**BURR OAK REGIONAL WATER DISTRICT**
**ATHENS COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2003 - 2002**

Auditor of State
Betty Montgomery

**BURR OAK REGIONAL WATER DISTRICT**
**ATHENS COUNTY**

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Auditor of State
Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

Burr Oak Regional Water District
Athens County
23554 Jenkins Dam Road
Glouster, Ohio 43732

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of the Burr Oak Regional Water District, Athens County, Ohio (the District), as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Burr Oak Regional Water District, Athens County, as of December 31, 2003 and 2002, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2004, 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.

Betty Montgomery

**Betty Montgomery**
Auditor of State

April 1, 2004

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**BURR OAK REGIONAL WATER DISTRICT**
**ATHENS COUNTY**

**BALANCE SHEET**
**AS OF DECEMBER 31, 2003 AND 2002**

| | 2003 | 2002 |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash | $ 3,430,527 | $ 3,316,693 |
| Accounts Receivable | 135,082 | 127,451 |
| Accrued Interest Receivable | 998 | 4,432 |
| Prepaid Expenses | 7,352 | 36,658 |
| Total Current Assets | 3,573,959 | 3,485,234 |
| **FIXED ASSETS:** | | |
| Land | 110,829 | 110,829 |
| Water System | 7,431,189 | 6,463,019 |
| Buildings | 10,071,725 | 10,070,325 |
| Transportation Equipment | 104,669 | 104,669 |
| Machinery, Equipment and Tools | 486,190 | 409,518 |
| Furniture and Fixtures | 13,586 | 16,209 |
| Construction in Progress | 215,486 | 809,507 |
| Total Fixed Assets | 18,433,674 | 17,984,076 |
| Less: Accumulated Depreciation | (15,742,710) | (15,778,461) |
| Net Fixed Assets | 2,690,964 | 2,205,615 |
| **Total Assets** | **$ 6,264,923** | **$ 5,690,849** |
| **CURRENT LIABILITIES:** | | |
| Accounts Payable | $ 53,260 | $ 94,130 |
| Payroll Related Liabilities | 3,645 | 2,970 |
| Accrued Interest Payable | 1,083 | 1,113 |
| Compensated Absences | | 511 |
| Accrued Wages | 3,152 | 14,813 |
| Note Payable | 500,000 | |
| Total Current Liabilities | 561,140 | 113,537 |
| **LONG-TERM LIABILITIES:** | | |
| Note Payable | | 500,000 |
| Compensated Absences | 77,677 | 59,610 |
| Total Long-Term Liabilities | 77,677 | 559,610 |
| **EQUITY:** | | |
| Contributed Capital | 3,554,696 | 3,554,696 |
| Retained Earnings | 2,071,410 | 1,463,006 |
| Total Equity | 5,626,106 | 5,017,702 |
| **Total Liabilities and Equity** | **$ 6,264,923** | **$ 5,690,849** |

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

**BURR OAK REGIONAL WATER DISTRICT**
**ATHENS COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY**
**FOR THE YEARS ENDING DECEMBER 31, 2003 AND 2002**

| | 2003 | 2002 |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Water Sales | $ 1,476,574 | $ 1,490,014 |
| Tap, Application and Reconnect Fees | 7,255 | 2,345 |
| Late Penalty Charges | 1,037 | 523 |
| Charges for Relocation of Meters/Pits | 21,617 | |
| Miscellaneous Revenues | 147 | 22 |
| Total Operating Revenues | 1,506,630 | 1,492,904 |
| **OPERATING EXPENSES:** | | |
| Personnel Expenses | 437,312 | 467,055 |
| Utilities and Communications Expenses | 101,669 | 98,873 |
| Maintenance and Operations | 173,073 | 186,234 |
| Office Expenses and Operation | 5,319 | 3,856 |
| Professional Fees | 33,713 | 37,453 |
| Project Expenses | 85,540 | 133,495 |
| Depreciation | 174,996 | 109,578 |
| Total Operating Expenses | 1,011,622 | 1,036,544 |
| Operating Income | 495,008 | 456,360 |
| **NONOPERATING REVENUES (EXPENSES):** | | |
| Interest Revenue | 74,214 | 108,993 |
| Interest Expense | (13,788) | (5,421) |
| Gain on Sale of Fixed Assets | 52,970 | |
| Total Nonoperating Revenues (Expenses) | 113,396 | 103,572 |
| Net Income | 608,404 | 559,932 |
| Retained Earnings - January 1 (as restated - see Note 3) | 1,463,006 | 903,074 |
| Retained Earnings - December 31 | 2,071,410 | 1,463,006 |
| Contributed Capital - December 31 | 3,554,696 | 3,554,696 |
| **Total Equity - December 31** | **$ 5,626,106** | **$ 5,017,702** |

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

## BURR OAK REGIONAL WATER DISTRICT
## ATHENS COUNTY

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDING DECEMBER 31, 2003 AND 2002

| | 2003 | 2002 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Operating Income | $ 495,008 | $ 456,360 |
| **Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities:** | | |
| Depreciation | 174,996 | 109,578 |
| (Increase) Decrease in: | | |
| Accounts Receivable | (7,631) | (1,850) |
| Interest Receivable | 3,434 | 1,958 |
| Prepaid Assets | 29,306 | (15,532) |
| Increase (Decrease) in: | | |
| Accounts Payable | (40,870) | 26,924 |
| Accrued Interest Payable | (30) | 1,113 |
| Compensated Absences Payable | 17,556 | 29,849 |
| Accrued Payroll and Benefits | (10,986) | (964) |
| Net Cash Provided by Operating Activities | 660,783 | 607,436 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | |
| Purchases of Fixed Assets | (607,375) | (1,118,353) |
| Capital Contributions | | 15,271 |
| Proceeds from Note | | 500,000 |
| Net Cash Used by Capital and Related Financing Activities | (607,375) | (603,082) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Interest Received on Investments | 74,214 | 108,993 |
| Interest Paid on Notes | (13,788) | (5,421) |
| Net Cash Provided by Investing Activities | 60,426 | 103,572 |
| Net Increase in Cash | 113,834 | 107,926 |
| Cash and Cash Equivalents - January 1 | 3,316,693 | 3,208,767 |
| **Cash and Cash Equivalents - December 31** | **$ 3,430,527** | **$ 3,316,693** |
| **Non-Cash Activities:** | | |
| Gain of Sale of Fixed Assets | $ 52,970 | |

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

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## 1. DESCRIPTION OF THE ENTITY

The Burr Oak Regional Water District, Athens County (the District), is a regional water district organized under the provisions of Ohio Rev. Code Chapter 6119 by the Common Pleas Court of Athens County on September 27, 1999, after the Ohio Department of Natural Resources no longer wanted to operate the Burr Oak Water System. The State of Ohio formally transferred ownership, as well as all assets, of the Burr Oak Water System on October 21, 2000. The District operates under the direction of an eight-member Board of Trustees, from Athens, Hocking, Perry and Morgan Counties. The staff consists of an appointed Board Treasurer and an Administrative Assistant, who are responsible for the fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the District's users. The District sells water to sixteen satellite water systems, consisting of six area villages, four water districts, five private associations, and the Ohio Department of Natural Resources Division of Parks and Recreation. The District also has approximately one hundred private tap customers.

The District's management believes the general purpose financial statements included in this report represent all activities over which the District has the ability to exercise direct operating control.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

### A. Basis of Presentation

The District's operations are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

### B. Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Budgetary Process

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

#### 1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. Appropriation authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

#### 2. Estimated Resources

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

#### 3. 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 2003 and 2002 budgetary activity appears in Note 5.

### D. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the District's certificates of deposit are valued at cost and reported as a cash equivalent on the Balance Sheet. Both cash and certificates of deposit are considered cash and cash equivalents for the purposes of the Statement of Cash Flows.

### E. Fixed Assets and Depreciation

Fixed assets acquired or constructed for the general use of the District in providing services are recorded at cost. Construction costs of the water system are capitalized on construction projects until they are substantially completed. Interest incurred on debt as a result of obtaining fixed assets is not capitalized. Donated assets are recorded at their fair market value at the time recorded. Depreciation of fixed assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation. The estimated useful lives by major fixed asset class are as follows:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Fixed Assets and Depreciation

| Asset Class | Number of Years |
|---|---|
| Buildings and Water System | 40 |
| Furniture and Fixtures | 10 |
| Office Equipment | 5 |
| Labaratory Equipment | 10 |
| Machinery and Equipment | 6 |
| Park System, Tanks and Booster Stations | 20 |
| Tools and Equipment | 10 |
| Transportation Equipment | 5 |

### F. Compensated Absences

GASB Statement 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. Compensated absence is earned on the basis of services already performed by employees.
2. It is probable that the compensated absence will be paid in a future period.

### G. Contributed Capital

Contributed capital was recorded by the District to account grants received for the acquisitions of fixed assets.

### H. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. The District had no such reserves as of December 31, 2003 and 2002.

### I. Prepaid Expenses

Prepaid expenses are those payments made to vendors for services that will benefit periods beyond the balance sheet date. These items are reported using the consumption method. A current asset is recorded at the time of payment, and an expense is recorded at the time the services are consumed.

### J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## 3. PRIOR PERIOD ADJUSTMENT

Retained earnings at December 31, 2001 were restated as the result of an error in reporting interest receivable and interest revenue, as follows:

| | |
|---|---|
| Retained Earnings December 31, 2001 | $ 1,051,294 |
| Less: Interest Receivable | (154,611) |
| Add: Interest Revenue | 6,391 |
| Retained Earnings January 1, 2002 | $ 903,074 |

## 4. CASH AND CASH EQUIVALENTS

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

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

Inactive deposits are public deposits that the 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 moneys. Interim moneys are those moneys 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 pass book accounts.

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 or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

6. The State Treasurer's investment pool (STAROhio).

## 4. CASH AND CASH EQUIVALENTS (Continued)

The District may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;

2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons.

3. Obligations of the District.

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.

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

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits:** At December 31, 2003, the carrying amount of the District's deposits was $2,556,027, and the bank balance was $2,566,658. Of the bank balance:

1. $100,000 was covered by the Federal Deposit Insurance Corporation;

2. $2,466,658 was covered by a bank deposit guaranty bond;

At December 31, 2002, the carrying amount of the District's deposits was $321,076, and the bank balance was $328,918. Of the bank balance:

1. $100,000 was covered by the Federal Deposit Insurance Corporation;

2. $228,918 was covered by a bank deposit guaranty bond;

**Investments:** 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

## 4. CASH AND CASH EQUIVALENTS (Continued)

The District's investments are categorized below to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the District or the District's agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. All of the investments identified below were considered to be Category 1.

| | December 31, 2003 | | December 31, 2002 | |
|---|---|---|---|---|
| | Carrying Value | Market Value | Carrying Value | Market Value |
| Certificates of Deposit | $ 874,500 | $ 874,500 | $ 2,995,617 | $ 2,995,617 |

The classification of "Equity in Pooled Cash and Cash Equivalents" on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less.

A reconciliation between the classifications of cash and investments on the general purpose financial statements and the classifications per GASB Statement No. 3 is as follows:

| | December 31, 2003 | | December 31, 2002 | |
|---|---|---|---|---|
| | Cash and Cash Equivalents | Investments | Cash and Cash Equivalents | Investments |
| GASB Statement 9 | $ 3,430,527 | $ 0 | $ 3,316,693 | $ 0 |
| Investments: | | | | |
| Certificates of Deposit | (874,500) | 874,500 | (2,995,617) | 2,995,617 |
| GASB Statement 3 | $ 2,556,027 | $ 874,500 | $ 321,076 | $ 2,995,617 |

## 5. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2003 and 2002 follows:

| Budgeted vs. Actual Revenue | 2003 | 2002 |
|---|---|---|
| Budgeted Revenue | $ 2,577,395 | $ 2,110,771 |
| Actual Revenue | 1,587,140 | 2,119,783 |
| Variance | $ (990,255) | $ 9,012 |

## 5. BUDGETARY ACTIVITY (Continued)

Budgeted vs. Actual Expenses

| | 2003 | 2002 |
|---|---|---|
| Appropriation Authority | $ 1,838,310 | $ 2,471,146 |
| Actual Expenses | 1,456,683 | 2,019,925 |
| Variance | $ 381,627 | $ 451,221 |

Actual expenses noted above include all cash expenses paid by the District, including the acquisition of fixed assets (not shown on the Statement of Revenues, Expenses and Changes in Fund Equity). The negative variance noted above for budgeted vs. actual revenue in 2003 was caused by the anticipated receipt of $1,000,000 in debt that did not occur.

## 6. FIXED ASSETS

A summary of the fixed assets as of December 31, 2003 is as follows:

| | Fixed Assets | Less: Accumulated Depreciation | Net Fixed Assets |
|---|---|---|---|
| Land | $ 110,829 | $ 0 | $ 110,829 |
| Water System - Gate Valves | 20,000 | (20,000) | 0 |
| Water System - Meter Pits | 234,846 | (143,334) | 91,512 |
| Water System - Water Lines | 5,022,109 | (4,157,306) | 864,803 |
| Water System Tanks and Boosters | 1,783,034 | (698,955) | 1,084,079 |
| Park System | 371,200 | (371,200) | 0 |
| Buildings | 10,071,725 | (10,027,887) | 43,838 |
| Transportation Equipment | 104,669 | (100,602) | 4,067 |
| Machinery and Equipment | 274,687 | (119,688) | 154,999 |
| Laboratory Equipment | 43,372 | (27,746) | 15,626 |
| Tools and Equipment | 168,131 | (67,340) | 100,791 |
| Furniture and Fixtures | 13,586 | (8,652) | 4,934 |
| Construction in Progress | 215,486 | 0 | 215,486 |
| Total | $ 18,433,674 | $ (15,742,710) | $ 2,690,964 |

## 6. FIXED ASSETS (Continued)

A summary of the fixed assets as of December 31, 2002 is as follows:

| | Fixed Assets | Less: Accumulated Depreciation | Net Fixed Assets |
|---|---|---|---|
| Land | $ 110,829 | $ 0 | $ 110,829 |
| Water System - Gate Valves | 20,000 | (20,000) | 0 |
| Water System - Meter Pits | 235,229 | (154,513) | 80,716 |
| Water System - Water Lines | 4,723,022 | (4,103,112) | 619,910 |
| Water System Tanks and Boosters | 1,113,567 | (801,524) | 312,043 |
| Park System | 371,200 | (371,200) | 0 |
| Buildings | 10,070,325 | (10,026,121) | 44,204 |
| Transportation Equipment | 104,669 | (95,847) | 8,822 |
| Machinery and Equipment | 200,967 | (108,410) | 92,557 |
| Laboratory Equipment | 41,974 | (25,155) | 16,819 |
| Tools and Equipment | 166,578 | (59,334) | 107,244 |
| Furniture and Fixtures | 16,209 | (13,245) | 2,964 |
| Construction in Progress | 809,507 | 0 | 809,507 |
| Total | $ 17,984,076 | $ (15,778,461) | $ 2,205,615 |

## 7. NOTES PAYABLE

In June 2002, the District was approved to obtain Water Resource Revenue Bond Anticipation Notes not to exceed $3,100,000 for the purpose of paying part of the costs of constructing a water resource project. The notes were to mature no more than two years from the date of the initial issuance. The notes were to bear interest on the unpaid principal amount thereof at a variable rate per annum equal to sixty-five percent of the rate per annum announced by FirstStar Bank, N.A., as its “Prime Rate” and shall be paid semi-annually. During 2002, only $500,000 of these notes were issued. The remaining balance has not been issued as of December 31, 2003. At December 31, 2002 and 2003, the District’s notes payable amounted to $500,000, with maturity scheduled for June 2004.

## 8. DEFINED BENEFIT PENSION PLAN

The District participates in the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer public employee retirement system. OPERS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. The authority to establish and amend benefits is provided by Ohio Revised Code Chapter 145. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Towns Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

OPERS administers three separate pension plans: the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CO). The TP plan is a cost-sharing multiple-employer defined benefit pension plan. The MD plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year).

## 8. DEFINED BENEFIT PENSION PLAN (Continued)

Under the MD plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings. The CO plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD plan.

For the years ended December 31, 2003 and 2002, plan members were required to contribute 8.5 percent of their annual covered salaries. The District was required to contribute 13.55 percent; for 2003, 8.55 percent was the portion used to fund pension obligations, and for 2002, 9.25 percent was the portion used to fund pension obligations. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans.

The District's required contributions for pension obligations for all plans for the years ended December 31, 2003 and 2002, were $42,895 and $41,777, respectively; 93 percent has been contributed for 2003 and 100 percent for 2002. The unpaid balance is reflected on the accompanying balance sheet as a liability.

## 9. POST-EMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired employees and their dependents through the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CO). The TP plan is a cost-sharing multiple-employer defined benefit pension plan. The MD plan is a defined contribution plan. The CO plan is a cost-sharing multiple-employer defined benefit pension plan. The Ohio Revised Code provides the statutory authority to require public employers to fund post-retirement health care coverage through their contributions to OPERS.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the TP and CO plans; however, health care benefits are not statutorily guaranteed. Members of the MD plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 years or more of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 and 2002 employer contribution rate was 13.55 percent; for 2003, 5.00 percent was used to fund health care, and for 2002, 4.30 percent was used to fund health care.

An entry-age normal actuarial cost method is used in determining the present value of other post-employment benefits (the health care coverage). The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. Significant actuarial assumptions are based on OPERS latest actuarial review performed as of December 31, 2002.

## 9. POST-EMPLOYMENT BENEFITS (Continued)

This review included a rate of return on investments for 2002 of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase 4.00 percent annually.

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

Other post-employment benefits are advance funded on an actuarially determined basis. As of December 31, 2003, the number of active contributing participants in the TP and CO plans was 364,881. The District's actual contributions used to fund post-employment benefits were $14,662 for 2003 and $13,258 for 2002. The actual contribution and actuarially required contribution amounts are the same. OPERS net assets available for payment of benefits at December 31, 2002 (the latest information available) were $10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $18.7 billion and $8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan with be offered to all persons newly hired in an PERS covered-position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 to 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measure to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

## 10. RISK MANAGEMENT

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years.

The District pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. The rate is calculated based on accident history and administrative costs.

The District also provides health-care insurance coverage for its full-time employees.

Auditor of State
Betty Montgomery

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

Burr Oak Regional Water District
Athens County
23554 Jenkins Dam Road
Glouster, Ohio 45732

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of the Burr Oak Regional Water District, Athens County, Ohio (the District), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated April 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 does not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 1, 2004.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
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This report is intended solely for the information and use of the audit committee, management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

**Betty Montgomery**
Auditor of State

April 1, 2004

**BURR OAK REGIONAL WATER DISTRICT**
**ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**
**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***: |
|---|---|---|---|
| 2001-61064-001 | A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D), for failing to obtain prior certification of the fiscal officer when incurring obligations. | Yes | N/A |

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**BURR OAK REGIONAL WATER DISTRICT**

**ATHENS 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**
**APRIL 27, 2004**