



**Auditor of State
Betty Montgomery**

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Carroll Water and Sewer District
Ottawa County
10340 W. State Route 2
Oak Harbor, OH 43449-9013

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of the Carroll Water and Sewer District, Ottawa County, (the District), as of and for the years ended December 31, 2004 and 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

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Ottawa County
Independent Accountants' Report
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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the Carroll Water and Sewer District, Ottawa County, Ohio, as of December 31, 2004 and 2003, and the respective changes in modified cash financial position.

For the years ended December 31, 2004 and 2003, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2005, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

November 1, 2005

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2004 and 2003**

This discussion and analysis, along with the accompanying financial reports, of Carroll Water Sewer District (CWSD or the District) is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The District's net cash assets increased by \$94,983 (11.5%) in 2004 and by \$166,544 (25.3%) in 2003.

The District's Operating Cash Receipts increased by \$31,641 (7.3%) in 2004 and by \$15,778 (3.8%) in 2003 and Operating Cash Disbursements increased by \$19,773 (3.6%) in 2004 and by \$129,565 (30.5%) in 2003.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Statements of Net Assets-Modified Cash Basis and the Statements of Cash Receipts, Disbursements and Changes in Fund Net Assets – Modified Cash Basis provide information on the District's cash basis operations over the past two years and the success of recovering all its costs through user fees, charges, and other income. Revenues are reported when earned and expenses are reported when incurred.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2004 and 2003**

STATEMENTS OF NET CASH ASSETS-CASH BASIS

Table 1 summarizes the Statements of Net Cash Assets of the District.

TABLE 1	2004	2003	Change Amount	2002	Change Amount
Cash and Cash Equivalents	<u>\$919,798</u>	<u>\$824,815</u>	<u>\$94,983</u>	<u>\$658,271</u>	<u>\$166,544</u>
Total Assets	<u>\$919,798</u>	<u>\$824,815</u>	<u>\$94,983</u>	<u>\$658,271</u>	<u>\$166,544</u>
Net Assets -					
Unrestricted	<u>\$919,798</u>	<u>\$824,815</u>	<u>\$94,983</u>	<u>\$658,271</u>	<u>\$166,544</u>
Total Net Assets	<u>\$919,798</u>	<u>\$824,815</u>	<u>\$94,983</u>	<u>\$658,271</u>	<u>\$166,544</u>

The District's Net Cash Assets increased by \$94,983 in 2004 and \$166,544 in 2003. The increase in 2004 was primarily the result of an increase in charges for service and intergovernmental revenues and interest income collected, and less expenditure in the distribution systems ongoing projects. These increases offset a significant drop in property taxes collected of \$246,000. The increase in 2003 was primarily the result of an increase in charges for service and intergovernmental grants.

STATEMENTS OF CHANGES IN NET CASH ASSETS

Table 2 below summarizes the changes in Cash Receipts, Cash Disbursements and the resulting change in Net Cash Assets.

TABLE 2	2004	2003	Difference	2002	Difference
Operating Cash Receipts	\$466,774	\$435,133	\$31,641	\$419,355	\$15,778
Operating Cash Disbursements	<u>574,764</u>	<u>554,991</u>	<u>19,773</u>	<u>425,426</u>	<u>129,565</u>
Operating Loss	(107,990)	(119,858)	11,868	(6,071)	113,787
Non-Operating Cash Receipts	1,720,127	1,804,264	(84,137)	1,407,544	396,720
Non-Operating Cash Disbursements	<u>1,517,154</u>	<u>1,517,862</u>	<u>(708)</u>	<u>1,517,754</u>	<u>(108)</u>
Changes in Net Cash Assets	94,983	166,544	(71,561)	(116,281)	282,825
Net Cash Assets, January 1	<u>824,815</u>	<u>658,271</u>	<u>166,544</u>	<u>774,552</u>	<u>(116,281)</u>
Net Cash Assets, December 31	<u>\$919,798</u>	<u>\$824,815</u>	<u>\$94,983</u>	<u>\$658,271</u>	<u>\$166,544</u>

From 2003 to 2004 operating cash receipts increased \$31,641 due to increase in revenues collected from charges for service. Operating cash disbursements increased \$19,773 primarily due to repairs and maintenance of the distribution system and legal expenses. Non-Operating

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2004 and 2003**

Cash Receipts decreased \$84,137 primarily due to the completion of the Corrosion Control Phase I Project.

From 2002 to 2003 operating cash receipts increased \$15,778 due to increase in revenues collected from charges for services. Operating cash disbursements increased \$129,565 primarily due to Corrosion Control Phase I in the distribution system. Non-Operating Cash Receipts increased \$396,720 primarily due to the OPWC/Corrosion Control Phase I project and the receipt of Public Utilities Reimbursements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

CAPITAL ASSETS

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The District had capital outlay disbursements of \$27,487 during fiscal year 2004 and \$172,981 during fiscal year 2003.

DEBT

Under the cash basis of accounting the District does not report bonds, long-term notes, or short-term notes in the accompanying basic financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds, long-term notes, and short-term notes. Additional information regarding debt can be found in Note F to the Basic Financial Statements.

Table 3	2004	2003	Change	2002	Change Amount
Water System Improvement Bonds	\$7,295,000	\$8,275,000	\$980,000	\$9,195,000	\$920,000
Carroll Township Loan	<u>1,892,936</u>	<u>1,892,936</u>	<u>0</u>	<u>1,892,936</u>	<u>0</u>
Total Long Term Debt	<u>\$9,187,936</u>	<u>\$10,167,936</u>	<u>\$980,000</u>	<u>\$11,087,936</u>	<u>\$920,000</u>

CASH

Cash and investments on December 31, 2004 and 2003 were \$919,798 and \$824,815, respectively.

CURRENT ISSUES

The Carroll Water and Sewer District strives to treat the water from Lake Erie to maintain the high standards required by the Ohio Environmental Protection Service for a Public Drinking Water System. In order to maintain this quality of service the District reviews the adequacy of its water rates on an annual basis to ensure that expenses are being met.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2004 and 2003**

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to the Carroll Water and Sewer District, 10340 W. State Route 2, Oak Harbor, OH 43449 or (419) 898-5028.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Statements of Net Assets - Modified Cash Basis
December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Assets		
Cash and Cash Equivalents	\$ 919,798	\$ 824,815
<i>Total Assets</i>	<u>\$ 919,798</u>	<u>\$ 824,815</u>
Net Assets		
Unrestricted	\$ 919,798	\$ 824,815
<i>Total Net Assets</i>	<u>\$ 919,798</u>	<u>\$ 824,815</u>

See accompanying notes to the basic financial statements

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Statements of Cash Receipts, Disbursements and
Changes in Net Assets - Modified Cash Basis
For the Years Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Operating Cash Receipts		
Charges for service/revenues	\$ 466,774	\$ 435,133
Operating Cash Disbursements		
Personal services	203,739	206,441
Insurance	10,472	9,946
Utilities	46,365	46,223
General office expense, telephone and miscellaneous	17,461	20,491
Other contractual services	8,872	18,240
Testing and chemical expenses	29,105	25,290
Meters, piping and supplies expense	40,502	24,722
Auto expense	3,469	3,001
Capital outlay - Corrosion	6,054	172,981
Capital outlay - US Fish & Wildlife	21,433	-
Legal Fees	184,692	26,326
Other outlays	2,600	1,330
Total operating cash disbursements	<u>574,764</u>	<u>554,991</u>
Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>(107,990)</u>	<u>(119,858)</u>
Non-Operating Cash Receipts		
Tap fees - new taps	31,300	21,400
Tap fees - outside district	-	3,200
Rent and miscellaneous	10,899	13,180
Contractor bonds	2,025	500
Property taxes	601,689	848,193
Intergovernmental revenues	1,050,150	803,503
OPWC	6,054	101,101
Interest	18,010	13,187
Total non-operating cash receipts	<u>1,720,127</u>	<u>1,804,264</u>
Non-Operating Cash Disbursements		
Debt service - principal	980,000	920,000
Debt service - interest	517,187	574,688
Auditor and treasurer fees	18,467	22,474
Contractor bonds	1,500	700
Total non-operating cash disbursements	<u>1,517,154</u>	<u>1,517,862</u>
Change in net cash assets	94,983	166,544
Net assets, January 1	<u>824,815</u>	<u>658,271</u>
Net assets, December 31	<u>\$ 919,798</u>	<u>\$ 824,815</u>

See accompanying notes to the basic financial statements

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

NOTE A - NATURE OF ORGANIZATION

The Carroll Water and Sewer District, Ottawa County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was created during 1991 by the Court of Common Pleas of Ottawa County to provide water and sewer services to the residents of Carroll Township in accordance with the provisions of Ohio Revised Code Section 6119 et. seq. A three (3) member appointed Board of Trustees who are appointed by the Trustees of Carroll Township manage the District.

The District's management believes these basic financial statements present all activities for which the District is financially accountable.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. **Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting, (a comprehensive basis of accounting other than generally accepted accounting principles). Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. For fiscal year 2004 the District has implemented the provisions of GASB 34 for financial reporting on the basis of accounting as described above. However, there were no adjustments to beginning net cash assets since the basis of accounting has not changed.

As a result of the use of the basis of accounting as described above, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the basis of accounting as described above.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State in accordance with the basis of accounting as described above.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

2. Cash and Investments

For reporting purposes, the District considers “Net cash assets” and “Cash and Cash Equivalents” to be cash on hand, demand deposits, and all investments held by the District with a maturity date less than or equal to three months from the date of purchase. The investment in STAR Ohio (the State Treasurer’s investment pool) is valued at amounts reported by the State Treasurer.

3. Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund accounts for the governmental resources allocated to it and the segregation of cash and investments for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The fund type, which the Carroll Water District uses, is described below:

Proprietary Fund Type – This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

Enterprise Fund – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing certain goods or services to the general public on a continuing basis are financed or received primarily through user charges.

4. Budgetary Process

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

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. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

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

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

A summary of 2004 and 2003 budgetary activity appears in Note D.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

5. Capital Assets

Acquisitions of capital assets (property, plant, and equipment) are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

6. Unpaid Vacation and Sick Leave

An employee with at least ten (10) years of service for the District may elect at the time of retirement from active service, to be paid in cash for One Hundred Percent (100%) of the value of up to One Thousand (1,000) hours of the employee's accrued but unused sick leave.

Upon the death of an employee, the employee's family or estate shall be paid for One Hundred Percent (100%) of the value of up to Two Thousand Eighty (2,080) hours of the employee's accrued but unused sick leave.

Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

7. Income Tax

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

8. Long-Term Obligations

In general bonds and loans are recorded as cash disbursements in the basic financial statements when paid.

9. Net Cash Assets

Net cash assets represent the difference between assets and liabilities. Since under the District's current basis of accounting, the District does not record any other assets other than cash and investments and does not record any liabilities, net cash assets is equivalent to cash and investments. The District currently does not record any restrictions on their net cash assets.

NOTE C – EQUITY IN POOLED CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS

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

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

Inactive deposits are public deposits that the Board of Trustees 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 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. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) and (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;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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 monies deposited with the institution.

The carrying amount of the District's deposits was \$68,029 and \$80,186 as of December 31, 2004 and 2003, respectively. The District's bank balances were \$67,346 and \$84,275 as of December 31, 2004 and 2003, respectively. Of the bank balances, 100 percent was covered by federal depository insurance for each year.

GASB Statement No. 3 "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and fair value of investments classified by risk. Category 1 includes investments that are insured or registered for which the securities are held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held in the counter party'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 counter party or by its trust department but not in the District's name. All of the District's investments were with STAR Ohio during the period presented. Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form. The amount held in STAR Ohio as of December 31, 2004 and 2003 was \$851,769 and \$744,629, respectively.

NOTE D – BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2004 and 2003 was as follows:

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

Budgeted vs. Actual Receipts

	<u>2004</u>	<u>2003</u>
Budgeted Receipts	\$ 3,206,656	\$ 2,526,211
Actual Receipts	<u>2,186,901</u>	<u>2,239,397</u>
Variance	<u>\$ (1,019,755)</u>	<u>\$ (286,814)</u>

Budgeted vs. Actual Budgetary Basis Expenditures

	<u>2004</u>	<u>2003</u>
Appropriation Authority	\$ 2,381,841	\$ 2,244,258
Budgetary Expenditures	<u>2,091,918</u>	<u>2,072,853</u>
Variance	<u>\$ 289,923</u>	<u>\$ 171,405</u>

NOTE E – PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by the District. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected separately in the accompanying financial statements. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20. Tangible personal property tax is assessed by the property owners, who must file a list of such property with the County by each April 30. The County is responsible for assessing property, and for billing, collecting and distributing all property taxes on behalf of the District.

NOTE F - DEBT

Under the District's current basis of accounting, debt obligations are not reported as a liability in the accompanying basic financial statements. However, information regarding current and long-term debt at December 31, 2004 and 2003 is as follows:

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

	<u>2004 Principal</u>	<u>2003 Principal</u>	<u>Interest Rate</u>
Water System Improvement Bonds Issue 1	\$ 5,195,000	\$ 5,895,000	6.25%
Water System Improvement Bonds Issue 2	2,100,000	2,380,000	6.25%
Carroll Township Loan	<u>1,892,936</u>	<u>1,892,936</u>	0.00%
Totals	<u>\$ 9,187,936</u>	<u>\$ 10,167,936</u>	

Water System Improvement Bonds (Issue 1) consist of general obligation bonds issued in 1996, for \$10,185,000. The general obligation bonds will be repaid over a fifteen-year period.

Water System Improvement Bonds (Issue 2) were issued in March 1998, for \$3,750,000. The general obligation bonds will be repaid over a thirteen-year period.

In 1992, the District obtained a \$30,000, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1993, the District obtained a \$200,000, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1998, the District obtained a \$1,003,322, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1999, the District obtained a \$265,890, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 2000, the District obtained a \$375,531, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 2001, the District obtained a \$18,192, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date.

Amortization of the above debt, including interest, is as follows:

<u>Year Ending December 31:</u>	<u>Water System Improvement Bonds-Issue 1</u>	<u>Water System Improvement Bonds - Issue 2</u>
2005	\$ 1,064,687	\$ 431,250
2006	1,063,437	427,500
2007	1,064,375	432,812
2008	1,067,188	431,562
2009	1,066,563	429,063
Subsequent	<u>1,062,500</u>	<u>430,313</u>
	<u>\$ 6,388,750</u>	<u>\$ 2,582,500</u>

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

NOTE G – DEFINED BENEFIT RETIREMENT PLAN

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.
- D. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2004 member contribution rates were 8.5% for the District.

The 2004 employer contribution rate for the District was 13.55% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2004, and 2003 were \$30,464 and \$31,203 respectively.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

NOTE H - POSTEMPLOYMENT BENEFITS

- A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

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. For the District, the rate was 13.55% of covered payroll for both fiscal years 2004 and 2003; 4.0% was used to fund health care for the year 2004 and 5.0% was used to fund health care for the year 2003.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.
- C. Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2003.

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

Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

Investment Return – The investment assumption rate for 2003 was 8.00%.

Active Employee Total Payroll – An annual increase of 4.0%, 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 4.0% base increase, were assumed to range from .50% to 6.30%.

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885 for 2004 and 364,881 for 2003.
2. The employer contributions that were used to fund postemployment benefits were \$9,298 for 2004, and \$9,463 for 2003.
3. \$10.5 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2003.
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

E. OPERS Retirement Board adopts a Health Care Preservation Plan

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**Notes to Basic Financial Statements
December 31, 2004 and 2003**

excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE I – RISK MANAGEMENT

Risk Pool Membership

The District belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments (Members).

Pursuant to § 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine, and other coverages, modified for each Member's needs. The Plan pays judgments, settlements, and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures with A-VII or better rated carriers, except for a 5 percent portion the Plan retains. With policies effective September 1, 2003 and after, the Plan pays the lesser of 5 percent or \$25,000 for casualty losses up to the coverage limit and the lesser of 5 percent or \$50,000 for property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<u>2004</u>	<u>2003</u>
Assets	\$ 6,685,522	\$ 5,402,167
Liabilities	<u>(2,227,808)</u>	<u>(1,871,123)</u>
Members' Equity	<u>\$ 4,457,714</u>	<u>\$ 3,531,044</u>

You can read the complete audited financial statements for the Ohio Government Risk Management Plan at the Plan's website. www.ohioplan.org.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Carroll Water and Sewer District
Ottawa County
10340 W. State Route 2
Oak Harbor, OH 43449-9013

To the Board of Trustees:

We have audited the financial statements of the business-type activities and the major fund information of the Carroll Water and Sewer District, Ottawa County, (the District) as of and for the years ended December 31, 2004 and 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 1, 2005. The District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated November 1, 2005, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, and Board of Trustees. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

November 1, 2005



**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

CARROLL WATER AND SEWER DISTRICT

OTTAWA 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
DECEMBER 1, 2005**