

Adams County Regional Water District

Adams County

Regular Audit

January 1 , 2002 Through December 31, 2002

Fiscal Year Audited Under GAGAS: 2002

BALESTRA & COMPANY

(A division of Harr & Scherer, CPAs, Inc.)

CERTIFIED PUBLIC ACCOUNTANTS

528 South West Street, P.O. Box 687

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**Auditor of State
Betty Montgomery**

Board of Trustees
Adams County Regional Water District
9203 State Route 126, P.O. Box 427
West Union, OH 45693

We have reviewed the Independent Auditor's Report of the Adams County Regional Water District, prepared by Balestra & Company, for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 29, 2003

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ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

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Ohio Society of Certified Public Accountants

Board of Trustees
Adams County Regional Water District
9203 St. Rt. 136, P.O. Box 427
West Union, Ohio 45693

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the Adams County Regional Water District (the District), Adams County, as of and for the year ended December 31, 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 did not audit the general purpose financial statements for the year ended December 31, 2001. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements is based solely on the report of the other auditors.

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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Adams County Regional Water District, as of December 31, 2002, and the results of its operations and 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 *Government Auditing Standards*, we have also issued our report dated March 20, 2003 on our consideration of the District's internal control over financial reporting and our tests of 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.

As described in notes 2 & 14 of the notes to the general purpose financial statements, the District implemented Governmental Accounting Standards Board Statement No.33, *Accounting and Financial Reporting for Non-exchange Transactions*, and Governmental Accounting Standards Board Statement No.36, *Recipient Reporting for Certain Shared Non-exchange Revenues* (an amendment of GASB Statement No.33).

As described in note 15 of the notes to the general purpose financial statements, the District changed its presentation of the Statement of Cash Flows to include restricted cash and cash equivalents.

Balestra & Company

Balestra & Company
March 20, 2003

**ADAMS COUNTY REGIONAL WATER DISTRICT
BALANCE SHEETS
DECEMBER 31, 2002 AND 2001**

ASSETS	<u>2002</u>	<u>2001</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,711,959	\$ 2,730,797
Certificates of deposit	905,035	871,257
Accounts receivable:		
Customers, net of allowance for doubtful accounts of \$11,201	332,874	315,055
Other receivables	6,699	24,842
Accrued interest receivable	3,248	51,046
Inventories	163,763	154,425
Prepaid expenses	32,510	18,953
Total current assets	<u>4,156,088</u>	<u>4,166,375</u>
OTHER ASSETS		
Restricted cash and certificates of deposit	366,426	366,415
Deferred costs, net	67,465	69,757
Total other assets	<u>433,891</u>	<u>436,172</u>
OPERATING FACILITIES (at cost)		
Land and land improvements	428,727	422,835
Buildings	493,987	492,413
Wells and wellfield improvements	1,311,363	1,299,479
Mains, lines and meters	22,970,798	22,427,635
Storage tanks	1,390,655	1,390,655
Water treatment and plant equipment	409,081	409,081
Trucks, tractors and equipment	585,356	577,968
Office furniture and equipment	88,116	84,187
Construction in progress	14,154	17,908
	<u>27,692,237</u>	<u>27,122,161</u>
Less: accumulated depreciation	<u>(7,766,122)</u>	<u>(6,673,540)</u>
Net operating facilities	<u>19,926,115</u>	<u>20,448,621</u>
 Total assets	 <u>\$ 24,516,094</u>	 <u>\$ 25,051,168</u>

LIABILITIES AND MEMBERS' EQUITY

	2002	2001
CURRENT LIABILITIES		
Accounts payable	\$ 23,351	\$ 19,406
Accrued expenses	191,593	185,543
Accrued interest	420,027	427,293
Current portion of long-term debt	485,051	474,069
Customer deposits	23,250	23,250
Total current liabilities	1,143,272	1,129,561
 LONG-TERM DEBT , less current portion	 16,375,307	 16,371,232
 EQUITY		
Contributed capital	3,239,523	3,239,523
Members' Tap Fees	2,102,936	2,102,936
Retained earnings	1,655,056	2,207,916
Total equity	6,997,515	7,550,375
 Total liabilities and equity	\$ 24,516,094	\$ 25,051,168

The Notes to the Financial Statements are an integral part of these statements.

ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY
FOR THE YEARS ENDING DECEMBER 31, 2002 AND 2001

	2002	2001
OPERATING REVENUES		
Sales to customers	\$ 1,825,260	\$ 1,720,396
Sales to public authorities	662,536	620,999
Other revenues	74,348	85,295
Total operating revenues	2,562,144	2,426,690
 OPERATING EXPENSES		
Salaries	693,046	687,108
Utilities	215,056	192,660
Depreciation expense	1,143,443	709,884
Amortization expense	2,292	2,272
Repairs	93,836	172,022
Truck expense	23,449	24,547
Supplies	16,275	20,100
Pension expense	117,589	114,563
Payroll taxes	19,464	12,369
Insurance	182,245	113,350
Office supplies and postage	26,074	26,967
Legal and engineering fees	13,914	80,589
Accounting fees	9,116	11,593
Director fees	26,650	21,460
Advertising	3,891	3,507
Bank Charges	1,123	1,203
Bad Debt Expense	-	400
Other expenses	47,706	50,745
Total operating expenses	2,635,169	2,245,339
 OPERATING INCOME (LOSS)	 (73,025)	 181,351
 NON-OPERATING REVENUE/(EXPENSES)		
Tap fee revenue	175,700	385,150
Contribution in aid of Construction	49,093	285,959
Gain on disposal of equipment	23,990	-
Interest income	127,668	184,500
Interest expense	(856,286)	(611,589)
Total nonoperating revenues/(expenses)	(479,835)	244,020
 NET INCOME (LOSS)	 (552,860)	 425,371
 RETAINED EARNINGS, JANUARY 1 (Restated see Note 14)	 2,207,916	 1,782,545
 RETAINED EARNINGS, DECEMBER 31	 \$ 1,655,056	 \$ 2,207,916

The Notes to the Financial Statements are an integral part of these statements.

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operations	\$ (73,025)	\$ 181,351
Items not requiring cash:		
Depreciation	1,143,443	709,884
Amortization	2,292	2,272
Changes in:		
Accounts receivable, customers and other	324	1,234
Inventories	(9,338)	(27,135)
Prepaid expenses	(13,557)	137
Accounts payable and other accrued expenses	9,995	(203,738)
Deposits	-	(150)
Net cash provided by operating activities	<u>1,060,134</u>	<u>663,855</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income on investments	175,466	161,882
Net cash provided by investing activities	<u>175,466</u>	<u>161,882</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of operating facilities, including construction in progress and capitalized interest	(622,834)	(2,978,139)
Members tap fees	175,700	385,150
Proceeds from disposal of equipment	25,887	-
Proceeds from issuance of long-term debt	478,947	2,587,977
Payments on long-term debt obligations	(463,890)	(152,875)
Proceeds from construction contributions	49,093	230,959
Interest paid on long-term debt obligations	(863,552)	(201,392)
Net cash used in capital and related financing activities	<u>(1,220,649)</u>	<u>(128,320)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,951	697,417
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,968,469</u>	<u>3,271,053</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 3,983,420</u></u>	<u><u>\$ 3,968,470</u></u>

The Notes to the Financial Statements are an integral part of these statements.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Adams County Regional Water District (the District) is a water district organized under the provisions of Section 6119 of the Ohio Revised Code. The District operates under the direction of a nine member board of trustees. An appointed staff consisting of a general manager and an office manager are responsible for fiscal control of the resources of the Adams County Regional Water District. The Adams County Regional Water District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all or parts of the following political subdivisions:

Adams County:	Bratton Township	Brush Creek Township	Franklin Township
	Green Township	Jefferson Township	Liberty Township
	Meigs Township	Monroe Township	Oliver Township
	Scott Township	Sprigg Township	Tiffin Township
	Wayne Township	Winchester Township	
Brown County:	Byrd Township	Huntington Township	

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 Adams County Regional Water District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Un-billed 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 Governmental Accounting Standards Board (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 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.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BUDGETARY PROCESS (Continued)

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

A summary of 2002 budgetary activity appears in Note 5.

D. CONTRIBUTED CAPITAL

Contributed capital was recorded by the District for receipts of capital grants or contributions from developers and customers prior to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 33 and 36 in 2002. Contributed capital of the Adams County Regional Water District 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:

Building	45 years
Wells and well field improvements	10-20 years
Mains, lines and meters	20-50 years
Storage tanks	10-50 years
Equipment	5-10 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 Governmental Accounting Standards Board (GASB) Number 16, Accounting for Compensated Absences, a liability is recorded for vested sick pay benefits which have been defined by District policy.

H. PENSIONS

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2002, investments were limited to a Money Market Account.

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.

J. FUND ACCOUNTING

The Adams County Regional Water District 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 FINANCING COSTS

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2002 and 2001 were \$32,510 and \$18,953 respectively.

M. OPERATING FACILITIES

Operating facilities are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 2002 and 2001, the District capitalized \$181,161 and \$187,161 in interest, respectively. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments are capitalized.

N. CUSTOMER ACCOUNTS RECEIVABLE

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

O. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 - CHANGES IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2002, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, and Governmental Accounting Standards Board (GASB) Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues*. These statements establish accounting and financial reporting standards for non-exchange transactions.

NOTE 3 - 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.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

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.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Cash on Hand At year end, the District had \$138 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 Governmental Accounting Standards Board (GASB) Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits At year end, the carrying amount of the District's deposits was \$2,313,521 and the bank balance was \$2,351,350.

1. \$461,150 was covered by federal depository insurance.
2. \$1,890,200 was covered by pooled or pledged collateral.

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 Agreement	\$0	\$1,669,761	\$1,669,761	\$1,669,761
Total Investments			\$1,669,761	\$1,669,761

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in Governmental Accounting Standards Board (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 Governmental Accounting Standards Board (GASB) Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	\$3,983,420	\$0
Cash on Hand	(138)	0
Investments:		
Repurchase Agreement	(1,669,761)	1,669,761
GASB Statement 3	\$2,313,521	\$1,669,761

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 4 - RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Restricted cash and certificates of deposit consist of savings accounts and certificates of deposit and represent amounts designated as reserved to comply with loan agreements with the U.S. Department of Agriculture Farmers Home Administration (FMHA) described more fully in Note 6.

NOTE 5 - BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2002 is as follows:

2002 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	\$2,846,500	\$2,938,595	\$92,095

2002 Budgeted vs. Actual Budgetary Basis Disbursements

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$4,664,309	\$3,491,455	\$1,172,854

NOTE 6 - DEBT OBLIGATIONS

On April 21, 1999, the District issued \$2,639,424 in water revenue refunding bonds with rates of 4.5% to 6.5% in order to refinance the existing notes payable to FmHA. The terms of the bonds are identical to the previously issued notes and, therefore, no economic gain has been recognized by the District.

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

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 6 - DEBT OBLIGATIONS (Continued)

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2002, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 485,051	\$ 851,574	\$ 1,336,625
2004	506,921	829,633	1,336,554
2005	530,120	806,333	1,336,453
2006	554,710	781,800	1,336,510
2007	580,946	755,952	1,336,898
Thereafter	<u>14,202,610</u>	<u>8,168,144</u>	<u>22,370,754</u>
Total	<u>\$16,860,358</u>	<u>\$12,193,436</u>	<u>\$29,053,794</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2002:

	<u>Balance</u> <u>12/31/2001</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/2002</u>
1999 water revenue refunding bonds	\$ 2,357,700	\$ -	\$ 124,200	\$ 2,233,500
Note payable OWDA, payable in semiannual installments of \$342,839 starting January 1, 2002, including interest at 6.39%, due July 2026.	8,068,090	435,572	149,795	8,353,867
Note payable OWDA, payable in semiannual installments of \$66,981 starting Jan. 1, 2000, including interest at 2%, due July 2024.	2,450,483	-	84,952	2,365,531
Note payable OWDA, payable in 50 semiannual installments of \$54,013 starting Jan. 1, 2000, including interest at 5.86%, due July 2024.	1,336,608	-	20,247	1,316,361
Note payable OWDA, payable in 50 semiannual installments of \$25,260, starting July 1, 2000, including interest at 5.56%, due January 2025.	658,200	-	14,116	644,084

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 6 - DEBT OBLIGATIONS (Continued)

	Balance 12/31/2001	Additions	Payments	Balance 12/31/2002
Note payable OWDA, payable in 50 semiannual installments of \$53,061, starting July 1, 2000, including interest at 2%, due January 2025.	1,974,219	-	66,637	1,907,582
Note payable OWDA, payable in 40 semiannual installments of \$1,591, starting January 1, 2003, including interest at 5.15%, due July 2022.	-	39,433	-	39,433
Totals	\$ 16,845,300	\$ 475,005	\$ 459,947	\$ 16,860,358

Operating facilities, together with all revenue and service charges which may arise from the operations of the Company, are pledged for the payment of revenue bond debt.

The notes payable OWDA are secured by operating facilities.

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2002 and 2001 was \$366,426 and \$366,415, respectively. These amounts equaled the required reserve.

NOTE 7 - 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. Significant risks of losses are covered by commercial insurance.

The District contracted with private commercial insurance carriers for real property, building contents, vehicle, and liability insurance coverage. Real property and building contents are 90% insured. Vehicle policies include liability coverage for bodily injury and property damage.

Health insurance was provided by a private carrier for the year.

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

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

NOTE 8 - CONTRIBUTIONS IN AID OF CONSTRUCTION

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 9 - PENSION PLAN

A. Public Employees Retirement System

1. Pension Benefit Obligation

All employees of the 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 Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees is 8.5 percent. The 2002 and 2001 employer rate for local government employer units was 13.55 percent, of covered payroll, 8.44 percent to fund the pension benefit obligation and 5.11 percent to fund health care. The contribution requirements of plan members and the District are established and may be amended by the Public Employees Retirement Board. The District's contributions to the PERS of Ohio for the years ended December 31, 2002 and 2001 were \$110,969 and \$109,601 respectively which was equal to the required contributions.

2. Other Postemployment Benefits

Public Employees Retirement System: The Public Employees Retirement System of Ohio (the System) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by state statute.

The 2002 and 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for both years. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OEPB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

As of December 31, 2000 the unaudited estimated net assets available for future OPEB payments were \$11,735,900,000. The number of benefit recipients eligible for OPEB at December 31, 2000 was 411,079.

NOTE 10 - COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to all employees to specified maximums. Upon separation from the District, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2002 and 2001, were \$165,116 and \$159,567 respectively.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 11 -FIXED ASSETS

A summary of the District's fixed assets as of December 31, 2002, are as follows:

	Balance			Balance
	<u>12/31/2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2002</u>
Land and land improvements	\$ 422,835	\$ 5,892	\$ -	\$ 428,727
Buildings	492,413	1,574	-	493,987
Wells and wellfield improvements	1,299,479	11,884	-	1,311,363
Mains, lines and meters	22,427,635	543,163	-	22,970,798
Storage tanks	1,390,655	-	-	1,390,655
Water treatment and plant equipment	409,081	-	-	409,081
Trucks, tractors and equipment	577,968	60,147	52,759	585,356
Office furniture and equipment	84,187	3,929	-	88,116
Construction in progress	<u>17,908</u>	<u>507,586</u>	<u>511,340</u>	<u>14,154</u>
 Total Fixed Assets	 <u>\$27,122,161</u>	 <u>\$ 1,134,175</u>	 <u>\$ 564,099</u>	 <u>\$ 27,692,237</u>

NOTE 12 -CONCENTRATION OF CREDIT RISK

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

NOTE 13 -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 14 - PRIOR PERIOD RESTATEMENT

For the year ended December 31, 2002 the District implemented Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Certain Shared Non-exchange Revenues* and Governmental Accounting Standards Board (GASB) Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues* which resulted in the following restatement of retained earnings:

Retained Earnings	Prior	Restated
<u>at 12/31/01</u>	<u>Period</u>	<u>Retained Earnings</u>
	<u>Adjustments</u>	<u>at 1/1/2002</u>
\$1,817,809	\$390,107	\$2,207,916

NOTE 15 - CHANGE IN PRESENTATION OF THE STATEMENT OF CASH FLOWS

For the year ended December 31, 2002, the District changed its presentation of the Statement of Cash Flows to included restricted cash and cash equivalents.

BALESTRA & COMPANY

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Ohio Society of Certified Public Accountants

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
Adams County Regional Water District
9203 St. Rt. 136
P.O.Box 427
West Union, Ohio 45693

We have audited the general purpose financial statements of the Adams County Regional Water District (the District), Adams County, as of and for the year ended December 31, 2002, in which we indicated the District had changed its method of accounting for non-exchange transactions and its presentation of the Statement of Cash Flows to include restricted cash and cash equivalents, and have issued our report thereon dated March 20, 2003. 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 general purpose 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 and 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 general purpose 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 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 general purpose 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.

Board of Trustees
Adams County Regional Water District
West Union, Ohio 45693
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*.
Page 2

This report is intended 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 & Company
Balestra & Company

March 20, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

ADAMS COUNTY REGIONAL WATER DISTRICT

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 12, 2003**