

Adams County Regional Water District

Adams County, Ohio

Regular Audit

January 1, 2005 through December 31, 2005

Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER, CPAs, Inc.**

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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Adams County Regional Water District  
9203 State Route 136  
PO Box 427  
West Union, Ohio 45693

We have reviewed the *Independent Auditor's Report* of the Adams County Regional Water District, Adams County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Adams County Regional Water District is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY  
Auditor of State

May 19, 2006

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*Adams County Regional Water District  
Adams County, Ohio*

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Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

Board of Trustees  
Adams County Regional Water District  
9203 State Route 136  
West Union, Ohio 45693

We have audited the accompanying financial statements of the business-type activities, of the Adams County Regional Water District (the District), Adams County, as of and for the years ended December 31, 2005 and 2004, 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 an opinion 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 *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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2005 and 2004, and the results of its operations and its cash flows thereof, for the year 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 18, 2006 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. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Adams Regional Water District  
Independent Auditor's Report  
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As described in Note 15, for the year ended December 31, 2005, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40 "*Deposits and Investment Risk Disclosure*".

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Balestra, Harr & Scherer, CPAs, Inc.  
April 18, 2006

**Adams County Regional Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended December 31, 2005 and 2004**

The following discussion provides a summary overview of the financial activities of the Adams County Regional Water District ("the District"). The information should be read in conjunction with the basic financial statements included in this report.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

**Financial Highlights**

- Assets exceeded liabilities on December 31, 2005 by \$5,769,636 and on December 31, 2004 by \$5,952,999.
- Net assets decreased by \$183,363 in 2005 and by \$382,374 in 2004.
- Operating revenues increased by \$283,570 (10.2%) in 2005 and \$263,112 (10.5%) in 2004. Operating and maintenance expenses increased by \$92,344 (3.2%) in 2005 and \$11,496 (0.4%) in 2004.
- Retirements of debt principal totaled \$531,906 and additions to debt principal totaled \$144,000 in 2005. Retirements of debt principal totaled \$508,439 in 2004.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statements of Net Assets, the Statements of Revenues and Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Assets presents the District's financial position and reports the resources owned by the District (assets), obligations owed by the District (liabilities) and District net assets (the difference between assets and liabilities). It provides a way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statements of Revenues, Expenses and Changes in Net Assets present a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees.

The Statements of Cash Flows provide information about the District's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities.

The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

## Financial Analysis of the District's Financial Position and Results of Operations

Table 1 summarizes the Net Assets of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital, Net of Debt", are Capital Assets less outstanding debt that was used to acquire those assets.

**Table 1**

	2005	2004	Change Amount	2003	Change Amount
<u>Assets</u>					
Current and Other Assets	\$ 4,189,491	\$ 3,955,588	\$ 233,903	\$ 4,266,214	\$ (310,626)
Capital Assets	17,706,800	18,494,231	(787,431)	19,120,537	(626,306)
<b>Total Assets</b>	<b>21,896,291</b>	<b>22,449,819</b>	<b>(553,528)</b>	<b>23,386,751</b>	<b>(936,932)</b>
<u>Liabilities</u>					
Current Liabilities	1,198,910	1,145,372	53,538	1,168,615	(23,243)
Long-term Liabilities	14,927,745	15,351,448	(423,703)	15,882,765	(531,317)
<b>Total Liabilities</b>	<b>16,126,655</b>	<b>16,496,820</b>	<b>(370,165)</b>	<b>17,051,380</b>	<b>(554,560)</b>
<u>Net Assets</u>					
Invested in Capital Assets, Net of Related Debt Restricted for Debt Service	2,223,703	2,623,228	(399,525)	2,741,095	(117,867)
Unrestricted	365,937	365,977	(40)	365,962	15
	3,179,996	2,963,794	216,202	3,228,314	(264,520)
<b>Total Net Assets</b>	<b>\$ 5,769,636</b>	<b>\$ 5,952,999</b>	<b>\$ (183,363)</b>	<b>\$ 6,335,371</b>	<b>\$ (382,372)</b>

The District's Net Assets decreased by \$183,363 (-3.0%) in 2005 and by \$382,372 (-6.0%)

The largest portion of the District's net assets is reflected in its cash and certificates of deposit, and its capital assets, less accumulated depreciation and related debt outstanding. The District strives to keep adequate cash reserves on hand in order to maintain or expand its facilities to meet the needs of its customers and to comply with regulatory requirements.

For the year ended December 31, 2005, total assets of the District decreased by \$553,528 and for the year ended December 31, 2004 total assets decreased by \$936,934 mainly due to depreciation of capital assets. Total liabilities of the District decreased by \$370,165 in 2005 and \$554,560 in 2004, due mainly to retirement of debt.

## Statements of Revenues, Expenses and Changes in Net Assets

Table 2 below summarizes the changes in Revenues and Expenses and Net Assets.

**Table 2**

	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>2003</b>	<b>Change</b>
Operating Revenues	\$3,063,748	\$2,780,178	\$ 283,570	\$ 2,517,066	\$263,112
Operating Expenses (Excluding Depreciation & Amortization)	1,563,713	1,515,102	48,611	1,515,471	(369)
Depreciation & Amortization	1,234,790	1,191,055	43,735	1,179,190	11,865
<b>Total Operating Expenses</b>	<b>2,798,503</b>	<b>2,706,157</b>	<b>92,346</b>	<b>2,694,661</b>	<b>11,496</b>
Operating Gain/Loss	265,245	\$74,021	191,224	(177,595)	251,616
Non-operating Revenues	308,729	258,128	50,601	241,177	16,951
Non-operating Expenses	794,978	810,169	(15,191)	822,564	(12,395)
Capital Contributions	37,641	95,648	(58,007)	96,840	(1,192)
<b>Change in Net Assets</b>	<b>(183,363)</b>	<b>(382,372)</b>	<b>199,009</b>	<b>(662,142)</b>	<b>279,770</b>
<b>Net Assets at Beginning of Year</b>	<b>5,952,999</b>	<b>6,335,371</b>	<b>(382,372)</b>	<b>6,997,513</b>	<b>(662,142)</b>
<b>Net Assets at End of Year</b>	<b>\$ 5,769,636</b>	<b>\$ 5,952,999</b>	<b>\$ (183,363)</b>	<b>\$ 6,335,371</b>	<b>\$ (382,372)</b>

Operating revenues consist of user charges for water consumption. Operating expenses reflect the cost of providing these services.

- Operating revenue increased by \$283,570 (10.2%) in 2005 due to the addition of new customers and an increase in water rates and by \$263,112 (10.5%) in 2004 due to new customers and ARC grant revenue in the amount of \$182,690.
- Non-operating revenues increased by \$50,601 (19.6%) in 2005 and by \$16,951 (7.0%) in 2004 due to an increase in the number of tap fees.
- Operating expenses increased by \$92,344 (3.2%) in 2005 due to an increase in depreciation of capital assets and by only \$11,496 (12.4%) in 2004.

Capital contributions from customers decreased by \$58,007 (60.6%) in 2005 and by \$1,192 (1.2%) in 2004. These contributions are provided by customers and grants from various agencies and are used to help cover the costs of line extensions.

## Capital Assets

**Table 3**

	2005	2004	Change Amount	2003	Change Amount
<b>Capital Assets</b>					
Land and improvements	\$ 446,900	\$ 438,731	\$ 8,169	\$ 428,727	\$ 10,004
Construction in progress	22,835	264,496	(241,661)	28,054	236,442
Buildings	543,829	533,700	10,129	524,995	8,705
Wells and wellfield improvements	1,333,709	1,313,709	20,000	1,322,302	(8,593)
Mains, lines and meters	23,657,718	23,265,960	391,758	23,116,763	149,197
Storage tanks	1,643,816	1,548,521	95,295	1,472,552	75,969
Water treatment & other equipment	1,183,772	1,163,683	20,089	1,098,942	64,741
Less: Accumulated depreciation	(11,125,779)	(10,034,569)	(1,091,210)	(8,871,798)	(1,162,771)
<b>Net Capital Assets</b>	<u>\$ 17,706,800</u>	<u>\$18,494,231</u>	<u>\$ (787,431)</u>	<u>\$ 19,120,537</u>	<u>\$ (626,306)</u>

Invested in capital assets was \$17,706,800 in 2005. This amount represents a net decrease of \$787,431 (4.3%) over 2004. Invested in capital assets was \$18,494,231 in 2004 this amount represents a net decrease of \$626,306 (12.9%) over 2003.

	2005	2004
Major additions at cost included:		
Line extensions	\$ 393,760	\$ 331,022
Rehab of Pumpkin Ridge Tank	92,500	0
Rehab and painting of Decatur Tank	0	57,460
Case loader backhoe	59,473	0
Telemetry upgrade	0	26,111
Eager Beaver trailer	15,624	0
Fencing at various tanks	0	17,409
Sullair air compressor	10,980	0
2004 Chevy 4x4 Truck	0	15,204
2005 Chevy Truck	0	15,204
2006 International dump truck	60,883	0
Blacktopping at plant	0	10,005
Wellfield electrical pedestal painting	20,000	0
<b>Totals</b>	<u>\$ 653,220</u>	<u>\$ 472,415</u>
Major dispositions in 2005, at cost included:		
Prime pit and controls	\$ 16,061	
Softening equipment	56,563	
Control equipment	31,257	
<b>Totals</b>	<u>\$ 103,881</u>	

### Debt Administration

The District finances its construction primarily through the issuance of revenue bonds or through low interest loan programs with the State of Ohio. At December 31, 2005, the District had total debt outstanding of \$15,483,097 compared to \$15,871,003 at December 31, 2004. This represents a decrease of \$531,906 from payments on principal of the debt and an increase of \$144,000 from an issuance of a water revenue refunding bond for 2005.

**Table 4**

	2005	2004	Change Amount	2003	Change Amount
<b>Debt</b>					
1999 Water Revenue Bonds	\$ 1,821,900	\$ 1,965,800	\$ (143,900)	\$2,102,900	\$ (137,100)
2005 Water Revenue Bond	144,000	-	144,000	-	-
OWDA Loans	13,517,197	13,905,203	(388,006)	14,276,542	(371,339)
<b>Total Long Term Debt</b>	<u>\$ 15,483,097</u>	<u>\$15,871,003</u>	<u>\$ (387,906)</u>	<u>\$16,379,442</u>	<u>\$ (508,439)</u>

### Economic Factors and 2006 Budget

Adams County Regional Water District increased service rates, which went into effect on January 1, 2005, and no rate increase is scheduled for 2006. The service area of the District continues to grow. One hundred seventy-seven tap fees were paid in 2005. The District is encouraging more rural customers to come on line by allowing the customers, should an extension be feasible, to pay for the materials cost of their line extensions over a 10-year period as a facility charge on their monthly bill. Two hundred fifty to three hundred new customers are expected over the next two years.

The operating budget for 2006 is \$3,674,842 which is \$195,297 more than the 2005 budget due to expected increased costs for capital improvements, equipment, and operating and maintenance costs. Scheduled capital improvements include the exterior and interior painting of the District's 1,000,000-gallon Coon Hill tank, a major water line upgrade to increase water delivery to the Old State Road area, as well as budgeting for materials for facility-charge funded line extensions. Due to the high costs of these improvements, it is anticipated that the District will be using up to \$400,000 of its cash assets to help fund these necessary projects.

### Contacting the District's Financial Management

This report is designed to provide the District's customers, bondholders, creditors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact the General Manager, Adams County Regional Water District, 9203 St. Rt. 136, West Union, Ohio 45693.

**Adams County Regional Water District  
Statements of Net Assets  
As of December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,661,291	2,029,920
Certificates of deposit	1,387,780	868,666
Accounts Receivable		
Customers, net allowance for doubtful accounts	435,277	378,559
Other receivables	1,957	129
Accrued interest receivable	57,460	22,890
Inventories	170,811	168,085
Prepaid Expenses	52,032	60,909
	3,766,608	3,529,158
<b>NONCURRENT ASSETS</b>		
Restricted cash and certificates of deposit	365,937	365,977
Deferred costs, net	56,946	60,453
	422,883	426,430
<b>CAPITAL ASSETS (at cost)</b>		
Non depreciable capital assets		
Land	392,160	392,160
Construction in progress	22,835	264,496
	414,995	656,656
Depreciable capital assets		
Land and land improvements	54,740	46,571
Buildings	543,829	533,700
Wells & Wellfield Improvements	1,333,709	1,313,709
Mains, Lines and Meters	23,657,718	23,265,960
Storage Tanks	1,643,816	1,548,521
Water Treatment and Plant Equipment	290,767	410,748
Trucks, Tractors, and Equipment	817,623	677,653
Office Furniture and Equipment	75,382	75,282
Less Accumulated depreciation	(11,125,779)	(10,034,569)
	17,291,805	17,837,575
	17,706,800	18,494,231
	18,129,683	18,920,661
	\$ 21,896,291	\$ 22,449,819

**Adams County Regional Water District  
Statement of Net Assets  
As of December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	35,205	30,085
Accrued expenses	197,681	188,256
Accrued interest	373,122	385,526
Customer deposits	37,550	21,950
Current portion of long-term debt	568,692	519,555
Total current liabilities	1,212,250	1,145,372
<b>LONG-TERM DEBT, less current portion</b>	14,914,405	15,351,448
<b>Total liabilities</b>	16,126,655	16,496,820
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	2,223,703	2,623,228
Restricted for debt service	365,937	365,977
Unrestricted	3,179,996	2,963,794
Total net assets	\$ 5,769,636	\$ 5,952,999

See accompanying notes to the financial statements

**Adams County Regional Water District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>REVENUES</b>		
Sales to customers	\$ 2,278,783	\$ 1,862,346
Sales to public authorities	701,441	671,085
Other revenues	83,524	246,747
Total operating revenues	<u>3,063,748</u>	<u>2,780,178</u>
<b>OPERATING EXPENSES</b>		
Salaries	672,265	681,725
Utilities	218,875	207,850
Depreciation expense	1,231,284	1,187,549
Amortization expense	3,506	3,506
Repairs and maintenance	94,379	96,697
Truck expense	38,504	27,383
Supplies	25,326	24,932
Pension expense	116,709	114,821
Payroll taxes	27,746	26,733
Insurance	226,277	211,611
Office supplies and postage	25,478	30,304
Legal and engineering fees	4,251	3,809
Accounting fees	20,262	9,560
Director fees	25,150	31,150
Advertising	2,093	2,322
Bank charges	1,183	1,124
Bad debt expense	465	141
Other expenses	64,750	44,940
Total Operating Expenses	<u>2,798,503</u>	<u>2,706,157</u>
Operating income (loss)	<u>265,245</u>	<u>74,021</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Tap fee revenue	232,100	197,600
Interest income	76,629	60,528
Gain/Loss on disposal of assets	(5,226)	-
Interest expense	(789,752)	(810,169)
Total non-operating revenue (expenses)	<u>(486,249)</u>	<u>(552,041)</u>
Income (loss) before capital contributions	(221,004)	(478,020)
Capital contributions	<u>37,641</u>	<u>95,648</u>
Change in net assets	(183,363)	(382,372)
Total net assets - beginning	5,952,999	6,335,371
Total net assets - ending	<u>\$ 5,769,636</u>	<u>\$ 5,952,999</u>

See accompanying notes to the financial statements

**ADAMS COUNTY REGIONAL WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITES</b>		
Cash receipts from customers	\$ 3,005,198	\$ 2,767,461
Cash payments to employees for services	(672,264)	(681,725)
Cash payments to suppliers for goods and services	<u>(855,149)</u>	<u>(895,349)</u>
<b>Net Cash Provided By Operating Activities</b>	1,477,785	1,190,387
<b>CASH FLOWS FROM INVESTING ACTIVITES</b>		
Interest income on investments	<u>42,060</u>	<u>56,027</u>
<b>Net Cash Provided By Investing Activities</b>	42,060	56,027
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of operating facilities, including construction in progress and capitalized interest	(449,079)	(561,246)
Members tap fees	232,100	197,600
Borrowings on long term debt obligations	144,000	-
Payments on long term debt obligations	(531,906)	(508,439)
Proceeds from construction contributions	37,641	95,648
Interst paid on long term debt obligations	<u>(802,156)</u>	<u>(822,432)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(1,369,400)</u>	<u>(1,598,869)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	150,445	(352,455)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>3,264,563</u>	<u>3,617,018</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 3,415,008</u>	<u>\$ 3,264,563</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income	\$ 265,245	\$ 74,021
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,231,284	1,187,549
Amortization	3,506	3,506
Changes in assets and liabilities:		
Accounts receivable, customers and other	(58,546)	(11,417)
Inventories	(2,726)	(21,988)
Prepaid expenses	8,877	(7,427)
Accounts payable and other accrued expenses	14,545	(32,557)
Customer deposits	<u>15,600</u>	<u>(1,300)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 1,477,785</u>	<u>\$ 1,190,387</u>

See accompanying notes to the financial statements

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 1. DESCRIPTION OF ENTITY**

**(a) Description of Operations**

Adams County Regional Water District (the "District"), was organized under the provisions of Section 6119 of the Ohio Revised Code on January 1, 1997. Prior to that date, the District was operated as an Ohio not-for-profit corporation known as Adams County Water Co., Inc. The District provides water service to its members in Adams County. The accounting policies used by the District reflect practices common to the industry.

**(b) Reporting Entity**

The financial reporting entity consists of the Adams County Regional Water District (the primary government). No component units have been separately organized.

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation and Accounting**

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

**(b) Cash and Cash Equivalents**

For the purposes of the statement of cash flows, the District considers cash in operating bank accounts, money market accounts, and certificates of deposit with an original maturity of three months or less as cash.

**(c) Inventories**

Inventories are stated at the lower of cost or market using the first-in, first-out method.

**ADAMS COUNTY REGIONAL WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Deferred Financing Costs**

Costs connected with obtaining and executing debt agreements are capitalized and amortized on the straight-line basis over the term of the related debt.

**(e) Capital Assets**

Capital assets are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 2005 and 2004, the District capitalized \$0 and \$0 interest respectively. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments, over a \$1,000 threshold, are capitalized.

**(f) Depreciation**

Provision for depreciation has been made on the basis of estimated lives of assets, using the straight-line method. Depreciable lives for the various assets are as follows:

Land improvements	10-20 Years
Building	45 Years
Wells and wellfield improvements	10-20 Years
Mains, lines and meters	20-50 Years
Storage tanks	10-50 Years
Equipment	5-10 Years

**(g) Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**(h) Customer Accounts Receivable**

Customer accounts receivable are stated at face value, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. Doubtful accounts are charged against the allowance when management believes the collectibility of the account is unlikely.

**(i) Operating Revenues and Expenses**

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. Revenues are recognized when earned and expenses when incurred. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to unrestricted net assets to the extent such are available and then to restricted net assets.

# ADAMS COUNTY REGIONAL WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS (Continued) FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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

#### (j) Net Assets

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

*Restricted* – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital, net of related debt.”

#### (k) Investments and Investment Policy

The District has adopted an investment and depository policy, which states that the District may invest in the following instruments, as provided by Section 135.35 of the Ohio Revised Code.

- Securities of the United States Government
- Federal agency obligations
- Repurchase agreements
- State of Ohio bonds and other obligations
- No-load money market mutual funds
- State Treasurer’s investment pool (STAROhio)
- Certain bankers’ acceptances and commercial paper notes

### Note 3. RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Restricted cash and certificates of deposit consist of savings accounts and certificates of deposit and represent amounts designated as reserved to comply with loan agreements with the U.S. Department of Agriculture Farmers Home Administration (FMHA) described more fully in Note 4.

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 4. LONG-TERM DEBT**

On April 21, 1999, the District issued \$2,639,424 in water revenue refunding bonds with rates of 4.5% to 6.5% in order to refinance the existing notes payable to FMHA. The terms of the bonds are identical to the previously issued notes and, therefore, no economic gain has been recognized by the District. During 2005, the District issued \$144,000 in a water revenue refunding bond to acquire equipment in connection with the District's water supply system. The bond has a rate of 4.25% with a final maturity date in 2015.

The original amount of each issue, the maturity date, and interest rates are summarized below:

<u>Amount of Original Issue</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>
\$ 322,095	2034	4.50%
242,304	2015	5.00%
987,342	2019	5.00%
645,300	2008	5.00%
246,725	2018	5.00%
195,658	2023	6.50%
144,000	2015	4.25%

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2005, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 568,692	\$ 780,115	\$ 1,348,807
2007	595,652	753,541	1,349,193
2008	623,549	725,329	1,348,878
2009	562,442	695,728	1,258,170
2010	589,000	668,978	1,257,978
2011-2015	3,401,353	2,889,179	6,290,532
2016-2020	3,998,562	1,977,411	5,975,973
2021-2025	4,356,886	890,646	5,247,532
2026-2030	721,461	55,604	777,065
2031-2034	65,500	7,533	73,033
Total	<u>\$ 15,483,097</u>	<u>\$ 9,444,064</u>	<u>\$ 24,927,161</u>

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 4. LONG-TERM DEBT (Continued)**

The following is a summary of changes in long-term debt for the year ended December 31, 2005:

	Balance 12/31/2004	Additions	Payments	Balance 12/31/2005	Due Within One Year
1999 water revenue refunding bonds	\$ 1,965,800	\$ -	\$ 143,900	\$ 1,821,900	\$ 151,200
2005 water revenue refunding bond	-	144,000	-	144,000	11,900
Note payable OWDA, payable in semiannual installments of \$671,589 starting January 1, 2002, including interest at 6.39%, due July, 2026	8,041,193	-	174,591	7,866,602	185,926
Note payable OWDA, payable in semiannual installments of \$66,981 starting Jan. 1, 2000 including interest at 2%, due July, 2004	2,190,495	-	90,152	2,100,343	91,955
Note payable OWDA, payable in 50 semiannual installments of \$56,346 starting Jan. 1 2000, including interest at 5.86%, due July, 2024	1,252,777	-	34,614	1,218,163	36,642
Note payable OWDA, payable in 50 semiannual installments of \$25,643, starting July 1, 2000, including interest at 5.56%, due January, 2025	613,416	-	16,642	596,774	17,580
Note payable OWDA, payable in 50 semiannual installments of \$53,061, starting July 1, 2000, including interest at 2%, due January, 2025	1,770,281	-	70,717	1,699,564	72,131
Note payable OWDA, payable in 40 semiannual installments of \$1,819, starting July 1, 2003 including interest at 5.15%, due January, 2022	37,041	-	1,290	35,751	1,358
	<u>\$ 15,871,003</u>	<u>\$ 144,000</u>	<u>\$ 531,906</u>	<u>\$ 15,483,097</u>	<u>\$ 568,692</u>

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 4. LONG-TERM DEBT (Continued)**

Capital assets, together with all revenue and service charges which may arise from the operations of the District, are pledged for the payment of revenue bond debt.

The notes payable OWDA are secured by operating facilities.

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2005 and 2004 was \$365,937 and \$365,977 respectively. This amount equaled the required reserve.

**Note 5. CONTRIBUTIONS IN AID OF CONSTRUCTION**

Contributions in aid of construction consist of contributions from customers and grants from FMHA and various government agencies for the construction of water mains to serve customers.

**Note 6. EQUITY IN POOLED 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 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.

State statute permits interim monies to 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;

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 6. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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.

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. Investments 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.

Cash on Hand At year end, the District had \$198 in undeposited cash on hand which is included on the statement of net assets of the District as part of "cash and cash equivalents".

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 6. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. The District is required to categorize deposits and investments according to GASB Statement No. 3 *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*. December 31, 2005 and 2004, the carrying amount of the District's deposits was \$2,582,986 and \$2,606,541, respectively. The bank balance of the District's deposits at December 31, 2005 and 2004, was \$2,614,259 and \$2,613,864 respectively. Of the bank balances at December 31, 2005 and 2004, \$400,000 and \$299,150 was covered by federal depository insurance and \$2,214,259 and \$2,314,714 was covered by collateral held by the pledging bank's trust department but not in the District's name pursuant to Section 135.181, Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Although the pledging bank has an investment and securities pool used to collateralize all public deposits, which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The deposits not covered by federal depository insurance are considered uninsured and uncollateralized under the provisions of Statement No. 3 and subject to custodial credit risk.

Investments: The District's investments are required to be categorized 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 or for which the securities are held by the District or its agent in the District'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 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.

	Fair Value		
	2005	2004	Maturity in Years
Repurchase Agreements	\$831,824	\$657,837	<1
Total Investments	\$831,824	\$657,837	

The classification of cash and cash equivalents, and investments on the basic 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." The District's repurchase agreements are category 3 investments.

Interest Rate Risk: Interest Rate Risk is the risk that changes in the interest rate will adversely affect the fair value on an investment. The District does not have an investment policy.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's repurchase agreements are unrated.

Custodial Credit Risk: Custodial Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment in the repurchase agreement are exposed to custodial credit risk is that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name.

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 6. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investments in a single issuer. All the District's investments are held in a repurchase agreement.

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

2005:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	\$3,415,008	\$0
Cash on Hand	(198)	0
Investments:		
Repurchase Agreements	(831,824)	831,824
GASB Statement 3	\$2,582,986	\$831,824

2004:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	\$3,264,563	\$0
Cash on Hand	(185)	0
Investments:		
Repurchase Agreements	(657,837)	657,837
GASB Statement 3	\$2,606,541	\$657,837

**Note 7. PENSION PLAN**

**A. Public Employees Retirement System**

1. Plan Description and Funding Policy

All employees of the District 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.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees is 8.5%. The 2005 employer rate for local government employer units was 13.55% of covered payroll, 9.55% to fund the pension benefit obligation and 4.00% to fund health care. The contribution requirements of plan members and the Commission are established and may be amended by the Public Employees Retirement Board. The District's contributions to the OPERS for the years ended December 31, 2005, 2004 and 2003 were \$112,635, \$109,775 and \$100,195 respectively which is equal to required contributions.

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 7. PENSION PLAN (Continued)**

2. Other Postemployment Benefits

In addition to the pension benefit obligation described above, the PERS of Ohio provides post employment health care benefits 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 is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate for employees was 13.55% of covered payroll for the year 2005; 4.0% was the portion used to fund health care, while employee contribution rates were 8.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The health inflation and significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation was used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) became part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8.00%. An annual increase of 4.00% compounded annually was the base portion of the individual pay increase assumptions, which assumed no change in the number of active employees. Additionally, annual pay increases over and above the 4.00% base increase were assumed to range from 0.50% to 6.30%. Health care costs 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).

OPEB's are advanced-funded on an actuarially determined basis. The number of active contributing participants was 376,109. The District contributions actually made to fund postemployment benefits during the years 2005 and 2004 were \$33,250 and \$40,507 respectively. \$10.8 billion represents the actuarial present value of the Retirement System's net assets available for OPEB at December 31, 2004 (the most recent data available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 8. CAPITAL ASSETS**

The balance of capital assets at December 31, 2005 consists of the following:

	Balance 12/31/04	Additions	Dispositions	Balance 12/31/05
Land and land improvements	\$ 438,731	\$ 8,169		\$ 446,900
Accumulated Depreciation	(15,261)	(2,475)		(17,736)
Buildings	533,700	10,781	652	543,829
Accumulated Depreciation	(228,906)	(17,072)	(652)	(245,326)
Wells and wellfield improvements	1,313,709	20,000		1,333,709
Accumulated Depreciation	(1,016,016)	(32,407)		(1,048,423)
Mains, lines and meters	23,265,960	393,760	2,002	23,657,718
Accumulated Depreciation	(7,198,847)	(1,005,608)	(2,002)	(8,202,453)
Storage tanks	1,548,521	95,295		1,643,816
Accumulated Depreciation	(670,112)	(95,939)		(766,051)
Water treatment and plant equipment	410,748	1,497	121,478	290,767
Accumulated Depreciation	(364,061)	(5,774)	(116,251)	(253,584)
Trucks, tractors and radio equipment	677,653	146,960	6,990	817,623
Accumulated Depreciation	(482,698)	(65,876)	(6,990)	(541,584)
Office furniture and equipment	75,282	14,279	14,179	75,382
Accumulated Depreciation	(58,668)	(6,133)	(14,179)	(50,622)
Construction in progress	<u>264,496</u>	<u>125,431</u>	<u>367,092</u>	<u>22,835</u>
 Total	 <u>\$ 18,494,231</u>	 <u>\$ (415,112)</u>	 <u>\$ 372,319</u>	 <u>\$ 17,706,800</u>

**Note 9. COMPENSATED ABSENCES**

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to full-time, permanent employees to specified maximums. Upon termination, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2005 and 2004 were \$169,583 and 163,209 respectively.

**ADAMS COUNTY REGIONAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 10. ECONOMIC DEPENDENCY**

Adams County Regional Water District's customer base consists of villages and individuals in Adams County, Ohio.

**Note 11. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Significant risk of losses is covered by commercial insurance. The District has not significantly reduced this coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

**Note 12. CONTINGENCIES**

The District is involved in various legal actions arising in the normal course of business. The District intends to vigorously defend these actions. The ultimate resolution of these matters is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

**Note 13. DEFERRED COSTS**

Deferred costs are the result of the capitalization of fees incurred to obtain loans from OWDA.

**Note 14. ADVERTISING COSTS**

The District expenses advertising costs as incurred. Advertising expenses amounted to \$2,093 and \$2,322 in 2005 and 2004 respectively.

**Note 15. CHANGE IN ACCOUNTING PRINCIPLE**

For the year December 31, 2005, Adams County Regional Water District implemented GASB Statement No. 40 "*Deposits and Investment Risk Disclosure*".

GASB Statement No. 40 establishes new disclosure requirements for deposits and investments related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the District's financial statements for fiscal year 2005.

**BALESTRA, HARR & SCHERER, CPAs, INC.**

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Adams County Regional Water District  
9203 State Route 136  
West Union, Ohio 45693

We have audited the financial statements of the business type activities of the Adams County Regional Water District (the District), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 18, 2006, in which we indicated the District implemented Governmental Accounting Standards Board Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

**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 basic financial statements and not to provide an opinion 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 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the District in a separate letter dated April 18, 2006.

Adams County Regional Water District  
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

April 18, 2006



**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

**ADAMS COUNTY REGIONAL WATER DISTRICT**

**ADAMS 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  
JUNE 01, 2006**