

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

REGULAR AUDIT

JANUARY 1, 2005 THROUGH DECEMBER 31, 2006

FISCAL YEARS AUDITED UNDER GAGAS: 2005 & 2006

**Caudill & Associates, CPA's**

725 5<sup>th</sup> Street

Portsmouth, OH 45662





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Northwest Regional Water District  
P. O. Box 158  
McDermott, OH 45652-0158

We have reviewed the *Independent Auditor's Report* of the Northwest Regional Water District, Scioto County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2005 through December 31, 2006. 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 Northwest Regional Water District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 21, 2007

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Northwest Regional Water District  
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**Caudill & Associates, CPA's**  
725 5<sup>th</sup> Street  
Portsmouth, OH 45662

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Northwest Regional Water District  
P.O. Box 158  
McDermott, Ohio 45652-0158

We have audited the accompanying financial statements of the business-type activities of the Northwest Regional Water District (the "District") as of and for the years ended December 31, 2006 and 2005, 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 30, 2007 on our consideration of the District's internal control over financial reporting and on 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 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 inquires 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.

The Board of Trustees  
Northwest Water District  
Page Two

The management's discussion and analysis on pages 3 through 7 is not 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 inquires 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.

As discussed further in Note G, for the years ended December 31, 2006 and 2005, the District implemented Governmental Accounting Standards Board Statement No. 40 – *Deposits and Investment Risk Disclosures*.

*Caudill & Associates, CPAs*

Caudill & Associates, CPA's  
March 30, 2007

# NORTHWEST REGIONAL WATER DISTRICT

## SCIOTO COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

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This discussion and analysis, along with the accompanying financial reports, of Northwest Regional Water District ("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 total assets of the District exceeded total liabilities on December 31, 2006 by \$7.39 million and on December 31, 2005 by \$7.16 million. The District's net assets increased by \$235 thousand (3.3%) in 2006 and by \$241,875 (3.5%) in 2005.

The District's Operating Revenues decreased in 2006 by \$36 thousand (1.7%) and in 2005 they increase by \$96 thousand (4.5%). Operating and Maintenance Expenses (excluding depreciation expense) increased \$36 thousand (2.3%) in 2006 and in 2005 (excluding depreciation expense) increased \$192 thousand (12.3%). Depreciation expense decreased \$19 thousand (-6.4%) in 2006 and increased in 2005 by \$21,855 (6.9%).

#### 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 accrual basis of accounting.

The **Statements of Net Assets** include all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past year and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. They summarize the net changes in cash resulting from operating, investing and financing activities.

# NORTHWEST REGIONAL WATER DISTRICT

## SCIOTO COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

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#### STATEMENTS OF NET ASSETS

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

Table 1

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>2004</u>	<u>Change</u>
Current and Other Assets	\$1,636,994	\$1,502,219	\$134,775	\$1,461,041	\$41,178
Capital Assets, Net	<u>7,933,460</u>	<u>7,963,446</u>	<u>(29,986)</u>	<u>7859466</u>	<u>103980</u>
<b>Total Assets</b>	<b>9,570,454</b>	<b>9,465,665</b>	<b>104,789</b>	<b>9,320,507</b>	<b>145,158</b>
Long Term Liabilities	1,853,288	1,982,286	(128,998)	2,010,671	(28,385)
Other Liabilities	<u>325,486</u>	<u>326,730</u>	<u>(\$1,244)</u>	<u>395,062</u>	<u>(68,332)</u>
<b>Total Liabilities</b>	<b>2,178,774</b>	<b>2,309,016</b>	<b>(\$130,242)</b>	<b>2,405,733</b>	<b>(96,717)</b>
Net Assets					
Invested in Capital Assets, Net of Related Debt	5,948,172	5,849,710	98,462	5,650,250	199,460
Unrestricted	<u>1,443,508</u>	<u>1,306,939</u>	<u>136,569</u>	<u>1,264,524</u>	<u>42,415</u>
<b>Total Net Assets</b>	<b><u>\$7,391,680</u></b>	<b><u>\$7,156,649</u></b>	<b><u>\$235,031</u></b>	<b><u>\$6,914,774</u></b>	<b><u>\$241,875</u></b>

The District's Net Assets increased by \$235 thousand (3.3%) in 2006 and \$242 thousand (3.5%) in 2005. This increase is a result of excess revenues over expenses.

Unrestricted net assets increased by \$137 thousand in 2006 and \$42 thousand in 2005. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents increased \$143 thousand in 2006 and \$18 thousand in 2005 which is primarily due to decreased maintenance and repair expenses and legal and accounting expenses in 2006 and increases in operating revenue in 2005.

# NORTHWEST REGIONAL WATER DISTRICT

## SCIOTO COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

#### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Table 2	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>2004</u>	<u>Change</u>
Operating Revenues	\$2,092,502	\$2,128,041	(35,539)	\$2,032,144	\$95,897
<b>Total Operating Revenues</b>	<b>2,092,502</b>	<b>2,128,041</b>	<b>(35,539)</b>	<b>2,032,144</b>	<b>95,897</b>
Operating Expenses					
(Excluding Depreciation)	1,605,766	1,554,945	50,821	1,362,991	191,954
Depreciation Expense	<u>296,314</u>	<u>315,447</u>	<u>(19,133)</u>	<u>293,592</u>	<u>21,855</u>
<b>Total Operating Expenses</b>	<b>1,902,080</b>	<b>1,870,392</b>	<b>31,688</b>	<b>1,656,583</b>	<b>213,809</b>
Operating Income	190,422	257,649	(67,227)	375,561	(117,912)
Non-Operating Revenues	112,458	55,329	57,129	182,849	(127,520)
Non-Operating Expenses	<u>67,849</u>	<u>71,103</u>	<u>(3,254)</u>	<u>74,220</u>	<u>(3,117)</u>
<b>Changes in Net Assets</b>	<b>235,031</b>	<b>241,875</b>	<b>(6,844)</b>	<b>484,190</b>	<b>(242,315)</b>
<b>Net Assets at Beginning of Year</b>	<u>7,156,649</u>	<u>6,914,774</u>	<u>241,875</u>	<u>6,430,584</u>	<u>484,190</u>
<b>Net Assets end of Year</b>	<u><u>\$7,391,680</u></u>	<u><u>\$7,156,649</u></u>	<u><u>\$235,031</u></u>	<u><u>\$6,914,774</u></u>	<u><u>\$241,875</u></u>

Operating revenues decreased \$36 thousand in 2006 due to a slight decrease in consumption and a decrease in tap fees, service charges and contract work and increased by \$96 thousand in 2005 due to the addition of new customers.

Operating expenses increased about \$32 thousand in 2006 primarily due to increase in purchased water and salaries, wages and benefits in 2006 which were slightly offset by decrease in depreciation expense of \$4 thousand in 2006. An increase of \$214 thousand was also due to increase in purchased water and salaries, wages, and benefits in 2005.

Non-Operating revenues increased by \$57 thousand in 2006 as the result of the increase in cash during 2006 from a construction grant and decreased in 2005 due to the District receiving a smaller construction grant as compared to 2004. Non-Operating expenses decreased by \$3 thousand in both 2006 and 2005 due to a reduction in long term debt.

# NORTHWEST REGIONAL WATER DISTRICT

## SCIOTO COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

#### CAPITAL ASSETS

The District had \$12.5 million invested in Capital Assets (before depreciation) at the end of 2006 and \$12.2 million at the end of 2005, an increase of \$461 thousand (1.2%) in 2006 and an increase of \$880 thousand (7.2%) in 2005. This increase is due to an ongoing construction project which is being funded through a loan from the Ohio Public Works Commission and through District reserves.

Table 3	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>2004</u>	<u>Change</u>
Non-Depreciable Capital Assets					
Land	\$113,254	\$113,254	\$0	\$113,254	\$0
Constructions in progress	137,482	18,086	119,396	146,957	(128,871)
Total Non-Depreciable	250,736	131,340	119,396	260,211	(128,871)
Capital Assets					
Depreciable Capital Assets					
Utility plant - lines	9,740,931	9,668,040	72,891	9,364,386	303,654
Utility plant - towers	991,049	991,049	0	884,149	106,900
Utility plant - meters	284,313	279,955	4,358	269,127	10,828
Utility plant - office and garage	228,552	203,929	24,623	130,738	73,191
Office equipment and furniture	39,696	39,696	0	39,696	0
Radio telemetry system	288,045	287,255	790	279,697	7,558
Trucks and equipment	641,093	596,823	44,270	550,656	46,167
Totals Before Accumulated Depreciation	<b>12,213,679</b>	<b>12,066,747</b>	<b>146,932</b>	<b>11,518,449</b>	<b>548,298</b>
Accumulated Depreciation	(4,530,955)	(4,234,641)	(296,314)	(3,919,194)	(315,447)
Net Depreciable Capital Assets	7,682,724	7,832,106	(149,382)	7,599,255	232,851
<b>Total Capital Assets</b>	<b>\$7,933,460</b>	<b>\$7,963,446</b>	<b>(\$29,986)</b>	<b>\$7,859,466</b>	<b>\$103,980</b>

For additional information regarding capital assets please see Note C to the Basic Financial Statements.

# NORTHWEST REGIONAL WATER DISTRICT

## SCIOTO COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

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#### DEBT

The District issues long term debt to finance much of its construction. At December 31, 2006 total debt outstanding of \$1,853,288 compared to \$1,982,286 at December 31, 2005. Ohio Public Water Commission debt was issued in July of 2006 and 2005 for water line extensions.

<b>Table 4</b>	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>2004</b>	<b>Change</b>
Ohio Public Works					
Commission (OPWC)	\$430,166	\$460,706	(\$30,540)	\$461,654	(\$948)
Ohio Water Development					
Authority (OWDA)	1,555,122	1,653,030	(97,908)	1,747,562	(94,532)
<b>Total Long Term Debt</b>	<b>1,985,288</b>	<b>2,113,736</b>	<b>(128,448)</b>	<b>2,209,216</b>	<b>(95,480)</b>
Less: Current Maturities	132,000	131,450	550	198,545	(67,095)
<b>Net Total Long Term Debt</b>	<b>\$1,853,288</b>	<b>\$1,982,286</b>	<b>(\$128,998)</b>	<b>\$2,010,671</b>	<b>(\$28,385)</b>

The District's debt is paid from operating revenues generated by the District. For additional information regarding debt please see Note E to the Basic Financial Statements.

#### CASH

Cash and cash equivalents were \$1,261,590 on December 31, 2006 and \$1,118,719 on December 31, 2005.

#### CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Northwest Regional Water District, P.O. Box 158, McDermott, Ohio 45652 or (740) 259-2789.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

STATEMENT OF NET ASSETS

AS OF DECEMBER 31, 2006 AND 2005

<b>ASSETS</b>	<u>2006</u>	<u>2005</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,261,590	\$ 1,118,719
Accounts receivable, net allowance for doubtful accounts	345,596	352,273
Prepaid expenses	29,808	31,227
<b>TOTAL CURRENT ASSETS</b>	<u>1,636,994</u>	<u>1,502,219</u>
<b>NONCURRENT ASSETS</b>		
Capital Assets:		
Non-depreciable capital assets	250,736	131,340
Depreciable capital assets, net	<u>7,682,724</u>	<u>7,832,106</u>
<b>TOTAL ASSETS</b>	<u>9,570,454</u>	<u>9,465,665</u>

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

STATEMENT OF NET ASSETS - Continued

AS OF DECEMBER 31, 2006 AND 2005

<b>LIABILITIES</b>	<u><b>2006</b></u>	<u><b>2005</b></u>
<b>CURRENT LIABILITIES</b>		
Notes payable - current portion	\$ 132,000	\$ 131,450
Accounts Payable	57,633	62,431
Accrued Expenses	135,853	132,849
<b>TOTAL CURRENT LIABILITIES</b>	<u>325,486</u>	<u>326,730</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable - less current portion	1,853,288	1,982,286
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>1,853,288</u>	<u>1,982,286</u>
 <b>TOTAL LIABILITIES</b>	 <u>2,178,774</u>	 <u>2,309,016</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	5,948,172	5,849,710
Unrestricted	1,443,508	1,306,939
 <b>TOTAL NET ASSETS</b>	 <u>\$ 7,391,680</u>	 <u>\$ 7,156,649</u>

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2006 and 2005

	<b>2006</b>	<b>2005</b>
<b>OPERATING REVENUES</b>		
Water	\$ 1,946,335	\$ 1,951,782
Tap fees	58,725	68,507
Service charges	16,860	27,610
Late charges	58,630	58,528
Contract work	10,177	19,941
Surcharge	0	1,648
Other	1,775	25
TOTAL OPERATING REVENUES	2,092,502	2,128,041
<b>OPERATING EXPENSE</b>		
Salaries, wages and benefits	529,097	494,137
Utilities	117,771	116,649
Depreciation expense	296,314	315,447
Purchased water	647,975	638,961
Telemetry	11,481	12,834
Maintenance	64,671	70,122
Truck and equipment expense	40,506	44,121
Billing expense	18,361	18,699
Pension expense	93,628	87,932
Payroll taxes	6,306	6,072
Insurance	40,347	33,997
Office supplies and postage	10,836	8,946
Legal and accounting fees	2,593	9,777
Travel and auto expense	1,999	1,438
Other expenses	20,195	11,260
TOTAL OPERATING EXPENSES	1,902,080	1,870,392
Operating Income	190,422	257,649
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	46,685	14,350
Intergovernmental	65,773	40,979
Interest expense	(67,849)	(71,103)
Net other income (expense)	44,609	(15,774)
CHANGES IN NET ASSETS	235,031	241,875
Net ASSETS, BEGINNING OF YEAR	7,156,649	6,914,774
NET ASSETS, END OF YEAR	\$ 7,391,680	\$ 7,156,649

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2006 and 2005

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 2,099,179	\$ 2,109,201
Cash payments to suppliers for goods and services	(977,110)	(972,584)
Cash payments for employee services and benefits	(629,031)	(588,141)
Net cash provided by operating activities	493,038	548,476
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments - OPWC loans	(30,540)	(29,131)
Principal payments - OWDA loans	(97,908)	(94,532)
Interest payments - OWDA loans	(67,849)	(71,103)
Grants Received	65,773	40,979
Proceeds from notes payable	0	28,183
Purchase of capital assets	(266,328)	(419,427)
Net cash used for capital and related financing activities	(396,852)	(545,031)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on cash and investments	46,685	14,350
Net increase/(decrease) in cash and cash equivalents	142,871	17,795
 <b>Cash and cash equivalents, beginning of year</b>		
	1,118,719	1,100,924
 <b>Cash and cash equivalents, end of year</b>		
	\$ 1,261,590	\$ 1,118,719

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

STATEMENT OF CASH FLOWS - Continued

For the Years Ended December 31, 2006 and 2005

	<b>2006</b>	<b>2005</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 190,422	\$ 257,649
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	296,314	315,447
<b>Changes in assets and liabilities:</b>		
(Increase)/Decrease in accounts receivable	6,677	(18,840)
(Increase)/Decrease in prepaids	1,419	(4,543)
Increase/(Decrease) in accounts payable	(4,798)	1,425
Increase/(Decrease) in accrued expenses	3,004	(2,662)
Total adjustments	302,616	290,827
Net cash provided by operating activities	\$ 493,038	\$ 548,476

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2006 and 2005

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**NOTE A - NATURE OF ORGANIZATION**

Northwest Regional Water District (hereafter referred to as NRWD) was created by the Court of Common Pleas of Scioto County in August of 1966 in accordance with the provisions of Section 6119 et.seq of the Ohio Revised Code. The District operates under the direction of a twelve member board of trustees. An appointed staff consisting of an office manager and two clerks are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all parts of the following political subdivisions:

Rush Township	Washington Township
Union Township	Franklin Township
Morgan Township	Jefferson Township
Rarden Village	Brushcreek Township
Otway Village	Camp Creek Township

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the District follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Interpretations, Accounting Principles Board Opinions (APBO), and Accounting Research Bulletins issued on or after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**1. Reporting Entity**

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity," and as amended by GASB Statement No. 39. The financial statements include the fund for which the District is "accountable." Accountability as described in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the District and whether exclusion would cause the District's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the District.

Based on the foregoing criteria, there were no PCU's for the years reported on in the financial statements in accordance with GASB Statement No. 14 or 39.

**2. Basis of Presentation - Fund Accounting**

The accounts of NRWD are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The fund type which NRWD 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 NRWD 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. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**3. Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the statement of net assets. This measurement focus emphasizes the determination of net income.

Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**4. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District adopted a budget and adopted and passed annual appropriation resolutions for the years ended December 31, 2006 and 2005.

**Appropriations** - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object 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 unencumbered cash as of the beginning of the year.

**Encumbrances** - The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**5. Cash and Cash Equivalents**

Cash balances of the District’s enterprise fund are presented as “Cash and Cash Equivalents” on the statement of net assets. Interest income earned by the District totaled \$46,685 and \$14,350, respectively, for the years ended December 31, 2006 and 2005.

During fiscal year 2006 and 2005, investments were limited to STAROhio, savings accounts, certificates of deposit and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements, savings accounts and non-negotiable certificates of deposit are recorded at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal years 2006 and 2005. STAROhio is an investment pool managed by the State Treasurer’s office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on December 31, 2006 and 2005.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an initial maturity of more than three months are reported as investments.

**6. Capital Assets**

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. The District has a capitalization threshold of \$1,000. Donated assets are recorded at their estimated fair market value at the time received. Depreciation of capital assets of the District is calculated utilizing the straight-line method. All assets reported in the basic financial statements are at cost less accumulated depreciation. The estimated useful lives by major capital asset class are as follows:

Lines	50 years	Office/garage building	19 years
Tanks/towers/meters	50 years	Trucks and equipment	5-10 years
Radio telemetry system	25 years	Office equipment and furniture	5-10 years

**7. Compensated Absences**

Compensated absences of the District consist of vacation and sick time to the extent that payment to the employees for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and its employees.

In accordance with provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

Unused sick pay is recorded as a liability based on the Ohio Revised Code Section 124.38. Employees are entitled to 4.6 hours of sick leave for each completed 80 hours up to a maximum of 960 hours and are entitled to a lump sum payment of 1/3 of accumulated sick pay upon retirement or termination if they have more than ten years of service. At December 31, 2006 and 2005, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$126,661 and \$123,821, respectively.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**8. Interest Expense**

Interest expense represents the interest portion on loan payments the Ohio Water Development Authority (OWDA).

**9. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2006 and 2005, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are provided.

**10. Accounts Receivable**

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Increases to the allowance are recorded by a provision for bad debt expense. The allowance is maintained by management at a level considered adequate to cover possible losses that are currently anticipated based on past experience, general economic conditions, information about specific account situations, and other factors and estimates which are subject to change over time.

Management considers all accounts receivable to be collected in full and may periodically allocate portions of the allowance for specific problem accounts, with the whole allowance available for any debts that occur. An account is charged off by management as a loss when deemed uncollectible, although most delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Receivables are presented at net on the statement of net assets.

**11. Estimates**

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

**12. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The District does not have any restricted net assets.

**13. Long Term Obligations**

The District records fund obligations not expected to be paid within one year by available financial resources as long-term debt, which consists of OPWC notes and OWDA loans.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

**NOTE C – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2006 was as follows:

	Ending Balance 12/31/05	Additions	Deletions	Ending Balance 12/31/06
Capital Assets, Not Being Depreciated				
Land	\$113,254	\$0	\$0	\$113,254
Construction in progress	18,086	137,482	(18,086)	137,482
Total Capital Assets, Not Being Depreciated	131,340	137,482	(18,086)	250,736
Capital Assets Being Depreciated				
Utility plant - lines	9,668,040	72,891	0	9,740,931
Utility plant - towers	991,049	0	0	991,049
Utility plant - meters	279,955	4,358	0	284,313
Utility plant - office and garage	203,929	24,623	0	228,552
Office equipment and furniture	39,696	0	0	39,696
Radio telemetry system	287,255	790	0	288,045
Trucks and equipment	596,823	44,270	0	641,093
Total Capital Assets, Being Depreciated	12,066,747	146,932	0	12,213,679
Less Accumulated Depreciation:				
Utility plant - lines	(3,120,198)	(194,673)	0	(3,314,871)
Utility plant - towers	(276,275)	(19,821)	0	(296,096)
Utility plant - meters	(151,048)	(8,589)	0	(159,637)
Utility plant - office and garage	(69,483)	(9,097)	0	(78,580)
Office equipment and furniture	(26,697)	(4,142)	0	(30,839)
Radio telemetry system	(240,941)	(7,484)	0	(248,425)
Trucks and equipment	(349,999)	(52,508)	0	(402,507)
Total Accumulated Depreciation	(4,234,641)	(296,314)	0	(4,530,955)
Total Capital Assets Being Depreciated, Net	7,832,106	(149,382)	0	7,682,724
Total Capital Assets, Net	\$7,963,446	(\$11,900)	(\$18,086)	\$7,933,460

**NOTE D – ACCOUNTS RECEIVABLE**

Accounts receivables are presented at net realizable value and consist of amounts due from customers for sewer fees for services rendered and contract amounts billed. Uncollectible accounts receivable are charged to operations during the period they are determined to be uncollectible. Uncollectible water account balances are certified to the County Auditor after administrative collection efforts have been exhausted. The balance at year end, including billed and unbilled accounts, are due as follows:

	<u>2006</u>	<u>2005</u>
Accounts receivable, net allowance for doubtful accounts	\$ 345,596	\$ 352,273

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

**NOTE E – DEBT**

The District has the following notes payable at December 31, 2006 and 2005:

	2006	2005
0% note payable OPWC, payable in semi-annual installments of \$2,569, due in 2014, secured by property and equipment	\$38,534	\$43,672
0% note payable OPWC, payable in semi-annual installments of \$10,707, due in 2022, secured by property and equipment	321,197	342,610
7.56% note payable OWDA, payable in semi-annual installments of \$21,895, including interest at 7.56%, due in 2017, secured by property and equipment	299,761	319,404
2% note payable OWDA, payable in semi-annual installments of \$42,559 due in 2018, secured by property and equipment	833,049	900,163
6.39% note payable OWDA, payable in semi-annual installments of \$19,309 due in 2026, secured by property and equipment	422,312	433,463
0% note payable OPWC, payable in semi-annual installments of \$922 due in 2023, secured by property and equipment	30,417	32,261
0% note payable OPWC, payable in semi-annual installments of \$705 due in 2025, secured by property and equipment, payments beginning 7/1/2006	26,774	28,183
0% note payable OPWC, payable in semi-annual installments of \$368 due in 2025, secured by property and equipment, payments beginning 7/1/2005	13,244	13,980
	1,985,288	2,113,736
Less current maturities	132,000	131,450
Total long-term debt	\$1,853,288	\$ 1,982,286

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

**NOTE E – DEBT - Continued**

The annual requirements to amortize all bonded debt outstanding as of December 31, 2006 are as follows:

	Principal		Interest		Total
2007 \$	132,000	\$	66,066	\$	198,066
2008	135,740		62,326		198,066
2009	139,673		58,393		198,066
2010	143,819		54,247		198,066
2011	148,189		49,877		198,066
2012-2016	802,669		174,820		977,489
2017-2021	337,292		67,931		405,223
2022-2026	145,906		20,039		165,945
Total	\$ 1,985,288	\$	553,699	\$	2,538,987

**NOTE F – DEPOSITS AND INVESTMENTS**

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 five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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.

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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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**NOTE F – DEPOSITS AND INVESTMENTS – Continued**

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. 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 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;
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.

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.

**Cash on Hand** At year end, the District has \$450 in undeposited cash on hand which is included on the statement of net assets of the District as part of "cash and cash equivalents"..

**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. December 31, 2006 and 2005, the carrying amount of the District's deposits was \$443,445 and \$423,340, respectively. The bank balance of the District's deposits at December 31, 2006 and 2005, was \$458,683 and \$434,307 respectively. Of the bank balances at December 31, 2006 and 2005, \$20,393 and \$13,567 was covered by federal depository insurance and \$100,000 and \$100,000, respectively were covered by the Securities Investor Protection Corporation (SIPC), and \$338,290 and \$320,740 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

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

**NOTE F – DEPOSITS AND INVESTMENTS - Continued**

Investments are reported at fair value. As of December 31, 2006, the District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
<b>STAROhio</b>	\$82,061	30 Days
<b>Repurchase</b>		
<b>agreement</b>	735,634	less than 1 year
<b>Total</b>	<u><u>\$817,695</u></u>	

As of December 31, 2005, the District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
<b>STAROhio</b>	\$78,162	30 Days
<b>Repurchase</b>		
<b>agreement</b>	616,767	less than 1 year
<b>Total</b>	<u><u>\$694,929</u></u>	

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 STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's repurchase agreements are unrated.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The following is the District's allocation as of December 31, 2006 and 2005:

<u>Year</u>	<u>Investment Issuer</u>	<u>Percentage of Investments</u>
<b>2006</b>	STAROhio	11.25%
	Repurchase	
	agreement	88.75%
<b>2005</b>	STAROhio	10.04%
	Repurchase	
	agreement	89.96%

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.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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**NOTE G – CHANGES IN ACCOUNTING PRINCIPLE**

For 2006 and 2005, the District has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures.”

The implementation of GASB Statement No. 40 did not affect the presentation of the financial statements of the District.

**NOTE H – 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 East 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. The 2004 District contribution rate was 8.5% of covered payroll for employees and 13.55% of covered payroll for employers.

The District’s contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were \$56,507, \$54,035, and \$53,602, respectively.

# NORTHWEST REGIONAL WATER DISTRICT

## SCIOTO COUNTY

### NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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#### **NOTE I – 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 2006 and 2005 were \$16,547 and \$16,028 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.

**NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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**NOTE J – CONTINGENT LIABILITIES**

There were no contingent liabilities as of December 31, 2006.

**NOTE K – 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; injuries to employees; and natural disasters. For fiscal years 2006 and 2005, the District contracted with Riffe-Dyer Insurance for real property, building contents, and vehicle insurance coverage.

The District has not had any significant reductions in insurance coverage from coverage in prior years by major category of risk. Settled claims resulting from the above risks have not exceeded commercial insurance coverage in any of the past three years.

**NOTE L – COMPLIANCE**

The District was in violation of 5705.41D for not properly certifying funds in 2006 and 2005.

# Caudill & Associates, CPA's

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Ohio Society of Certified Public Accountants

Kentucky 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  
Northwest Regional Water District  
P.O. Box 158  
McDermott, Ohio 45652-0158

We have audited the financial statements of the business-type activities of the Northwest Regional Water District (the District), as of and for the years ended December 31, 2006, and 2005 which collectively comprise the District basic financial statements, and have issued our report thereon dated March 30, 2007, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. The significant deficiency is described in the schedule of findings and responses as item 2006-002.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Northwest 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

**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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2006-001.

We also noted a certain matter that we reported to management of the District in a separate letter dated March 30, 2007.

The District's responses to the findings in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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

*Caudill & Associates, CPA's*

Caudill & Associates, CPA's  
March 30, 2007

NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

**FINDING NUMBER 2006-001**

**Noncompliance Citation**

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

The following exceptions to this basic requirement are provided by Ohio Rev. Code Section 5705.41 (D)(1):

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

100% of the expenditures tested were not properly certified.

We recommend the District implement policies to ensure that all purchases first have monies certified by the Office Manager before purchasing or ordering an item. We also recommend the use of a "then and now" certificate in instances of emergency or absence of proper authority and to begin the use of purchase orders.

**District Response:**

The District Office Manager plans on using purchase orders and the use of a "then and now" certificate.

NORTHWEST REGIONAL WATER DISTRICT  
SCIOTO COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2006-002**

**Significant Deficiency**

It was discovered during our audit testing that the District's Office Manager doesn't review adjustments made to customer accounts by the Office Clerks.

Statement of Auditing Standard 112 now requires an adequate design of internal control over the preparation of the financial statements being audited. This could potential result in material misstatements in the District's accounting system and/or fraudulent activity due to the lack of oversight in adjustments made to customer accounts by the Office Clerks.

We recommend that the District's Office Manager, review adjustments made to customer accounts by the Office Clerks on a monthly basis.

**District Response:**

The District Office Manager will begin reviewing adjustments made to customer accounts by the Office Clerks on a monthly basis.



**Mary Taylor, CPA**  
Auditor of State

**NORTHWEST REGIONAL WATER DISTRICT**

**SCIOTO 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  
MAY 31, 2007**