectively, of vested compensated absences was accrued by the District, for both union and non-union personnel. Nonvested amounts have not been accrued, as the amounts are not material to the financial statements.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 10 - INSURANCE

The District maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. There were no significant reductions in coverage between 2002 and 2001.

NOTE 11 - CONTINGENCIES AND COMMITMENTS

Grants

The District received financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of District management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at December 31, 2002 and 2001.

Construction Commitments

At December 31, 2002 and 2001, the District has construction commitments, on which work has not commenced, totaling approximately \$1,770,000 and \$6,876,000, respectively, which will be funded by existing resources or the issuance of new revenue debt.

Litigation and Claims

The District is involved in the following litigation:

City of Northwood v. Northwestern Water and Sewer District, Ohio Supreme Court Case 98-522.

This case began in August 1995 with the City of Northwood attempting to extend the District's water and sewer lines and provide service to an area without the District's approval. In October 1995, the City of Northwood attempted to appropriate the District's main transmission and local distribution waterlines and sewer lines within the City's boundaries. The District filed a separate action contending the City had no right under the Ohio Constitution to appropriate any of the District facilities.

The trial court found in favor of the District in 1997. After subsequent appeals by both parties, the matter was brought before the Ohio Supreme Court in 1998. The Ohio Supreme Court found in favor of the City but within certain limitations. The case was remanded back to the trial court, which ordered non-binding mediation of the case on March 14, 2000.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001

NOTE 11 - CONTINGENCIES AND COMMITMENTS, Continued

Litigation and Claims, Continued

By settlement agreement dated September 14, 2000 the parties resolved all claims asserted. The District agreed to pay to Northwood system development fees collected within the City for a ten (10) year term beginning in 1999 in an aggregate amount not to exceed \$500,000. Northwood relinquished any claim that it owns the District's facilities and any claim to appropriate the facilities. In 2002 and 2001, the District remitted system development fees of approximately \$100,300 and \$40,400, respectively, for cumulative fees paid under the agreement of \$287,800 at December 31, 2002.

City of Perrysburg v. City of Toledo and the Northwestern Water and Sewer District, Lucas County Case CI-1998-01930.

On March 30, 1998, the City of Perrysburg filed suit claiming it had the sole and exclusive right to provide water service within its Perrysburg Service Area (which includes part of Perrysburg Township) in Wood County and that it had the right to employ the District's line to transport water purchased from Toledo without charge. Both Toledo and the District counterclaimed. The District claims that it has the right to serve customers in this same service area and further contends Perrysburg has no exclusive rights to serve customers in their Toledo contract service area, the District has the right to enforce its rules and regulations as to service and the District has the right to charge any user for: tap-in fees, service connection fees, and operation and maintenance fees for service.

The District claims damages in excess of \$379,000 for costs of a tap into the District's transmission lines at Glenwood Road and \$5,500,000 for facilities on which the City of Perrysburg has initiated annexation procedures.

The parties have engaged in limited discovery. A pre-trial conference was held on March 10, 1999. No trial date has been set, and the trial court has not ruled on cross motions for summary judgment. The parties have been discussing settlement but no settlement has been reached.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 11 - CONTINGENCIES AND COMMITMENTS, Continued

Litigation and Claims, Continued

*Environmental Review Appeals Commission:
Simmons Road Waterline, Case 874022 and Case 874070*

The City of Perrysburg has filed several appeals to the Environmental Review Appeals Commission (ERAC) regarding EPA approval of design plans for District water and sewer line extensions contending these projects are contrary to their master plan completed several years ago for the township areas. The City feels it has paramount right to serve these areas outside of their corporate limits. The District feels the design and engineering on these projects are the issues in the appeals and not the City's master plan. For the *Simmons Road Waterline, Case No.'s 874022 and 874070*, no trial has been scheduled yet for these cases.

Other

In the normal course of operations the District may be subject to other litigation and claims.

While the outcome of all of the above matters cannot presently be determined, management believes that their ultimate resolution will not have a material effect on the District's financial position.

Other Pending EPA and Local Health Department Ordered Projects

The District has received various orders for installation of wastewater treatment facilities and collection systems within various areas of the District. As of December 31, 2002 there are seven such ordered areas with preliminary or updated cost estimates totaling \$9.5 million for projects commencing or finishing over the next few years. These projects will be paid for by federal and state financial assistance and by the property owners benefiting from the projects through real estate special assessments and connection fees.

The District has approximately \$1,421,000 at December 31, 2002 in potential receivables related to special assessments that have been deferred by the County. The special assessments were deferred on properties, most of which would have qualified for loans from the Rotary Commission pursuant to Section 6103.051 of the Ohio Revised Code, had these funds been available from the Rotary Commission. As these receivables become due and payable only in the event the properties no longer qualify, and therefore collection is uncertain, they have not been reflected in the financial statements.

**NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
Years Ended December 31, 2002 and 2001**

NOTE 12 - SEGMENT INFORMATION

Significant financial data for the respective divisions of the District's enterprise fund at and for the years ended December 31, 2002 and 2001 is as follows:

	2002			2001		
	Sewer	Water	Total	Sewer	Water	Total
Operating revenues	\$ 2,863,659	\$ 2,088,793	\$ 4,952,452	\$ 2,500,093	\$ 1,868,412	\$ 4,368,505
Operating expenses:						
Depreciation and amortization	1,501,058	842,693	2,343,751	1,437,583	793,319	2,230,902
Other	<u>1,721,024</u>	<u>1,617,396</u>	<u>3,338,420</u>	<u>1,660,502</u>	<u>1,658,819</u>	<u>3,319,321</u>
Total operating expenses	<u>3,222,082</u>	<u>2,460,089</u>	<u>5,682,171</u>	<u>3,098,085</u>	<u>2,452,138</u>	<u>5,550,223</u>
Excess of operating expenses over operating revenues	(<u>358,423</u>)	(<u>371,296</u>)	(<u>729,719</u>)	(<u>597,992</u>)	(<u>583,726</u>)	(<u>1,181,718</u>)
Net expenses over revenues	<u>3,347,266</u>	<u>1,372,094</u>	<u>4,719,360</u>	(<u>736,007</u>)	(<u>612,766</u>)	(<u>1,348,773</u>)
Aid in construction**	3,826,779	1,883,509	5,710,288	3,009,515	1,478,095	4,487,610
Fixed assets						
Additions	5,367,709	2,750,119	8,117,828	4,710,629	2,832,342	7,542,971
Disposals	3,295	2,551	5,846	66,000	-0-	66,000
Depreciation on contributed assets	1,215,788	661,371	1,877,159	1,171,370	636,725	1,808,095
Net working capital	3,848,085	228,661	4,076,746	2,018,570	(74,608)	1,943,962
Total assets*	57,738,107	40,091,121	97,829,228	51,776,404	34,859,873	86,636,277
Notes and bonds payable*	12,089,848	11,290,398	23,380,246	9,935,931	6,766,674	16,702,605
Total equity	44,920,790	28,167,978	73,088,768	41,573,522	26,795,886	68,369,408

*Includes elimination of the inter-division receivable and note payable.

** Reported as nonoperating revenue commencing in 2002.

NOTE 13 - SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS

As of December 31, 2001 a capital grant receivable for \$625,000 was recognized and credited to contributed capital.

Developers dedicated water and sewer lines with total costs of \$2,041,869 and \$2,809,010 in 2002 and 2001, respectively, with such contributions credited to contributed capital in 2001 and recorded as nonoperating revenue in 2002.

NOTE 14 - SUBSEQUENT EVENT

In March 2003 permanent financing from the U.S. Department of Agriculture was secured in the form of \$2,975,000 in series bonds bearing interest at 4.65% over a term of 30 years, replacing a \$3,000,000 building construction note payable as described in Note 5.

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF BALANCE SHEET INFORMATION BY DIVISION
December 31, 2002

	Water	Sewer	Elimination Adjustments	Combined
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 797,765	\$ 876,106	\$ -0-	\$ 1,673,871
Investments	-0-	4,406,980	-0-	4,406,980
Accounts receivable - trade	811,098	993,979	-0-	1,805,077
Accounts and notes receivable - contract services	-0-	-0-	-0-	-0-
Other Receivables	2,980	-0-	-0-	2,980
Special assessments receivable - current portion	267,838	207,069	-0-	474,907
Inventory	180,691	9,455	-0-	190,146
Prepaid expenses	<u>18,284</u>	<u>29,832</u>	<u>-0-</u>	<u>48,116</u>
Total Current Assets	2,078,656	6,523,421	-0-	8,602,077
RESTRICTED ASSETS				
Board restricted:				
Cash and cash equivalents	998,870	-0-	-0-	998,870
Investments	398,406	1,464,014	-0-	1,862,420
Restricted for debt retirement:				
Cash and cash equivalents	440,318	169,174	-0-	609,492
Investments	<u>2,762,637</u>	<u>70,954</u>	<u>-0-</u>	<u>2,833,591</u>
Total Restricted Assets	4,600,231	1,704,142	-0-	6,304,373
OTHER ASSETS				
Special assessments receivable	3,404,620	2,570,814	-0-	5,975,434
Reserve with County Commissioners	36,836	221,933	-0-	258,769
Deferred loan costs, net of accumulated amortization of \$6,057	63,973	18,356	-0-	82,329
FIXED ASSETS				
Land	42,083	158,495	-0-	200,578
Sewer and water lines	40,764,384	63,016,845	-0-	103,781,229
Buildings, pumps and lift stations	3,008,022	5,662,412	-0-	8,670,434
Machinery and equipment	387,542	1,479,989	-0-	1,867,531
Vehicles	288,787	582,461	-0-	871,248
Furniture and fixtures	16,261	30,352	-0-	46,613
Computer equipment	118,267	205,695	-0-	323,962
Improvements-Oregon Waste Water Trtmt. Plant	509,193	3,080,736	-0-	3,589,929
Construction in progress	<u>365,322</u>	<u>2,572,121</u>	<u>-0-</u>	<u>2,937,443</u>
Total Fixed Assets	45,499,861	76,789,106	-0-	122,288,967
Accumulated depreciation and amortization	<u>(15,593,056)</u>	<u>(30,089,665)</u>	<u>-</u>	<u>(45,682,721)</u>
Net Fixed Assets	<u>29,906,805</u>	<u>46,699,441</u>	<u>-0-</u>	<u>76,606,246</u>
TOTAL ASSETS	<u>\$ 40,091,121</u>	<u>\$ 57,738,107</u>	<u>\$ -0-</u>	<u>\$ 97,829,228</u>

	Water	Sewer	Elimination Adjustments	Combined
LIABILITIES				
CURRENT LIABILITIES				
Notes payable	\$ 598,832	\$ 1,549,260	\$ -0-	\$ 2,148,092
Current portion of long-term debt	627,918	414,107	-0-	1,042,025
Accounts payable - trade	127,364	31,833	-0-	159,197
Accounts payable - other	82,640	-0-	-0-	82,640
Compensated absences payable	48,441	79,024	-0-	127,465
Accrued payroll and payroll taxes	36,025	57,297	-0-	93,322
Accrued interest payable	233,464	245,482	-0-	478,946
Amounts due others	<u>104,811</u>	<u>313,833</u>	<u>-0-</u>	<u>418,644</u>
Total Current Liabilities	1,859,495	2,690,836	-0-	4,550,331
Long-term debt, less current portion	<u>10,063,648</u>	<u>10,126,481</u>	<u>-0-</u>	<u>20,190,129</u>
TOTAL LIABILITIES	<u>11,923,143</u>	<u>12,817,317</u>	<u>-0-</u>	<u>24,740,460</u>
EQUITY				
Contributed capital	25,091,046	36,792,747	-0-	61,883,793
Retained earnings	<u>3,076,932</u>	<u>8,128,043</u>	<u>-0-</u>	<u>11,204,975</u>
TOTAL EQUITY	<u>28,167,978</u>	<u>44,920,790</u>	<u>-0-</u>	<u>73,088,768</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 40,091,121</u>	<u>\$ 57,738,107</u>	<u>\$ -0-</u>	<u>\$ 97,829,228</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF BALANCE SHEET INFORMATION BY DIVISION

December 31, 2001

	Water	Sewer	Elimination Adjustments	Combined
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 85,558	\$ 158,648	\$ -0-	\$ 244,206
Investments	73,315	4,034,444	-0-	4,107,759
Accounts receivable - trade	740,176	880,603	-0-	1,620,779
Accounts and notes receivable - contract services	-0-	175,000	(175,000)	-0-
Other Receivables	2,683	625,275	-0-	627,958
Special assessments receivable - current portion	265,741	103,919	-0-	369,660
Inventory	157,396	9,455	-0-	166,851
Prepaid expenses	17,513	28,887	-0-	46,400
Total Current Assets	<u>1,342,382</u>	<u>6,016,231</u>	<u>(175,000)</u>	<u>7,183,613</u>
RESTRICTED ASSETS				
Board restricted:				
Investments	377,954	897,686	-0-	1,275,640
Restricted for debt retirement:				
Cash and cash equivalents	267,961	132,218	-0-	400,179
Investments	798,000	-0-	-0-	798,000
Total Restricted Assets	<u>1,443,915</u>	<u>1,029,904</u>	<u>-0-</u>	<u>2,473,819</u>
OTHER ASSETS				
Special assessments receivable	3,675,793	1,825,020	-0-	5,500,813
Reserve with County Commissioners	36,836	221,933	-0-	258,769
Deferred loan costs, net of accumulated amortization of \$46,230	-0-	36,521	-0-	36,521
FIXED ASSETS				
Land	42,083	158,495	-0-	200,578
Sewer and water lines	38,049,356	58,565,576	-0-	96,614,932
Buildings, pumps and lift stations	1,292,316	3,532,002	-0-	4,824,318
Machinery and equipment	378,303	656,831	-0-	1,035,134
Vehicles	291,337	585,756	-0-	877,093
Furniture and fixtures	11,825	21,144	-0-	32,969
Computer equipment	91,855	161,192	-0-	253,047
Improvements-Oregon Waste Water Trtmt. Plant	459,193	3,080,736	-0-	3,539,929
Construction in progress	2,508,148	4,659,797	-0-	7,167,945
Total Fixed Assets	<u>43,124,416</u>	<u>71,421,529</u>	<u>-0-</u>	<u>114,545,945</u>
Accumulated depreciation and amortization	(14,763,469)	(28,599,734)	-0-	(43,363,203)
Net Fixed Assets	<u>28,360,947</u>	<u>42,821,795</u>	<u>-0-</u>	<u>71,182,742</u>
TOTAL ASSETS	<u>\$ 34,859,873</u>	<u>\$ 51,951,404</u>	<u>\$ (175,000)</u>	<u>\$ 86,636,277</u>

	Water	Sewer	Elimination Adjustments	Combined
LIABILITIES				
CURRENT LIABILITIES				
Notes payable	\$ 175,000	\$ 2,965,000	\$ (175,000)	\$ 2,965,000
Current portion of long-term debt	294,677	415,710	-0-	710,387
Accounts payable - trade	169,594	85,047	-0-	254,641
Accounts payable - other	674,880	-0-	-0-	674,880
Compensated absences payable	39,600	64,700	-0-	104,300
Accrued payroll and payroll taxes	29,827	47,833	-0-	77,660
Accrued interest payable	182,848	140,633	-0-	323,481
Amounts due others	<u>25,564</u>	<u>103,738</u>	<u>-0-</u>	<u>129,302</u>
Total Current Liabilities	1,591,990	3,822,661	(175,000)	5,239,651
Long-term debt, less current portion	<u>6,471,997</u>	<u>6,555,221</u>	<u>-0-</u>	<u>13,027,218</u>
TOTAL LIABILITIES	<u>8,063,987</u>	<u>10,377,882</u>	<u>(175,000)</u>	<u>18,266,869</u>
EQUITY				
Contributed capital	25,752,417	38,008,535	-0-	63,760,952
Retained earnings	<u>1,043,469</u>	<u>3,564,987</u>	<u>-0-</u>	<u>4,608,456</u>
TOTAL EQUITY	<u>26,795,886</u>	<u>41,573,522</u>	<u>-0-</u>	<u>68,369,408</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 34,859,873</u>	<u>\$ 51,951,404</u>	<u>\$ (175,000)</u>	<u>\$ 86,636,277</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES BY DIVISION
Year Ended December 31, 2002

	Water	Sewer	Elimination Adjustments	Combined
OPERATING REVENUES				
Utility revenue	\$ 1,848,210	\$ 2,650,090	\$ -0-	\$ 4,498,300
Fees and permits	193,367	91,740	-0-	285,107
Contract services	21,059	78,463	-0-	99,522
Other	<u>26,157</u>	<u>43,366</u>	<u>-0-</u>	<u>69,523</u>
Total Operating Revenues	2,088,793	2,863,659	-0-	4,952,452
OPERATING EXPENSES				
Depreciation and amortization	842,693	1,501,058	-0-	2,343,751
Labor	392,709	638,513	-0-	1,031,222
Employee Benefits	169,913	271,917	-0-	441,830
Professional services	150,837	335,408	-0-	486,245
Purchased water	528,894	-0-	-0-	528,894
Materials and supplies	198,582	231,182	-0-	429,764
Utilities	111,029	142,801	-0-	253,830
Rent	9,574	15,622	-0-	25,196
Other	<u>55,858</u>	<u>85,581</u>	<u>-0-</u>	<u>141,439</u>
Total Operating Expenses	<u>2,460,089</u>	<u>3,222,082</u>	<u>-0-</u>	<u>5,682,171</u>
Operating Expenses Over Operating Revenues	(371,296)	(358,423)	-0-	(729,719)
NONOPERATING REVENUES (EXPENSES)				
Aid in Construction	1,883,509	3,826,779	-	5,710,288
Interest income	356,621	272,677	-0-	629,298
Interest expense	(515,992)	(390,102)	-0-	(906,094)
Other	<u>19,252</u>	<u>(3,665)</u>	<u>-0-</u>	<u>15,587</u>
Net Nonoperating Revenues (Expenses)	<u>1,743,390</u>	<u>3,705,689</u>	<u>-0-</u>	<u>5,449,079</u>
Net Revenue Over Expense	1,372,094	3,347,266	-0-	4,719,360
Transfer to retained earnings current depreciation and amortization on assets acquired through contributed capital and capital grants	<u>661,371</u>	<u>1,215,788</u>	<u>-0-</u>	<u>1,877,159</u>
Net Change to Retained Earnings	2,033,465	4,563,054	-0-	6,596,519
RETAINED EARNINGS - BEGINNING	<u>1,043,467</u>	<u>3,564,989</u>	<u>-0-</u>	<u>4,608,456</u>
RETAINED EARNINGS - ENDING	<u>\$ 3,076,932</u>	<u>\$ 8,128,043</u>	<u>\$ -0-</u>	<u>\$ 11,204,975</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES BY DIVISION
Year Ended December 31, 2001

	Water	Sewer	Elimination Adjustments	Combined
OPERATING REVENUES				
Utility revenue	\$ 1,686,081	\$ 2,342,220	\$ -0-	\$ 4,028,301
Fees and permits	113,600	60,363	-0-	173,963
Contract services	24,104	87,641	-0-	111,745
Other	<u>44,627</u>	<u>9,869</u>	<u>-0-</u>	<u>54,496</u>
Total Operating Revenues	1,868,412	2,500,093	-0-	4,368,505
OPERATING EXPENSE				
Depreciation and amortization	793,319	1,437,583	-0-	2,230,902
Labor	397,605	632,814	-0-	1,030,419
Employee Benefits	149,828	243,299	-0-	393,127
Professional services	107,408	312,339	-0-	419,747
Purchased water	599,660	-0-	-0-	599,660
Materials and supplies	226,296	238,137	-0-	464,433
Utilities	119,404	141,835	-0-	261,239
Rent	9,224	15,050	-0-	24,274
Other	<u>49,394</u>	<u>77,028</u>	<u>-0-</u>	<u>126,422</u>
Total Operating Expenses	<u>2,452,138</u>	<u>3,098,085</u>	<u>-0-</u>	<u>5,550,223</u>
Operating Expenses Over Operating Revenues	(583,726)	(597,992)	-0-	(1,181,718)
NONOPERATING REVENUES (EXPENSES)				
Interest income	363,547	305,336	-0-	668,883
Interest expense	(410,931)	(361,024)	-0-	(771,955)
Other	<u>18,344</u>	<u>(82,327)</u>	<u>-0-</u>	<u>(63,983)</u>
Net Nonoperating Revenues (Expenses)	<u>(29,040)</u>	<u>(138,015)</u>	<u>-0-</u>	<u>(167,055)</u>
Net Expense (over) under Revenues	(612,766)	(736,007)	-0-	(1,348,773)
Transfer to retained earnings current depreciation and amortization on assets acquired through contributed capital and capital grants	<u>636,725</u>	<u>1,171,370</u>	<u>-0-</u>	<u>1,808,095</u>
Net Change to Retained Earnings	23,959	435,363	-0-	459,322
RETAINED EARNINGS - BEGINNING	<u>1,019,508</u>	<u>3,129,626</u>	<u>-0-</u>	<u>4,149,134</u>
RETAINED EARNINGS - ENDING	<u>\$ 1,043,467</u>	<u>\$ 3,564,989</u>	<u>\$ -0-</u>	<u>\$ 4,608,456</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF CASH FLOWS BY DIVISION
Year Ended December 31, 2002

	Water	Sewer	Elimination Adjustments	Combined
CASH FLOWS FROM OPERATIONS				
Excess of operating expenses over revenues	\$ (371,296)	\$ (358,423)	\$ -0-	\$ (729,719)
Adjustments to reconcile to net cash:				
Depreciation and amortization	842,693	1,501,058	-0-	2,343,751
Changes in operating assets and liabilities that increase (decrease) cash flows:				
Special assessments receivable	269,076	(848,944)	-0-	(579,868)
Accounts receivable	(71,219)	686,899	(175,000)	440,680
Inventory	(23,295)	-0-	-0-	(23,295)
Other	(55,903)	31,544	-0-	(24,359)
Accounts payable	(634,470)	(53,214)	-0-	(687,684)
Accrued payroll and payroll taxes	6,198	9,464	-0-	15,662
Amounts due others	79,247	210,095	-0-	289,342
Total adjustments	<u>412,327</u>	<u>1,536,902</u>	<u>(175,000)</u>	<u>1,774,229</u>
NET CASH USED BY OPERATIONS	41,031	1,178,479	(175,000)	1,044,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING				
Aid in construction	915,620	707,683	-0-	1,623,303
Proceeds from capital grant	-0-	1,113,619	-0-	1,113,619
System development fees	359,848	571,649	-0-	931,497
Acquisition and construction of fixed assets, net of related payables	(1,780,512)	(3,944,874)	-0-	(5,725,386)
Proceeds on sale of fixed assets	-0-	-0-	-0-	-0-
Proceeds from issuance of short-term notes	598,832	1,549,260	-0-	2,148,092
Proceeds from issuance of long-term debt	4,539,769	4,876,580	-0-	9,416,349
Repayment of short-term notes	(175,000)	(2,965,000)	175,000	(2,965,000)
Repayment of long-term debt	(614,877)	(1,306,923)	-0-	(1,921,800)
Interest paid	(465,376)	(285,253)	-0-	(750,629)
NET CASH PROVIDED BY FINANCING	3,378,304	316,741	175,000	3,870,045
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	356,621	272,677	-0-	629,298
Proceeds on sale of investments	1,446,360	5,497,391	-0-	6,943,751
Purchases of investments	(3,338,882)	(6,510,874)	-0-	(9,849,756)
NET CASH PROVIDED BY INVESTING	<u>(1,535,901)</u>	<u>(740,806)</u>	<u>-0-</u>	<u>(2,276,707)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,883,434	754,414	-0-	2,637,848
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>353,519</u>	<u>290,866</u>	<u>-0-</u>	<u>644,385</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,236,953</u>	<u>\$ 1,045,280</u>	<u>\$ -</u>	<u>\$ 3,282,233</u>
Restricted cash	\$ 1,439,188	\$ 169,174	\$ -0-	\$ 1,608,362
Unrestricted cash	<u>\$ 797,765</u>	<u>\$ 876,106</u>	<u>\$ -0-</u>	<u>\$ 1,673,871</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF CASH FLOWS BY DIVISION
Year Ended December 31, 2001

	Water	Sewer	Elimination Adjustments	Combined
CASH FLOWS FROM OPERATIONS				
Excess of operating expenses over revenues	\$ (583,726)	\$ (597,992)	\$ -0-	\$ (1,181,718)
Adjustments to reconcile to net cash:				
Depreciation and amortization	793,319	1,437,583	-0-	2,230,902
Changes in operating assets and liabilities that increase (decrease) cash flows:				
Special assessments receivable	293,616	96,976	-0-	390,592
Accounts receivable	193,667	259,603	(25,000)	428,270
Inventory	50,997	1,639	-0-	52,636
Other	(3,812)	(6,130)	-0-	(9,942)
Accounts payable	38,755	(23,067)	-0-	15,688
Accrued payroll and payroll taxes	(5,620)	(9,213)	-0-	(14,833)
Amounts due others	1,623	8,371	-0-	9,994
Total adjustments	<u>1,362,545</u>	<u>1,765,762</u>	<u>(25,000)</u>	<u>3,103,307</u>
NET CASH USED BY OPERATIONS	778,819	1,167,770	(25,000)	1,921,589
CASH FLOWS FROM CAPITAL AND RELATED FINANCING				
Aid in construction	89,189	144,103	-0-	233,292
Proceeds from capital grant	-0-	2,990	-0-	2,990
System development fees	312,872	504,446	-0-	817,318
Acquisition and construction of fixed assets, net of related payables	(1,263,815)	(2,977,654)	-0-	(4,241,469)
Proceeds on sale of fixed assets	-0-	-0-	-0-	-0-
Proceeds from issuance of short-term notes	-0-	2,965,000	-0-	2,965,000
Proceeds from issuance of long-term debt	-0-	-0-	-0-	-0-
Repayment of short-term notes	(25,000)	(400,000)	25,000	(400,000)
Repayment of long-term debt	(278,057)	(468,159)	-0-	(746,216)
Interest paid	<u>(420,993)</u>	<u>(363,399)</u>	<u>-0-</u>	<u>(784,392)</u>
NET CASH PROVIDED BY FINANCING	(1,585,804)	(592,673)	25,000	(2,153,477)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	363,547	305,336	-0-	668,883
Proceeds on sale of investments	2,255,008	3,762,708	-0-	6,017,716
Purchases of investments	<u>(2,799,656)</u>	<u>(7,424,522)</u>	<u>-0-</u>	<u>(10,224,178)</u>
NET CASH PROVIDED BY INVESTING	<u>(181,101)</u>	<u>(3,356,478)</u>	<u>-0-</u>	<u>(3,537,579)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(988,086)	(2,781,381)	-0-	(3,769,467)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,341,605</u>	<u>3,072,247</u>	<u>-0-</u>	<u>4,413,852</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 353,519</u>	<u>\$ 290,866</u>	<u>\$ -0-</u>	<u>\$ 644,385</u>
Restricted cash	\$ 267,961	\$ 132,218	\$ -0-	\$ 400,179
Unrestricted cash	<u>\$ 85,558</u>	<u>\$ 158,648</u>	<u>\$ -0-</u>	<u>\$ 244,206</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CASH BASIS)
For the Year Ended December 31, 2002

<u>Federal Grantor/Pass – Through Grantor Program Titles</u>	<u>Project Number</u>	<u>CFDA Number</u>	<u>Grant Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Community Facilities Loan		10.766	\$2,975,000
Water and Waste Program		10.760	<u>454,149</u>
Total U.S. Department of Agriculture			3,429,149
<u>U.S. Environmental Protection Agency</u>			
State and Tribal Assistance Grant		66.606	281,580
<u>U.S. Housing and Urban Development</u>			
Community Development Block Grant	BE990801	14.228	<u>11,857</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$3,722,586</u>



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Northwestern Water and Sewer District
P.O. Box 348
12560 Middleton Pike
Bowling Green, Ohio 43402

We have audited the financial statements of Northwestern Water and Sewer District (District) as of and for the year ended December 31, 2002, and have issued our report thereon dated April 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Northwestern Water and Sewer 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 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 Northwestern Water and Sewer 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

The Board of Trustees
Northwestern Water and Sewer District
Page Two

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 a matter involving the internal control over financial reporting that we have reported to the management of Northwestern Water and Sewer District in a separate letter dated April 28, 2003.

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

Walter D. Brennan, CTO

April 28, 2003



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133

The Board of Trustees
Northwestern Water and Sewer District
P.O. Box 348
12560 Middleton Pike
Bowling Green, Ohio 43402

Compliance

We have audited the compliance of Northwestern Water and Sewer District ("District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of and use of the District's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Walter D. Brown, CPA.

April 28, 2003

NORTHWESTERN WATER AND SEWER DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended December 31, 2002

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:		<u>Unqualified</u>
Internal control over financial reporting:		
Material weakness(es) identified?	_____yes	___X___no
Reportable condition(s) identified not considered to be material weaknesses?	_____yes	___X___none reported
Noncompliance material to financial statements noted?	_____yes	___X___no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____yes	___X___no
Reportable conditions(s) identified not considered to be material weaknesses?	_____yes	___X___none reported

Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____yes	___X___no
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low risk auditee?	_____yes	___X___no
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SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**NORTHWESTERN WATER AND SEWER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2002**

NONE



**Auditor of State
Betty Montgomery**

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

NORTHWESTERN WATER AND SEWER DISTRICT

WOOD 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
JULY 1, 2003**