

Tri-County Rural Water and Sewer District
Financial Statements
December 31, 2003 and 2002



**Auditor of State
Betty Montgomery**

Board of Trustees
Tri-County Rural Water and Sewer District
20 Anderson Ln.
Waterford, OH 45786-5327

We have reviewed the Independent Auditor's Report of the Tri-County Rural Water and Sewer District, Washington County, prepared by Perry & Associates, for the audit period January 1, 2002 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 Tri-County Rural Water and Sewer District is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

January 26, 2005

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Tri-County Rural Water and Sewer District
List of Board Members
December 31, 2003 and 2002

Name	Title
	<u>Board Members</u>
James Black	President
Jon Morgenstern	Vice-President
Jack Cunningham	Secretary/Treasurer
Jim Pugh	Board Member
Tom Doak	Board Member
Bob Huck	Board Member
Connie White	Board Member
	<u>General Manager</u>
	Rosemary Armstrong

December 7, 2004

Board of Directors
Tri-County Rural Water and Sewer District
20 Anderson Lane
Waterford, Ohio 45786-5327

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of the Tri-County Rural Water and Sewer District (the District) as of December 31, 2003 and 2002, and the related statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-County Rural Water and Sewer District as of December 31, 2003 and 2002, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2004, on our consideration of the Tri-County Rural Water and Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

Perry and Associates
Certified Public Accountants, A.C.

Tri-County Rural Water and Sewer District
Washington County

Balance Sheet
For the Years Ended December 31, 2003 and 2002

<u>Assets</u>	<u>2003</u>	<u>2002</u>
Current Assets:		
Cash and Cash Equivalents	\$ 300,844	\$ 113,684
Accounts Receivable - Customers (Net)	70,158	90,337
Accrued Interest Receivable	543	833
Total Current Assets	\$ 371,545	\$ 204,854
Restricted Assets:		
Cash and Cash Equivalents	1,485	26,552
Fixed Assets:		
Land	258,508	258,508
Buildings	23,617	23,617
Machinery and Equipment	50,318	50,318
Office Furniture and Fixtures	19,062	15,572
Autos and Trucks	13,968	13,968
Construction in Progress	43,573	26,888
Water System - Wells	199,576	199,576
Water System - Meters/Taps/Hydrants	377,086	377,086
Water System - Water Lines	6,023,551	6,023,551
Water System - Stations	920,258	920,258
Water System - Tanks/Towers	1,308,052	1,308,052
Less: Depreciation Allowance	(2,550,362)	(2,190,885)
Total Fixed Assets	6,687,207	7,026,509
Other Assets:		
Loan Closing Fees	17,320	18,150
Right of Ways	37,052	36,347
Advance Deposits	300	300
Total Other Assets	54,672	54,797
Total Assets	\$ 7,114,909	\$ 7,312,712

The accompanying notes are an integral part of these financial statements.

Tri-County Rural Water and Sewer District
Washington County

Balance Sheet
For the Years Ended December 31, 2003 and 2002
(Continued)

<u>Liabilities and Equity</u>	<u>2003</u>	<u>2002</u>
Current Liabilities:		
Accounts Payable - Trade	\$ 6,508	\$ 11,264
Payroll Withholdings	2,343	2,065
Accrued Payroll	744	520
Accrued Payroll Taxes	3,519	2,078
Accrued Interest Payable	162,762	0
Accrued Vacation and Sick Leave	3,424	3,847
Customer Security Deposits	811	838
Current Portion of Long-Term Debt	<u>217,742</u>	<u>104,150</u>
Total Current Liabilities	<u>397,853</u>	<u>124,762</u>
Long-Term Liabilities:		
Notes Payable - OWDA	5,091,444	5,165,230
Notes Payable - OPWC	1,147,636	1,194,668
Less: Current Portion of Long-Term Debt	<u>(217,742)</u>	<u>(104,150)</u>
Total Long-Term Liabilities	<u>6,021,338</u>	<u>6,255,748</u>
Total Liabilities	<u>6,419,191</u>	<u>6,380,510</u>
Equity:		
Contributed Capital	2,292,237	2,292,237
Retained Earnings (Deficit)	<u>(1,596,519)</u>	<u>(1,360,035)</u>
Total Equity	<u>695,718</u>	<u>932,202</u>
Total Liabilities and Equity	<u>\$ 7,114,909</u>	<u>\$ 7,312,712</u>

The accompanying notes are an intergral part of these financial statements.

Tri-County Rural Water and Sewer District
Washington County

Statement of Revenues, Expenses and
Changes in Retained Earnings
For the Years Ended December 31, 2003 and 2002

	2003	2002
Operating Revenues:		
Charge for Services	\$ 610,469	\$ 666,025
Tap Fees	19,970	32,132
Finance Charges	19,343	10,185
Reconnect Fees	1,600	0
Miscellaneous Income	0	5,643
Total Operating Revenues	651,382	713,985
Operating Expenses:		
Advertising	59	203
Amortization Expense	830	830
Auto-Truck Travel	1,625	671
Bad Debts	30,610	0
Chemicals	2,799	4,201
Contract Labor	3,229	25,138
Depreciation	359,476	362,547
Fuel, Oil and Grease	1,114	1,077
Dues and Subscriptions	328	539
Insurance	7,148	5,589
Hospital Insurance	9,589	13,424
Legal and Accounting	16,181	13,887
Repairs and Maintenance	1,760	8,825
Office	3,076	3,783
Pension - PERS	9,144	8,884
Postage	4,187	2,989
Recording/Filing Fees	48	15
Rent	1,800	1,200
Salaries	67,289	65,845
Supplies	4,926	9,105
Fringe Benefit Expense	0	3,847
Payroll Taxes	5,003	3,085
Other Taxes	0	3
Telephone	2,975	3,126
Travel and Entertainment	1,733	2,487
Training	65	155
System Electric	22,405	27,287
Other Utilities	2,632	1,996
Sewer/Beverly Hills	1,419	1,299
Water Testing	1,466	1,832
Wellfield Development	2,000	0
Total Operating Expenses	564,916	573,869
Operating Income (Loss)	86,466	140,116
Non-Operating Revenues (Expenses)		
Interest Income	3,221	7,106
Surcharge/Financed Taps	2,634	2,780
Other Non-Operating Revenues	7,601	121,697
Interest Expense	(336,406)	(343,696)
Total Non-Operating Revenues (Expenses)	(322,950)	(212,113)
Net Income (Loss)	(236,484)	(71,997)
Retained Earnings (Deficit), Beginning of Year	(1,360,035)	(1,288,038)
Retained Earnings (Deficit), End of Year	\$ (1,596,519)	\$ (1,360,035)

The accompanying notes are an intergral part of these financial statements.

Tri-County Rural Water and Sewer District
Washington County

Statement of Cash Flow
For the Years Ended December 31, 2003 and 2002

	2003	2002
<u>Cash Flows from Operating Activities:</u>		
Net Income (Loss) from Operations	\$ 86,466	\$ 140,116
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation/Amortization	360,306	363,376
(Increase) Decrease in Accounts Receivable - Customers	20,179	(21,131)
(Increase) Decrease in Accrued Interest Receivable	290	394
(Increase) Decrease in Right-of-Ways	(705)	(275)
Increase (Decrease) in Accounts Payable - Trade	(4,756)	2,488
Increase (Decrease) in Customer Security Deposits	(27)	(124)
Increase (Decrease) in Accrued Vacation & Sick Leave	(423)	3,847
Increase (Decrease) in Payroll Withholdings	278	(748)
Increase (Decrease) in Accrued Payroll Taxes	1,441	1,753
Increase (Decrease) in Accrued Payroll	224	285
Total Adjustments	376,807	349,865
Net Cash Provided by (Used by) Operating Activities	463,273	489,981
<u>Cash Flows from Capital and Related Financing Activities</u>		
Proceeds from Long-Term Debt	13,765	57,425
Principle Payments on Long-Term Debt	(134,583)	(195,700)
Acquisition of Property and Equipment	(20,175)	(244,745)
Other Non-Operating Revenues	7,601	121,697
Interest Expenses Paid	(173,643)	(343,696)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(307,035)	(605,019)
<u>Cash Flows from Investing Activities:</u>		
Investment Income	3,221	7,106
Surcharge Financed Taps	2,634	2,780
Net Cash Provided by (Used in) Capital and Related Financing Activities	5,855	9,886
Net Increase (Decrease) in Cash and Cash Equivalents	162,093	(105,152)
Cash and Cash Equivalents - Beginning of Year	140,236	245,388
Cash and Cash Equivalents - End of Year	\$ 302,329	\$ 140,236
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash Paid During the Period For Interest	\$ 173,643	\$ 343,696

Disclosure of Accounting Policy:

For purpose of the statement of cash flows, the District considers liquid financial instruments with a maturity of one year or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Tri-County Rural Water and Sewer District Washington County (the District), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Water District was established as a separate political subdivision of the State of Ohio under provision of Chapter 6119 of the Ohio Revised Code. The Water District is directed by an elected seven-member Board of Trustees. These board members are elected by the membership (any consumer who has paid for a tap). An appointed staff consisting of a general manager, distribution operator, and one office clerk are responsible for fiscal control of the resources of the District. The District provides water and sewer services to residents of the District.

B. Measurement Focus and Basis of Accounting

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

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

Pursuant to GASB Statement No. 20: *Accounting 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 Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins* issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Note: Under HB 262, effective for fiscal years ending December 2000 and subsequent, Water and Sewer Systems not levying property taxes must follow most of the Ohio Revised Code Chapter 5705 budget requirements, but need not seek approval of a county budget commission for any budgetary actions.

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

Appropriations

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

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.

D. Property, Plant and Equipment

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

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

<u>Assets</u>	<u>Years</u>
Water Systems	25
Buildings	15
Furniture / Equipment	5-7
Vehicles	5

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Long-Term Liabilities

OWDA and OPWC notes are reported as Liabilities. See Note 4.

F. Contributed Capital

Contributed capital consists of grants restricted to capital acquisitions, fixed assets received from developers and tap fees in excess of related costs. These assets are recorded at their fair market value on the date contributed. Capital contributions received in 2003 and 2002 have been recorded as revenues and we reported as increases in retained earnings based on new guidelines established by GASB Statement 33, Accounting and Reporting for Non-Exchange Transactions.

G. 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.

2. CASH AND CASH EQUIVALENTS

State statutes classify monies held by the District into three categories.

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim 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 (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the District by the financial institution, or by a single collateral established by the financial institution to secure the repayment of all public monies deposited with the institution.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

2. CASH AND CASH EQUIVALENTS (Continued)

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 State 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 bank loan, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds. consisting exclusively of obligations described in division (1) or (2) this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurers Investment pool (STAROHIO).
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. Investment 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.

The following information classifies deposits by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At December 31 the carrying amount of the District's deposits was as follows:

	<u>2003</u>	<u>2002</u>
Demand Deposits	\$302,329	\$140,236

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

2. CASH AND CASH EQUIVALENTS (Continued)

At December 31, the bank balance of the District's deposits was as follows:

	<u>2003</u>	<u>2002</u>
Demand Deposits	\$302,733	\$142,209

At December 31, 2003 and 2002, \$100,000 of the bank balance each year was insured by the Federal Deposit Insurance Corporation. \$202,733 and \$42,209, respectively, was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The District did not have any investments during 2003 and 2002.

The classification of cash and cash equivalents on the financial statements is based on criteria set forth in GASB Statement No.9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting." For the purposes of Statement of Cash Flows and for presentation on the Balance Sheet, investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments within initial maturity of more than three months are reported as investments.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2003 and 2002 follows:

Budgeted vs. Actual Receipts

	<u>2003</u>	<u>2002</u>
Budgeted Receipts	\$645,000	\$857,928
Actual Receipts	<u>\$654,442</u>	<u>\$824,695</u>
Variance	\$9,442	(\$33,233)

Budgeted vs. Actual Expenditures

	<u>2003</u>	<u>2002</u>
Budgeted Expenditures	\$740,000	\$965,956
Actual Expenditures	<u>\$492,575</u>	<u>\$991,811</u>
Variance	\$247,425	(\$25,935)

Contrary to Ohio law, expenditures exceeded appropriations at the legal level of control by \$25,935 for the year ended December 31, 2002.

Contrary to Ohio law, the District did not obtain the Clerk's prior certification for some obligations.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

4. LONG TERM LIABILITIES

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

Ohio Water Development Authority

	<u>Currently Due</u>	<u>Long-Term</u>	<u>Total</u>
Note dated July 1, 1995, due 2021, with interest at 6.72%	\$128,884	\$4,137,088	\$4,265,972
Note dated July 1, 1995, due 2022, with interest at 6.51%	7,120	223,847	230,967
Note dated January 30, 1997, due 2022, with interest at 6.12%	2,184	72,449	74,633
Note dated July 24, 1997, due 2023, with interest at 6.11%	751	26,008	26,759
Note dated February 26, 1998, due 2023, with interest at 5.73%	280	9,719	9,999
Note dated March 25, 1999, due 2026, with interest at 2.0%	2,745	74,297	77,042
Note dated June 24, 1999, due 2024, with interest at 5.56%	5,365	200,524	205,889
Note dated December 14, 2000, due 2021 with Interest at 2.0%	9,341	190,842	200,183
Total	<u>\$156,670</u>	<u>\$4,934,774</u>	<u>\$5,091,444</u>

The notes listed above are for the various fixed assets constructed to provide service from the wells to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these debts.

Ohio Public Works Commission

The District incurred various debts under Issue II funding of the Ohio Public Works Commission (OPWC). Terms of all existing notes payable except Note CR20G, as noted below, include twenty (20) year maturity dates and an interest rate of zero (0) percent per annum.

The notes payable to the Ohio Public Works Commission are pursuant to Ohio Rev. Code 104.05 and Ohio Admin. Code §164-4-21. The Project Agreement entered into between the Ohio Public Works Commission and the District states that the above sums are to be used for the purpose of financing or reimbursing the costs of the indicated projects.

Additional funding is available from OPWC for the current Waterfront Administration Project (CR20G) includes a grant of \$7000, a Community Development Block Grant of \$300,000 and a loan of \$315,820 at an interest rate of 2 percent. As of December 31, 2003, \$13,765 had been drawn down on the loan. Total payments including interest on this loan will be \$387,424.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

4. LONG TERM LIABILITIES (Continued)

Balances on the OPWC notes payable as of December 31, 2003, are as follows:

	<u>Currently Due</u>	<u>Long Term</u>	<u>Total</u>
Round 3	5,569	91,884	97,453
Round 5	10,200	168,300	178,500
Round 7	13,430	221,595	235,025
Round 9	17,852	294,557	312,409
CR14C	14,022	296,462	310,484
CR 20G	<u>0</u>	<u>13,765</u>	<u>13,765</u>
Totals	<u>\$61,073</u>	<u>\$1,086,563</u>	<u>\$1,147,636</u>

The following is a schedule of future maturities of long-term debt, including interest of \$3,968,620 on the OWDA loans and \$134,110 on the OPWC loans as of December 31, 2003.

	<u>OWDA</u>	<u>OPWC</u>	<u>TOTAL</u>
2004	482,026	69,897	551,923
2005	482,026	86,449	568,475
2006	482,026	86,449	568,475
2007	482,026	86,449	568,475
2008	482,026	86,449	568,475
Thereafter	<u>6,347,879</u>	<u>1,168,108</u>	<u>7,515,987</u>
Total	<u>\$8,758,009</u>	<u>\$1,583,801</u>	<u>\$10,341,810</u>

5. FIXED ASSETS

A summary of the enterprise funds' fixed assets at December 31, 2003 and 2002, follows:

	<u>2003</u>	<u>2002</u>
Land	\$ 258,508	\$ 258,508
Furniture/Fixtures	19,062	15,572
Buildings	23,617	23,617
Machinery/Equipment	50,318	50,318
Motor Vehicles	13,968	13,698
Construction-In-Progress	43,573	26,888
Water Systems Total	8,828,523	8,828,523
Less: Accumulated Depreciation	<u>(2,550,362)</u>	<u>(2,190,885)</u>
Net Fixed Assets	<u>\$6,687,207</u>	<u>\$7,026,509</u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

6. RISK MANAGEMENT

Risk Pool Membership

The Government belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides proprietary and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-occurrence limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$100,000.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability, for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

General liability insurance is covered with a \$1,000,000 per occurrence. Automobile liability has a \$1,000,000 limit with a \$250 deductible for comprehensive and collision coverage.

Officials' liability coverage is \$1,000,000 per occurrence and in the aggregate, including a \$500 deductible. Property insurance coverage is subject to a \$250 deductible for buildings, contents, and miscellaneous property. Settled claims have not exceeded insurance coverage in any of the past four years.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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

7. DEFINED BENEFIT RETIREMENT SYSTEM

District employees participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by mailing a written request to 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to pension obligation. For plan members the District was required to contribute 9.25 percent of covered salary for 2003. Contributions are authorized by State statute. The contributions rates are determined actuarially. The District's contributions to PERS for the years ended December 31, 2003 and 2002 were \$9,144 and \$8,884, respectively. These contributions were equal to the required contributions for each year.

8. POSTEMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service and to primary survivor recipients of such retiree's health care coverage for disability recipients is available. The health care coverage provided by the retirement service is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer contribution to PERS 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 for local government employer units was 13.55% of covered payroll; 4.3% was the portion that was used to fund health care for 2003.

Benefits are advance-funded using the entry age cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2002 include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional annual pay increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually. All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contribution participants was 364,881. PERS's net assets available for payment of benefits at December 31, 2002 (the latest information available) were \$10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion respectively.

December 7, 2004

Board of Trustees
Tri-County Rural Water
and Sewer District
20 Anderson Lane
Waterford, OH 45786-5327

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Tri-County Rural Water and Sewer District as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated December 7, 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, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did disclose any instances of noncompliance that is required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as item 2003-001.

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

Board of Trustees
Tri-County Rural Water
and Sewer District
December 7, 2004
Page Two

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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

Respectfully submitted,

Perry and Associates
Certified Public Accountants, A.C.

TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code 5705.41(B) states, in part, that no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures exceeded appropriations in 2002 by the amount of \$25,935.

We recommend the District should appropriate the amount of their unencumbered cash balance and, in addition, should prepare an appropriation amount for principal payments on notes and loans. The District should compare expenditures to appropriations and the Clerk should deny any expenditure when appropriations are not available.

FINDING NUMBER 2003-002

Segregation of Accounting Duties

A lack of segregation of accounting duties exists within the District. This situation provides for a less than desirable internal control since virtually two people have control of all of the accounting functions. However, due to the limited size and resources of the District, the current situation is acceptable with continued involvement of the Board of Trustees.

TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY

SCHEDULE OF PRIOR FINDINGS
DECEMBER 31, 2001 AND 2000

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding no Longer Valid; Explain
2001-61084-001	ORC 5705.41(B) spending money not appropriated	No	Not Corrected, repeated in Schedule of findings as item 2003-001
2001-61084-002	ORC 5705.41(D)(1) - failure to obtain Clerk's certification	Yes	Corrected



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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON 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
FEBRUARY 10, 2005**