



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

Lake Lorelei Regional Water District
Brown County
586 Lorelei Drive
Fayetteville, Ohio 45118

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of Lake Lorelei Regional Water District, Brown County, Ohio (the District), as of and for the fiscal year ended June 30, 2002. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 Lake Lorelei Regional Water District, as of June 30, 2002, and the results of its operations and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note #6 to the general purpose financial statements, the District sold the water plant and distribution system to the Western Water Company. The District ceased operations as of June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of our audit performed in accordance with the *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

October 31, 2002

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**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

Assets:

Current Assets:	
Cash and Cash Equivalents	<u>\$221,792</u>

Total Assets	<u><u>221,792</u></u>
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Liabilities:

Current Liabilities:	
Accounts Payable	30,828
Accounts Payable - Termination	54,995
Amounts Due Association Members - Lake Lorelei Property Owners Association	<u>135,969</u>

Total Liabilities	<u><u>\$221,792</u></u>
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The notes to the financial statements are an integral part of this statement.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Operating Revenues:	
Water Service Fees	\$297,682
Water Connect Fees	20,832
Miscellaneous	<u>11,255</u>
Total Operating Revenues	<u>329,769</u>
Operating Expenses:	
Professional Services	23,726
Wages and Benefits	91,019
Depreciation	28,747
Supplies	19,590
Automobile	1,378
Insurance	7,572
Utilities	13,731
Repairs and Improvements	15,593
Water Line Connections	20,832
Professional Fees	43,709
Bad Debt Expense	10,150
Miscellaneous	<u>4,616</u>
Total Operating Expenses	<u>280,663</u>
Operating Income/(Loss)	<u>49,106</u>
Non-Operating Revenues:	
Water Connect Fees in Excess of Cost	33,108
Interest Revenue	6,102
Gain on Sale of Fixed Assets	<u>36,933</u>
Total Non-Operating Revenues	<u>76,143</u>
Non-Operating Expenses:	
Interest Expense	56,704
Amortization of Debt Expense	1,725
Expenses Associated with Termination of Operations	60,686
Loss on Extinguishment of Debt	63,658
Extinguishment of Unamortized Debt Expense	27,744
Extinguishment of Unamortized Loss on Refunding	71,236
Distribution of Remaining Assets to Association Members	<u>285,947</u>
Total Non-Operating Expenses	<u>567,700</u>
Net Income/(Loss)	(442,451)
Retained Earnings, July 1	<u>442,451</u>
Retained Earnings, June 30	<u><u>\$0</u></u>

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

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Operating Income:	\$49,106
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	28,747
Changes in assets and liabilities:	
(Increase) Decrease in accounts receivable (net)	(574)
Decrease (Increase) in interest receivable	131
(Decrease) Increase in unearned interest	(131)
(Increase) Decrease in prepaid expenses	(652)
Increases in accounts payable	12,549
(Decrease) Increase in intergovernmental payable	(447)
	88,729
Net cash provided by operating activities	88,729
Cash flows from noncapital financing activities:	
Disbursement to homeowners	(145,338)
	(145,338)
Net cash provided (used) by noncapital financing activities	(145,338)
Cash flows from capital financing activities:	
Proceeds from sale of capital assets	1,064,400
Acquisition of capital assets	(3,045)
Amount placed in escrow to defease 1998 Revenue Bonds	(1,041,447)
Principal paid on long-term debt	(35,000)
Interest paid on long-term debt	(53,195)
Proceeds from nonoperating connection fees	27,108
Escrow agent fee	(4,000)
	(45,179)
Net cash provided (used) by capital financing activities	(45,179)
Cash flows from investing activities:	
Interest income	6,102
	6,102
Net cash provided by investing activities	6,102
Net increase/(decrease) in cash and cash equivalents	(95,686)
Cash and cash equivalents, July 1, 2001	317,478
Cash and cash equivalents, June 30, 2002	\$221,792

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

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**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Lake Lorelei Regional Water District, Brown County, Ohio (the District), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Brown County in March of 1989. The District is directed by a publicly-elected three-member Board of Trustees. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district residents of the Lake Lorelei subdivision of Fayetteville, Ohio.

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

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 District 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.

The District has adopted GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*. The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

C. Cash and Cash Equivalents

Investments are reported as assets and are valued at fair value, which is based on quoted market prices. During fiscal year 2002, investments were limited to a U.S. Treasury Money Market Mutual Fund.

D. Budgetary Process

The District's Board of Trustees annually adopts an operating budget pursuant to Ohio Attorney General Opinion No. 99-020 and Chapter 5705, Ohio Revised Code. The operating budget indicates the District's estimated resources and annual appropriations. Appropriations are limited by estimated resources and expenses are limited by appropriations.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Ohio Revised Code requires that the fund be budgeted annually. The District budgets on a GAAP (Generally Accepted Accounting Principles) basis.

1. Appropriations

Budgetary expenditures (that is, expenses and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission is not required to approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of revenue to be earned and retained earnings as of July 1. The County Budget Commission is not required to approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The District did not encumber all commitments as required by Ohio law. A summary of 2002 budgetary activity appears in Note 3.

E. Statement of Cash Flows

For purposes of the statement of cash flows, all cash and investments with original maturities of 3 months or less or are readily convertible to cash when purchased are considered to be cash equivalents.

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim 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.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. CASH AND INVESTMENTS (Continued)

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 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 the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in divisions (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 (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies 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.

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".

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. CASH AND INVESTMENTS (Continued)

Deposits: At June 30, 2002, the carrying amount of the District's deposits was \$50,067 and the bank balance was \$198,782. Of the bank balance, \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC) and \$98,782 was covered by collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. The Code specifies that the total value of securities pledged as collateral must be at least equal to 110% of the total amount of the insured deposits, including any portion covered by federal deposit insurance. The Code also specifies what kind of securities are eligible to be pledged and what percentage of their face value counts as being eligible for collateral. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC..

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at each fiscal 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 which 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. Money Market Fund investments are unclassified since they are not evidenced by securities that exist in physical or book entry form.

Investments at June 30, 2002:

	Unclassified	Carrying Value	Fair Value
Fifth Third Treasury Money Market Mutual Funds	\$171,725	\$171,725	\$171,725

3. BUDGETARY

Budgetary activity for the year ended June 30, 2002 follows:

2002 Budgeted vs. Actual Revenue			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Enterprise	\$334,500	\$368,979	\$34,479

2002 Budgeted vs. Actual Budgetary Basis Expenses			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Enterprise	\$278,878	\$339,090	(\$60,212)

Contrary to Ohio Law, expenses exceeded appropriations by \$60,212 in fiscal year 2002. Differences between revenues and expenses presented in the financial statements and those presented above resulted from accruals related to the sale of the water plant and distribution system which were not budgeted. These revenue and expense accruals totaled \$36,933 and \$509,273, respectively. See Notes #6, #7, and #8 for additional information related to these accruals.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. DEFINED BENEFIT PENSION PLAN

Public Employees Retirement System

All full-time employees of the District 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 basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The District is also required to contribute a percentage established by state statute. The District's required contributions to PERS for the years ended June 30, 2002, 2001, and 2000 were \$10,797, \$10,324, and \$9,158, respectively. The full amounts have been contributed for 2002, 2001, and 2000.

5. POSTEMPLOYMENT BENEFITS

Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipient of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement Number 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by state statute. The employer contribution rate for 2002 was 13.55 percent of covered payroll and 4.3 percent was the portion used to fund health care. The District's actual contributions for 2002, which were used to fund OPEB was \$3,426.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions based on PERS' latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional pay increases. Health care premiums were assumed to increase 4.75 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 contributing participants was 411,076. The actual contribution and the actuarially required contribution amounts are the same. PERS' net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

6. DISSOLUTION OF ENTITY

The District entered into an agreement on December 10, 2001 to sell the water plant and distribution system to Western Water Company. The District petitioned the Brown County Common Pleas Court (“the Court”) to obtain approval of the proposed sale to Western Water. The petition also requested approval for the District to abandon its purpose previously approved by the Court and to permit the District to enter into a separate agreement with the Lake Lorelei Property Owners’ Association (the “LLPOA”). The Court approved the District’s petition.

The closing of the sale transaction to Western Water Company occurred on June 27, 2002, at which time Western Water Company assumed responsibility for the operation and maintenance of the water plant and distribution system. See Note 7 for a more detailed description of the sale transaction and Note 8 for a description of the advance-refunding of bonded debt. As of June 30, 2002, the District’s operations have substantively ceased. The District incurred expenses as of June 30, 2002 and subsequent to July 1, 2002, related to the termination of operations. These expenses included wages and taxes, accounting and audit fees, office expenses, rent, utilities, and miscellaneous write-offs. These expenses are presented in the financial statements as Expenses Associated with Termination.

The petition approved by the Court contained a provision by which the District would offset the cost to their customers related to becoming members of Western Water and installing backflow preventers on their property. Disbursements to the customers related to this provision totaled \$145,338. This amount has been expensed in the financial statements as a component of Distribution of Remaining Assets to Association Members.

The agreement with the LLPOA provided that the District’s accounts receivable as of June 27, 2002 would become an asset of the LLPOA. Collections on delinquent accounts via County Auditor assessment will be paid to the LLPOA. As of June 27, 2002, the District’s net accounts receivable balance was \$4,638. The write-off of these accounts receivable has been expensed in the financial statements as a component of Distribution of Remaining Assets to Association Members.

The agreement with the LLPOA further provides that the remaining cash after expenses have been paid will be paid to the LLPOA. As of the date of the financial statements, the District estimates that the remaining balance will be \$135,969. These amounts have been expensed in the financial statements as a component of Distribution of Remaining Assets to Association Members. As of October 31, 2002, the District has remitted all remaining cash balances to the LLPOA.

7. SALE OF ASSETS

As more fully described in Note 6, the District sold the water plant and distribution system to the Western Water Company on June 27, 2002. The proceeds of the sale were \$1,064,400 and the carrying amount of the water system assets was \$1,023,267. The District incurred \$4,200 of survey costs required to sell the assets. The difference between the proceeds of the sale and the carrying amount of the assets and the survey costs has been realized as revenue in the financial statements as Gain on Sale of Fixed Assets, as follows:

Proceeds of Sale	\$ 1,064,400
Carrying Amount of Assets	(1,023,267)
Survey Costs	<u>(4,200)</u>
Gain of Sale of Fixed Assets	<u><u>\$ 36,933</u></u>

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

8. ADVANCE-REFUNDING OF DEBT

Of the water system sale proceeds, \$1,041,447 was paid to an escrow agent on June 27, 2002, to be invested in an irrevocable trust to provide for the future retirement of the Water Resource Revenue Refunding Bonds Series 1998A (the "1998 Bonds"). The Official Statement for the 1998 Bonds provides for maturities of serial bonds annually from 2002 through 2008, and term bonds of \$720,000 due in 2019. The Escrow Deposit Agreement indicates that serial bonds will be retired annually from 2003 through 2007, and the remaining principal balance of \$720,000 will be retired in 2009, when the term bonds are callable.

The difference between the amount placed in escrow and the principal balance and accrued interest at the time of the advance-refunding, net of the escrow agent fees, has been expensed in the financial statements as Loss on Extinguishment of Debt, as follows:

Amount Placed in Escrow	\$ 1,041,447
Outstanding Principal Balance	(965,000)
Accrued Interest	(16,789)
Escrow Agent Fee	<u>4,000</u>
Loss on Extinguishment of Debt	<u><u>\$ 63,658</u></u>

The 1998 Bonds were issued to advance-refund a 1989 issuance of Water Revenue Bonds. The difference between the reacquisition price and the net carrying amount of the 1989 Revenue Bonds of \$89,044 was reported as Deferred Amount on Refunding, a deduction to the liability for the 1998 Revenue Bonds. The Deferred Amount on Refunding was being amortized over the life of the 1998 Revenue Bonds (twenty years), using the straight line method. Debt issuance costs of \$34,500 were reported as unamortized debt expense and were being amortized over twenty years, using the straight line method. The unamortized portion of these items as of June 27, 2002, has been expensed in the financial statements as Extinguishment of Unamortized Loss on Refunding and Extinguishment of Unamortized Debt Expense, respectively.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Lake Lorelei Regional Water District
Brown County
586 Lorelei Drive
Fayetteville, Ohio 45118

To the Board of Trustees:

We have audited the accompanying financial statements of Lake Lorelei Regional Water District, Brown County, Ohio (the District), as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated October 31, 2002, wherein we noted the District ceased operations June 30, 2002. 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 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2002-60408-001 and 2002-60408-002.

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 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.

Lake Lorelei Regional Water District
Brown County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

October 31, 2002

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

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

Material Noncompliance

FINDING NUMBER 2002-60408-001

Ohio Rev. Code, Section 5705.41(D), provides that no subdivision or taxing unit shall make any contract or order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. This section also provides for two exceptions to the above requirement:

- A. Then and Now Certificates – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of amount due upon such contract or order by resolution within thirty (30) days from the receipt of such certificate.

- B. If the amount involved is less than one thousand dollars (\$1,000), the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Contrary to the above requirement, the availability of funds was not certified for any of the District's disbursements. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances.

Material Noncompliance

FINDING NUMBER 2002-60408-002

Ohio Rev. Code, Section 5705.41(B), prohibits expenditures in excess of appropriations. Contrary to this requirement, expenses exceeded appropriations for 2002 by \$60,212 out of total appropriations of \$278,878. Expenses exceeded appropriations because the District did not appropriately monitor budgetary expenses as compared to appropriations and could have resulted in the District expending funds illegally.

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**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-60408-001	Material Noncompliance Citation of ORC, 5705.41(D), for not certifying availability of funds prior to purchase commitments being made.	No.	Repeated as Finding 2002-60408-001.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
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Telephone 614-466-4514
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Facsimile 614-466-4490

LAKE LORELEI REGIONAL WATER DISTRICT

BROWN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 3, 2002**