

Scioto County Regional Water District #1

Scioto County

Regular Audit

January 1, 2003 through December 31, 2003

Fiscal Years Audited Under GAAS: 2003



BALESTRA, HARR & SCHERER, CPAs, INC.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Scioto County Regional Water District #1
P.O. Box 310
Lucasville, Ohio 45648

We have reviewed the Independent Auditor's Report of the Scioto County Regional Water District #1, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2003 through December 31, 2003. 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 Scioto County Regional Water District #1 is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

June 11, 2004

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Scioto County Regional Water District Number One
P.O. Box 310
Lucasville, Ohio 45648

We have audited the accompanying financial statements of Scioto County Regional Water District Number One (the District) as of December 31, 2003. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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, 2003, and the results of its operations and its cash flows of its proprietary fund type for the year 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 11, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

March 11, 2004

Scioto County Regional Water District #1
Scioto County

Balance Sheet
As of December 31, 2003

Assets:

Current Assets:

Cash and Cash Equivalents	\$146,241
Investments	806,251
Accounts Receivable	378,091
Deposits	4,725
Prepaid Expenses	10,589
Inventories	68,002
Total Current Assets	<u>1,413,899</u>

Deferred Charges: 35,467

Restricted Assets:

Investments 359,649

Fixed Assets Net of Accumulated Depreciation 6,136,147

Total Assets \$7,945,162

Liabilities & Fund Equity:

Current Liabilities:

Accounts Payable	\$85,239
Unset Water Taps Payable	24,000
Compensated Absences Payable	59,905
Customer Deposits	950
OPWC Loan Payable	20,171
Revenue Bonds Payable	150,000
Capital Lease Payable	2,027
Contracted Debt Payable	5,880
Total Current Liabilities	<u>348,172</u>

Noncurrent Liabilities:

Long Term Compensated Absences	8,993
Capital Lease Payable	5,428
OPWC Loan Payable	320,768
Revenues Bonds Payable	2,060,000
Total Noncurrent Liabilities	<u>2,395,189</u>

Total of Liabilities 2,743,361

Fund Equity:

Contributed Capital - Customers	2,076,141
Retained Earnings	3,125,660
Total Fund Equity	<u>5,201,801</u>

Total Liabilities and Fund Equity \$7,945,162

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

Scioto County Regional Water District #1
Scioto County

Statement of Revenues, Expenses, and Changes in Retained Earnings
For the Year Ending December 31, 2003

Income:

Operating Revenues:

Water Sales	\$2,837,626
Water Tap Sales	37,413
Lab Test Fees	2,861
Miscellaneous	<u>47,302</u>

Total Operating Revenues 2,925,202

Expenses:

Operating Expenses:

Water Taps and New Line Extensions	112,184
Supply and Treatment	871,546
Distribution	715,293
Administration, Billing, and Office	443,456
Board Expenses	7,283
Depreciation Expenses	<u>538,412</u>

Total Operating Expenses 2,688,174

Operating Income 237,028

Non-Operating Income:

Non-Operating Revenues:

Interest Income	7,710
Capital Grants and Contributions	167,276
Interest Expense	<u>(116,570)</u>

Total Non-Operating Revenues 58,416

Net Income 295,444

Retained Earnings January 1, 2003 (restated - see note 11) 2,830,216

Retained Earnings, December 31, 2003: \$3,125,660

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

Scioto County Regional Water District #1
Scioto County

Statement of Cash Flows
For the Year Ending December 31, 2003

Cash Flows from operating activities:	
Cash received from Customers	\$3,117,874
Cash paid to suppliers & employees for goods and services	<u>(2,193,476)</u>
Net cash provided by operating activities	924,398
Cash flows from capital financing activities:	
Proceeds from Grant funds and Contributed Revenue	167,276
Payments for capital acquisitions	(714,928)
Principal payments on long term notes	(30,256)
Principal payments - bonds	(145,000)
Principal payments on capital lease	(950)
Interest paid on revenue bonds	<u>(116,570)</u>
Net cash provided by capital financing activities	(840,428)
Cash flows from investing activities:	
Interest earned	<u>7,710</u>
Net increase/decrease in cash and cash equivalents	91,680
Cash and cash equivalents, January 1, 2003	<u>54,561</u>
Cash and cash equivalents, December 31, 2003	<u><u>\$146,241</u></u>
Reconciliation of Operating Income to Net Cash Provided by	
Operating Income	\$237,028
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation Expense	538,412
Deferred Charges	4,422
Decrease in Accounts Receivable	192,672
Decrease in Deposits	75
Decrease in Prepaid Items	24,485
Increase in Materials and Supplies Inventory	(8,381)
Decrease in Accounts Payable	(37,018)
Decrease in Employee's Withholding Payable	(5,464)
Decrease in Compensated Absences Payable	(24,558)
Increase in Deposits	525
Increase in Unset Water Taps Payable	2,200
Total Adjustments	<u>687,370</u>
Net Cash Provided by Operating Activities	<u><u>\$924,398</u></u>

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Scioto County Regional Water District Number One is a water district organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Scioto County in August of 1966. The Regional Water District Number One operates under the direction of a seven member board of trustees. An appointed staff consisting of a superintendent, a plant superintendent, a distribution superintendent, and an office manager are responsible for fiscal control of the resources of the Scioto County Regional Water District Number One. The Scioto County Regional Water District Number One 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 or parts of the following political subdivisions:

Bloom Township
Clay Township
Harrison Township
Jefferson Township
Madison Township
Porter Township
Valley Township
Vernon Township
South Webster Village

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Scioto County Regional Water District Number One utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Unbilled water utility service receivables are recorded at year end.

Expenses are recognized under the accrual basis of accounting when the liability is incurred.

Under the guidelines of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Water District has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, to its proprietary activities.

C. BUDGETARY PROCESS

The Ohio Revised Code requires that each fund be budgeted annually.

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 cash as of January 1.

Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. A summary of 2003 budgetary activity appears in Note 3.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

D. CONTRIBUTED CAPITAL

Contributed capital is recorded by the District for receipts of capital grants or contributions from developers and customers. Contributed capital of the Scioto County Regional Water District Number One has been entirely from customers.

E. PROPERTY, PLANT, AND EQUIPMENT

Fixed assets acquired or constructed for the general use of the District in providing service are recorded at cost. Donated assets are recorded at their estimated fair market value at the time received. Depreciation of fixed assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation. The estimated useful lives by major fixed asset class are as follows:

Supply Facilities, Wells & Pumps	8 years
Transportation Equipment	5 years
Water Treatment Plant	40 years
Other Equipment	5 years
Distribution System & Lines	40 years
Furniture and Other Equipment	10 years

F. INVENTORY

The District maintains material inventory for its proprietary fund. All inventory is valued at cost and the District uses the first-in, first-out (FIFO) flow assumption in determining cost.

G. COMPENSATED ABSENCES

Accumulated vacation leave and accumulated compensatory time are recorded as an expense and liability of the District as the benefits accrue to the employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, a liability is recorded for vested sick pay benefits which have been defined by District policy as available to those employees with ten years or more of service up to a maximum of four-hundred-eighty hours.

H. PENSIONS

The provision for pension cost is recorded when the related payroll is accrued and the obligation is incurred.

I. CASH & CASH EQUIVALENTS

To improve cash management, cash received by the District is pooled. The Proprietary fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

During fiscal year 2003, investments were limited to *U.S. Treasury Obligations 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 and nonnegotiable certificates of deposit are reported at cost.

The District's cash and cash equivalents are considered to be cash on hand, deposits and short term investments (including restricted assets) with maturities of three months or less from the date of acquisition.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

J. FUND ACCOUNTING

The Scioto County Regional Water District Number One maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific revenues and expenses. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restriction associated with each type of fund is as follows:

PROPRIETARY FUND

The proprietary fund is used to account for the District's ongoing activities that are similar to those found in the private sector. The following is the District's proprietary fund type:

Enterprise Fund

This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

K. DEFERRED CHARGES

Non-regularly recurring, noncapital costs of operations that benefit future periods. These costs include those incurred in connection with deferred hydrology, hydrology study, and long and short term sludge plan. Deferred charges expense for 2003 was \$4,422 leaving a balance of \$35,467.

L. PREPAID EXPENSES

Charges entered in the accounts for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operation. Prepaid expenses for 2003 were \$10,589.

M. ESTIMATES

The preparation of financial statements in conformity 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.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS

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 the Board 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

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

State statute permits 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;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 qualified trustee 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 \$400 in undeposited cash on hand which is included on the balance sheet of the District as part of "cash and cash equivalents".

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

Deposits At year end, the carrying amount of the District's deposits was \$146,241 and the bank balance was \$200,637. Of the bank balance, \$100,000 was covered by federal depository insurance and the remaining \$100,637 was collateralized by pledged or pooled securities.

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.

	Category 1	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$0	\$76,684	\$76,684	\$76,684
U.S. Treasury Obligations	1,089,216	0	1,089,216	1,089,216
Total Investments	<u>\$1,089,216</u>	<u>\$76,684</u>	<u>\$1,165,900</u>	<u>\$1,165,900</u>

The classification of cash and cash equivalents, and investments on the combined 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."

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

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	\$146,241	\$1,165,900
Cash on Hand	(400)	0
GASB Statement 3	<u>\$145,841</u>	<u>\$1,165,900</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2003 is as follows:

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	\$2,800,000	\$3,100,189	\$300,189

2003 Budgeted vs. Actual Budgetary Basis Disbursements

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$3,642,201	\$2,804,744	\$837,457

NOTE 4 - DEBT OBLIGATIONS

Debt outstanding at December 31, 2003, consisted of the following:

Water System Revenue Refunding & Improvement Bonds		
Principal Outstanding		\$2,210,000
Interest Rate		4.40%
OPWC Loan		
Principal Outstanding		\$340,939
Interest Rate		0.00%
Xerox Lease		\$7,455

The revenue refunding and improvement bonds are special obligations of the District, payable solely from the pledged revenues of its water system and the revenue fund created under the indenture. The bonds were issued to fund capital expenditures to improve the system.

The OPWC loans were issued for the purpose of financing the fairgrounds road waterline and Clarktown Water Tank, respectively. Revenue of the District has been pledged to repay this debt.

The annual requirements to amortize all bonded debt outstanding as of December 31, 2003, including interest payments of \$709,361, are as follows:

<u>Year Ending</u>	<u>Revenue</u>
<u>December 31</u>	<u>Refunding</u>
	<u>Bonds</u>
2004	\$ 259,808
2005	262,752
2006	260,195
2007	262,074
2008	258,330
2009-2014	<u>1,616,202</u>
Total	<u>\$2,919,361</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

The annual requirements to amortize all loan debt outstanding as of December 31, 2003 is as follows:

<u>Year Ending</u> <u>December 31</u>	<u>OPWC</u> <u>Loan</u>
2004	\$ 10,085
2005	20,171
2006	20,171
2007	20,171
2008	20,171
2009-2014	121,024
2015-2022	<u>129,145</u>
Total	<u>\$ 340,938</u>

The Water district entered into an agreement to lease a copier during fiscal year 2003. The terms of the agreement provides options to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The capital asset acquired by the lease has been capitalized in the statement of net assets for governmental activities in the amount of \$8,440 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2003 totaled \$949.67

The asset acquired through the capital lease is as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Asset: Xerox Copier	\$ 8,440	\$ 1,688	\$ 6,752

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2003:

<u>Year Ending</u> <u>December 31</u>	<u>Xerox</u> <u>Lease</u>
2004	\$2,027
2005	2,027
2006	2,027
2007	2,027
2008	<u>1,144</u>
Total Lease Payments	\$9,252
Less: Amount Representing Interest	<u>(1,797)</u>
Present Value of Minimum Lease Payments	<u>\$7,455</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 5 - 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 year 2003, the district contracted with Ohio Government Risk Management for real property, building contents, and vehicle insurance coverage.

Coverage provided by the program are as follows:

General Liability	\$1,000,000
Public Officials	\$1,000,000
Inland Marine	\$424,001
Automobile	\$1,000,000
Faithful Performance & Employee Bond	\$100,000

Vehicle policies include liability coverage for bodily injury and property damage. Real property and building contents are 80% insured.

Health insurance was provided by a private carrier, Anthem Blue Cross & Blue Shield, for the year.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. The District pays all elected officials' bonds by statute.

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

NOTE 6 - PENSION PLAN

A. Public Employees Retirement System

1. Pension Benefit Obligation

All employees of the Water District participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6705.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees is 8.5%. The 2003 employer rate for local government employer units was 13.55% of covered payroll. The required employer contributions are equal to 100% of the dollar amount billed to each employer. The Water District's contributions to the PERS of Ohio for the year ending December 31, 2001, 2002, and 2003 was \$186,376, \$222,273, and \$220,477 respectively which was equal to the total required contributions.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

2. Other Post-employment Benefits

Public Employees Retirement System: Ohio Public Employees Retirement System provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. 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 OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions.

The 2003 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion used to fund health care for 2003. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OPEBs are advanced funded on an actuarially determined basis. The number of active contributing participants was 402,041. The portion of the employer contributions that were used to fund postemployment benefits was \$ 50,401.41. The rates stated in paragraph two are the actuarially determined contribution requirements for OPERS. As of December 31, 2003, the actuarial value of the Retirement system's net assets available for OPEB was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

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

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

NOTE 7 - COMPENSATED ABSENCES

All full-time District employees earn vacation at varying rates based upon length of service. Upon separation from the Water District, the employee (or his estate) is paid for his accumulated unused vacation leave balance. All full-time District employees earn sick leave at the rate of 1.25 days per calendar month of active service. Upon retirement from the District, an employee shall receive monetary compensation for a portion of each day of unused sick leave; the monetary compensation shall be at the hourly rate of the employee at the time of retirement.

District employees who work on holidays and in an occasional overtime status are primarily paid on a current basis. However, in some instances the employees are permitted to accrue compensatory time to be taken as time off or to be paid at a later date. At December 31, 2003, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$59,905.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8 -FIXED ASSETS

A summary of the District's fixed assets as of December 31, 2003, are as follows:

Land and Rights of Way	\$ 160,482
Supply Facilities, Wells & Pumps	899,851
Water Treatment Plant	3,435,233
Distribution System & Lines	7,661,536
Furniture and Other Office Equipment	179,189
Transportation Equipment	349,178
Other Equipment	929,922
Construction in Progress	<u>309,081</u>
 Total Fixed Assets	 13,924,472
 Less Accumulated Depreciation	 <u>(7,788,325)</u>
 Total Net Fixed Assets	 <u>\$ 6,136,147</u>

NOTE 9 -CONTINGENCIES

The District is party to legal proceedings. The District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 10 - PRIOR PERIOD ADJUSTMENTS

For the year ended December 31, 2003 the following prior period adjustments have resulted in fund equity restatements:

Retained Earnings at <u>12/31/2002</u>	Prior Period <u>Adjustments</u>	Restated Retained Earnings at <u>1/1/2003</u>
\$2,823,199	\$7,017	\$2,830,216

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Scioto County Regional Water District Number One
P.O. Box 310
Lucasville, Ohio 45648

We have audited the financial statements of Scioto County Regional Water District Number One (the District), as of and for the year ended December 31, 2003, and have issued our report thereon dated March 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over the financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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.

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

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

March 11, 2004



**Auditor of State
Betty Montgomery**

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SCIOTO COUNTY REGIONAL WATER DISTRICT # 1

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
JUNE 24, 2004**