



**Auditor of State
Betty Montgomery**

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

East Muskingum Water Authority
Muskingum County
P.O. Box 2005
Zanesville, Ohio 43702

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of the East Muskingum Water Authority, Muskingum County, Ohio (the Authority), as of and for the seven months ended July 31, 2003 and for the year ended December 31, 2002, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Authority'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 East Muskingum Water Authority, Muskingum County, as of July 31, 2003 and December 31, 2002, and the results of its operations and cash flows for the seven months and year then ended, respectively, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 13 to the general purpose financial statements, the Authority has changed ownership and is now owned and operated by Muskingum County, effective August 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

January 26, 2004

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**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**BALANCE SHEET
FOR THE FISCAL PERIODS ENDED JULY 31, 2003 AND DECEMBER 31, 200**

	2003	2002
Assets:		
Cash and Cash Equivalents	\$92,495	\$306,371
Investments	717,314	727,659
Accounts Receivable	179,628	179,392
Restricted Assets:		
Cash and Cash Equivalents with Fiscal/Escrow Agent	2,143,375	1,962,314
Inventory	53,450	48,459
Fixed Assets	14,408,543	14,285,529
Prepaid Assets	18,168	7,004
Total Assets	\$17,612,973	\$17,516,728
 Liabilities and Equity		
Accounts Payable		86,522
Accrued Wages and Benefits	56,930	63,322
Accrued Bond Interest Payable	64,596	32,298
Intergovernmental Payable	23,091	4,151
Mortgage Revenue Bond Payable	8,100,000	8,100,000
Total Liabilities	8,244,617	8,286,293
Equity:		
Contributed Capital	3,237,561	3,237,561
Retained Earnings - Reserved		
Reserved for Current Debt Service	201,621	49,742
Reserved for Future Debt Service	588,100	587,773
Reserved for Replacement and Improvement	79,923	57,017
Retained Earnings - Unreserved	5,261,151	5,298,342
Total Equity	9,368,356	9,230,435
Total Liabilities and Equity	\$17,612,973	\$17,516,728

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

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
FOR THE FISCAL PERIODS ENDED JULY 31, 2003 AND DECEMBER 31, 2002**

	2003	2002
Operating Revenues:		
Charges for Services	\$1,419,183	\$2,450,211
Miscellaneous	1,786	1,467
	1,420,969	2,451,678
Operating Expenses:		
Operating Expenses	639,624	1,120,335
Administrative Expenses	124,141	207,719
Depreciation Expense	264,424	467,388
	1,028,189	1,795,442
Operating Income	392,780	656,236
Non-Operating Revenues:		
Gain on Disposal of Fixed Asset	0	15,000
Unrealized Gain	0	20,033
Interest Income	19,592	58,232
	19,592	93,265
Non-Operating Expenses:		
Bond Interest Expense	226,084	378,212
Other Non-Operating Expense	48,367	0
	274,451	378,212
Net Income	137,921	371,289
Equity at Beginning of Year	9,230,435	8,859,146
Equity at End of Year	\$9,368,356	\$9,230,435

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

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL PERIODS ENDED JULY 31, 2003 AND DECEMBER 31, 2002**

	2003	2002
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$1,418,947	\$2,432,820
Cash Received from Other Operating Revenues	1,786	1,467
Cash Payments for Goods and Services	(614,354)	(929,144)
Cash Payments for Employee Services and Benefits	(258,480)	(416,398)
	547,899	1,088,745
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions	(437,294)	(1,318,665)
Principal Payments	0	(190,000)
Interest Payments	(193,786)	(393,463)
	(631,080)	(1,902,128)
Cash Flows from Investing Activities:		
Net Change in Investment Activities	30,774	(104,939)
Interest Earned on Investments	19,592	58,232
	50,366	(46,707)
Net Increase (Decrease) in Cash and Cash Equivalents	(32,815)	(860,090)
Cash and Cash Equivalents at Beginning of Year	2,268,685	3,128,775
Cash and Cash Equivalents at End of Year	\$2,235,870	\$2,268,685
<u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</u>		
Operating Income	\$392,780	\$656,236
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	264,424	467,388
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable	(236)	(17,391)
(Increase) in Inventory	(4,991)	(1,607)
(Increase) in Prepaid Expenses	(11,164)	(3,718)
(Decrease) in Accounts Payable	(86,522)	(4,076)
(Decrease) in Accrued Wages and Benefits	(6,392)	(8,087)
	155,119	432,509
Net Cash Provided by Operating Activities	\$547,899	\$1,088,745

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

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**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002**

1. DESCRIPTION OF ENTITY

The East Muskingum Water Authority, Muskingum County, (the Authority), was established April 28, 1967, by journal entry in the Court of Common Pleas of Muskingum County, Ohio, to provide an adequate and uncontaminated water supply for the consumption of inhabitants, for industrial and business uses, and for fire protection. The Authority operates under an appointed Board of Trustees of seven members and is responsible for providing water to residents of the Authority area. The Authority services Falls, Hopewell, Licking, Muskingum, Perry, Salt Creek, Union, Washington and Wayne Townships, Muskingum County, Ohio. The Authority is organized and governed by the provisions of Chapter 6119 of the Ohio Revised Code.

As described on Note 13, the County acquired the Authority, effective August 1, 2003.

The Authority's management believes these general purpose financial statements present all activities for which the Authority is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

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

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

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

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Budgetary Process

The Ohio Revised Code requires the Authority to adopt an operating budget.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2003 and 2002 budgetary activity appears in Note 4.

C. Cash, Cash Equivalents and Investments

During 2003 and 2002, investments were limited to certificates of deposit, federal agency securities, treasury securities and state and local government securities. These investments are stated at fair market value. Investment procedures are restricted by provisions of the Ohio Revised Code.

The Authority utilizes a financial institution to service bonded debt as principal and interest payments come due. The balances in these accounts are presented on the Balance Sheet as "Restricted Assets, Cash and Cash Equivalents with Fiscal and Escrow Agents."

For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

D. Restricted Assets

Restricted assets represent cash and cash equivalents and investments set aside in the fiscal agent's accounts to meet bond debt covenants.

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Accounts Receivable

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

F. Inventory of Supplies

Inventories are stated at cost and are determined on a first-in, first-out basis. The costs of inventory items are recorded as expenses when used.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the balance sheet date are recorded as prepaid items using the consumption method. A current asset for prepaid amounts is recorded at the time of payment, and an expense is reported at the time the services are consumed.

H. Fixed Assets and Depreciation

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

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

<u>Assets</u>	<u>Years</u>
Water Wells	25
Water Systems	5 - 50
Buildings	10 - 40
Machinery / Equipment	2 - 10
Furniture / Fixtures	3 - 5
Vehicles	5

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Long-Term Obligations

Mortgage Revenue bonds are reported as long-term liabilities.

J. Estimates

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

K. Retained Earnings – Reserved

Reserves represent those portions of retained earnings legally segregated for a specific future use.

L. Contributed Capital

Contributed capital represents resources provided by other governments and private sources that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. After fiscal year 2000, capital contributions received from other governments and private sources are recorded as revenues and are reported as retained earnings based on new guidelines established by GASB Statement 33, "Accounting and Reporting for Nonexchange Transactions." There were no changes to contributed capital during the audit period.

3. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

State statutes classify monies held by the Authority 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 Authority 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 the Authority has identified as not required for use within the current five 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 accounts, including passbook accounts.

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

3. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

Protection of the Authority'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 treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

3. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*.

Undeposited Cash: At fiscal period-ends, the Authority had \$500, in undeposited cash on hand. This is included on the balance sheet of the Authority as part of "Cash and Cash Equivalents."

Restricted Cash with Fiscal/Escrow Agent: At fiscal periods ending July 31, 2003 and December 31, 2002, the Authority had \$2,143,375 and \$1,962,314, respectively, on deposit with the trustee bank (fiscal agent), JP Morgan Institutional Trust Services. The trustee bank is responsible for maintaining adequate collateral.

Deposits: The carrying amount of the Authority's deposits at July 31, 2003 and December 31, 2002 were \$291,995 and \$555,871, respectively, and the bank balances were \$336,123 and \$563,887, respectively. At July 31, 2003 and December 31, 2002, \$309,789 and \$358,935 was covered by federal depository insurance, respectively, with the remaining balance collateralized by securities held by the pledging financial institutions' trust department in the Authority's name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Authority's deposits held to a successful claim by the FDIC.

Investments: The Authority's investments are required to be categorized to give an indication of the level of risk assumed by the Authority at fiscal periods-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority'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 Authority's name.

At July 31, 2003, the Authority's investment balances were as follows:

	Category 2	Carrying Amount	Fair Value
U.S. Treasury Security	\$50,453	\$50,453	\$50,453
Federal Home Loan Mortgage Corporation Bonds	99,323	99,323	99,323
Federal Home Loan Bank Bonds	304,438	304,438	304,438
State & Local Government Securities	63,100	63,100	63,100
	<u>\$517,314</u>	<u>\$517,314</u>	<u>\$517,314</u>

At December 31, 2002, the Authority's investment balances were as follows:
2003

	Category 2	Carrying Amount	Fair Value
U.S. Treasury Security	\$51,000	\$51,000	\$51,000
Federal Home Loan Bank Bonds	359,859	359,859	359,859
State & Local Government Securities	66,800	66,800	66,800
	<u>\$477,659</u>	<u>\$477,659</u>	<u>\$477,659</u>

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

3. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	July 31, 2003		December 31, 2002	
	Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 2,235,870	\$ 717,314	\$ 2,268,685	\$ 727,659
Certificates of Deposit with Maturity > 90 Days	200,000	(200,000)	250,000	(250,000)
Undeposited Cash	(500)		(500)	
GASB Statement No. 3	<u>\$2,435,370</u>	<u>\$517,314</u>	<u>\$2,518,185</u>	<u>\$477,659</u>

4. BUDGETARY ACTIVITY

Budgetary activity for the periods ending July 31, 2003 and December 31, 2002, follows:

Budgeted vs. Actual Receipts		
	2003	2002
Budgeted Receipts	\$2,361,400	\$2,119,900
Actual Receipts	1,420,969	2,451,678
Variance	<u>(\$940,431)</u>	<u>\$331,778</u>

Budgeted vs. Actual Budgetary Basis Expenditures		
	2003	2002
Appropriation Authority	\$1,872,389	\$1,867,172
Budgetary Expenditures	1,028,189	1,795,442
Variance	<u>\$844,200</u>	<u>\$71,730</u>

The Authority is only required to adopt an operating budget and does not budget non-operating revenue and expenditures.

Prior certification of Authority funds was not obtained for all expenditures made during 2003 and 2002, contrary to Ohio Revised Code Section 5705.41 (D).

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

5. LONG-TERM OBLIGATIONS

Debt outstanding at July 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Water Resource Revenue Bonds	\$8,100,000	3.3% - 5.38%
Total	\$8,100,000	

The Authority issued water system mortgage revenue bonds to retire bond anticipation notes issued for the construction of facilities and to finance additional capital improvements. Revenues of the utility have been pledged and a trust indenture executed to secure the repayment of this debt. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for fees to customers in sufficient amounts, as defined, to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemption of principal, and maintenance of properties in good condition.

The annual requirements to amortize all debt outstanding as of July 31, 2003, including interest payments of \$5,745,249, are as follows:

	<u>Water Revenue Bonds</u>
Year ending December 31:	
2003 (Due December 1)	\$393,786
2004	585,973
2005	583,798
2006	586,133
2007	587,773
2008 - 2012	2,920,653
2013 - 2017	2,922,421
2018 - 2022	2,923,687
2023 - 2026	2,341,025
Total	\$13,845,249

Muskingum County will assume these liabilities starting August 1, 2003.

6. FIXED ASSETS

A summary of the Authority's fixed assets at July 31, 2003 and December 31, 2002, respectively:

	<u>2003</u>	<u>2002</u>
Description		
Land	\$100,554	\$100,554
Water Systems	14,231,174	13,795,369
Buildings	4,018,776	4,018,776
Furniture and Fixtures	21,348	21,348
Machinery and Equipment	218,010	218,010
Motor Vehicles	0	259,984
Total	18,589,862	18,414,041
Less: Accumulated Depreciation	(4,181,319)	(4,128,512)
Net Fixed Assets	\$14,408,543	\$14,285,529

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

7. RISK MANAGEMENT

The Authority is exposed to various risks related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2003 and 2002, the Authority contracted with St. Paul Insurance Company for property and general liability insurance.

Vehicles are covered by St. Paul Insurance Company and hold a \$250 deductible. Vehicle liability coverage had a \$1,000,000 limit for collision and a \$1,000,000 limit for bodily injury.

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

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

8. DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

All Authority full-time employees participate in the Ohio Public Employees Retirement System ("OPERS"), a cost-sharing multiple employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The Authority contributed an amount equal to 13.55 percent of participants' gross salaries for the period January 1, 2002 through July 31, 2003. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Authority's required contributions to OPERS for the fiscal period ended July 31, 2003 and the years ended December 31, 2002 and 2001 were \$29,924, \$50,237, and \$54,762, respectively. The full amount has been contributed for 2002 and 2001. Approximately 81% has been contributed for 2003 with the remainder being reported as a liability.

9. POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients of such retirees is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent was the portion that was used to fund health care.

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

10. POSTEMPLOYMENT BENEFITS (Continued)

A. Public Employees Retirement System (Continued)

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.0 percent annually.

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

The number of active contribution participants was 402,041. The Authority's actual contributions for 2003 which were used to fund postemployment benefits were \$11,042. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

11. OTHER EMPLOYER BENEFITS

The Authority provides life insurance and accidental death insurance to its employees.

The Authority contracts with Medical Mutual of Ohio for hospitalization and prescription insurance for all employees and elected officials. The Authority pays 100 percent of the total monthly premiums which varies according to employee age and number of dependents.

Dental care coverage is provided by General Electric.

Vision care coverage is provided by Vision Plus.

12. CONTRIBUTED CAPITAL

There were no changes to contributed capital reported by the Authority during the reporting period.

Balance at January 1, 2002	\$3,237,561
Contributions	<u>0</u>
Balance at July 31, 2003	<u><u>\$3,237,561</u></u>

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

13. COOPERATIVE WATER AGREEMENT

The Board of Trustees of the East Muskingum Water Authority (the Authority) entered into a cooperative water agreement on December 7, 2000 with the Board of County Commissioners of the County of Muskingum (the County). The County purchased 10% interest in the Authority's water treatment plant and well field for the desire to operate a water system and provide fire protection within the territory of the Muskingum County General Sewer District (the District). A portion of the territory of the District overlaps the territory of the Authority, and the County and Authority each have authority to provide water service in the territory of the Authority. The present intention of the County and Authority is for the County and the Authority to provide water service, respectively, to the areas designated and described in Exhibit B of this agreement.

On December 3, 2002 the Authority filed with the Muskingum County Court of Common Pleas a petition for dissolution of the East Muskingum Water Authority. The Court held a hearing on the petition on February 28, 2003. The Court ordered the dissolution of the Authority upon transfer by the Authority to Muskingum County of the Authority's assets and satisfaction by Muskingum County of the Authority's liabilities.

On August 1, 2003 the Authority transferred the Authority's assets and liabilities to Muskingum County by exercising a bill of sale for the Authority's assets to Muskingum County, assigning easements and leases to the County and recording the necessary deed transfers to the County. A supplemental trust agreement was also approved by the Authority, Muskingum County and J.P. Morgan Trust Company, Trustee for the Authority's Debt, for the assumption by the County of the Authority's outstanding bond debt, described in Note 5. The County also assured the Authority's other liabilities on August 1, 2003.

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**Auditor of State
Betty Montgomery**

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

East Muskingum Water Authority
Muskingum County
P.O. Box 2005
Zanesville, Ohio 43702

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of the East Muskingum Water Authority, Muskingum County, Ohio (the Authority), as of and for the seven months ended July 31, 2003 and for the year ended December 31, 2002, and have issued our report thereon dated January 26, 2004, wherein we disclosed the change in ownership at August 1, 2003. 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 Authority'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Authority in a separate letter dated January 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-002 and 2003-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2003-003 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Authority in a separate letter dated January 26, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 26, 2004

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
JULY 31, 2003 AND DECEMBER 31, 2002**

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

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

B. Amounts of less than \$1,000, which was increased to \$3,000 on April 7, 2003, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Thirty-eight percent of the expenditures tested did not include prior certification nor was there any evidence of a “Then and Now” certificate being used by the fiscal officer.

Failure to certify the availability of funds can result in overspending funds and negative cash fund balances. Therefore, we recommend the Authority obtain the fiscal officer’s certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a purchase commitment.

FINDING NUMBER 2003-002

Reportable Condition

The Authority has not adopted a formal written fixed asset policy. Failure to adopt a formal policy increases the likelihood of inconsistencies occurring when accounting for the Authority’s fixed assets.

We recommend the Authority formally adopt a fixed asset policy through a Board of Trustee resolution. A formal fixed asset policy would provide a basis for the Authority to follow when recording and depreciating fixed assets. The policy should address capitalization threshold(s), useful lives, valuation determinations and classifications of fixed assets, such as buildings, land, water systems, equipment, furniture and fixtures, vehicles, construction in progress.

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
JULY 31, 2003 AND DECEMBER 31, 2002
(Continued)**

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

FINDING NUMBER 2003-003

Material Weakness

During our testing of fixed assets, the following weaknesses were noted in the fixed asset detail listing:

- The 1981 balances for the Northwest and Southeast water systems were carried forward on the fixed asset listing with no detail or supporting documentation as to what these balances included.
- The 1981 balances for the Northwest and Southeast water systems are being depreciated over 50 years using the straight line method of depreciation with the depreciation starting in 1981; however, there was no support to show whether these two systems were brought on at the depreciated value or at cost.
- The detailed listing of water system fixed assets included no deletions since the beginning of the fixed asset record (1981).
- Many entries on the fixed asset listing are described as "Capital Materials" or "Capital Labor" with no description as to what these materials included or what project they were used for. With no detail, it would be difficult to determine what assets need deleted as they are replaced or disposed of.
- Replacement and repair items for the water systems were being capitalized with no deletions of those items being replaced.

These weaknesses could cause the overstatement of fixed assets on the Authority's financial statements.

A fixed asset detail listing should include a description of all assets to enable verification of fixed assets at any point in time. This would also provide a means of deleting assets that have been disposed of or replaced. Muskingum County is currently in the process of using in-house personnel to perform a physical inspection of fixed assets and verifying their inclusion on the fixed asset listing.

**EAST MUSKINGUM WATER AUTHORITY
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JULY 31, 2003 AND DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-61060-001	Citation of Ohio Rev. Code Section 5705.41 (D) for not obtaining prior certification of all expenditures.	No	Not Corrected – Repeated as Finding Number 2003-001.
2001-61060-002	No written fixed asset policy	No	Not Corrected – Repeated as Finding Number 2003-002.
2001-61060-003	Material weakness within the fixed asset detail listing	No	Not Corrected – Repeated as Finding Number 2003-003.

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**Auditor of State
Betty Montgomery**

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800-282-0370
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EAST MUSKINGUM WATER AUTHORITY

MUSKINGUM 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
MARCH 4, 2004**