JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

REGULAR AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Jefferson Regional Water Authority
Montgomery County
P.O. Box 369
Miamisburg, OH 45342

To the Board of Trustees:

We have audited the accompanying financial statements of the Jefferson Regional Water Authority (the Authority), Montgomery County, as of and for the year ended December 31, 2001. These financial statements are the responsibility of the Authority'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 Jefferson Regional Water Authority, Montgomery County, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2002, on our consideration of the Authority'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.

This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

October 1, 2002

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JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

BALANCE SHEET
AS OF DECEMBER 31, 2001

Assets:	
Cash and Cash Equivalents	$465,215
Special Assessment Receivable	20,457
Accounts Receivable (Net)	96,334
Materials and Supplies Inventory	16,547
Prepaid Items	2,466
Restricted Assets:	
Cash and Cash Equivalents	130,000
Fixed Assets (Net)	2,964,167
Total Assets	3,695,186
Liabilities and Fund Equity	
Liabilities:	
Accounts Payable	15,361
Accrued Wages	5,254
Intergovernmental Payable	2,329
Accrued Interest Payable	28,250
Compensated Absences Payable	1,888
FMHA Loan Payable	1,695,000
OWDA Loan Payable	532,243
Total Liabilities	2,280,325
Fund Equity:	
Retained Earnings	
Reserved for FMHA Loan	130,000
Unreserved Retained Earnings	1,284,861
Total Fund Equity	1,414,861
Total Fund Equity and Liabilities	$3,695,186

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

JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2001

Operating Revenues:	
Charges for Services	$524,821
Tap-In Fees	30,344
Miscellaneous	6,737
Total Operating Revenues	561,902
Operating Expenses:	
Personal Services	148,643
Contractual Services	164,027
Materials and Supplies	43,903
Other	5,242
Depreciation	132,804
Total Operating Expenses	494,619
Operating Income	67,283
Non-Operating Revenues (Expenses):	
Interest	20,625
Interest and Fiscal Charges	(127,061)
Sale of Fixed Assets	2,731
Total Non-Operating Revenues (Expenses)	(103,705)
Net Loss	(36,422)
Retained Earnings Beginning of the Year	1,451,283
Retained Earnings End of Year	$1,414,861

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

JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2001

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Charges for Services	$532,000	$513,818	($18,182)
Tap-In Fees	30,000	30,344	344
Interest	22,500	20,625	(1,875)
Other Operating Revenues	11,700	9,048	(2,652)
Total Revenues	596,200	573,835	(22,365)
Expenses:			
Personal Services	151,400	143,029	8,371
Contractual Services	105,450	164,237	(58,787)
Materials and Supplies	84,400	47,107	37,293
Capital Outlay		22,341	(22,341)
Other Operating Expenses	7,300	6,704	596
Debt Service:			
Principal Retirement		66,172	(66,172)
Interest and Fiscal Charges	134,000	128,561	5,439
Total Expenses	482,550	578,151	(95,601)
Excess of Revenues Over/(Under) Expenses	113,650	(4,316)	(117,966)
Other Financing Revenues:			
Sale of Fixed Asset		2,731	2,731
Excess of Revenues and Other Financing Revenues Over/(Under) Expenses	113,650	(1,585)	(115,235)
Fund Equity at the Beginning of the Year	596,800	596,800	
Fund Equity at the End of Year	$710,450	$595,215	($115,235)

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

JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

	PROPRIETARY FUND TYPES ENTERPRISE
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash received from charges for services	$513,818
Cash received from other operating services	39,392
Cash payments for personal services	(143,029)
Cash payments for contractual services	(164,237)
Cash payments for material and supplies	(47,107)
Cash payments for other expenses	(6,704)
Net cash provided by operating activities	192,133
Cash flows from capital and related financing activities:	
Debt payments	(194,733)
Sale of Assets	2,731
Acquisition of capital assets	(22,341)
Net cash used for capital and related financing activities	(214,343)
Cash flows from investing activities:	
Interest received on investments	20,625
Net cash provided by investing activities	20,625
Net (decrease) in cash and cash equivalents	(1,585)
Cash and cash equivalents at beginning of year	596,800
Cash and cash equivalents at end of year	$595,215
Reconciliation of operating income to net cash provided by operating activities:	
Operating Income	$67,283
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	132,804
Increase in special assessment receivable	(2,294)
Increase in accounts receivable	(1,985)
Decrease in prepaid items	356
Increase in accounts payable	(3,157)
Increase in accrued wages and benefits	(438)
Increase in intergovernmental payable	(1,936)
Decrease in accrued interest payable	1,500
Total adjustments	124,850
Net cash provided by operating activities	$192,133

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

1. REPORTING ENTITY

The Jefferson Regional Water Authority, Montgomery County, (the Authority), 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 Authority was organized to provide water services to members of the district. The Authority is directed by a nine-member Board of Trustees elected, for a three-year term, by the members of the district. The board has complete authority over all aspects of the operation.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Authority are not misleading. The primary government consists of all departments, bards and agencies that are not legally separate from the Authority.

Component units are legally separate organizations for which the Authority is financially accountable. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's governing board and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or is obligated for the debt of the organization. Component units also includes organizations that are fiscally dependent on the Authority in that the Authority approves the organization's budget, the issuance of its debt or levying of its taxes. The Authority has no component units.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

All transactions of the Authority are accounted for in a single enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where it has been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Measurement Focus and Basis of Accounting (Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into reserve and retained earnings components. The Authority does not have contributed capital. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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. The Authority follows the accrual basis of accounting whereby revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year-end.

B. Budgetary Accounting

The Ohio Revised Code requires the Authority to adopt an annual operating budget. Budgetary control is exercised at the object level. Budget information is reported to the Board of Trustees. As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported in the notes to the financial statements. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

1. Appropriations

Budgetary expenditures (that is, expenses and encumbrances) may not exceed appropriations at the function or object level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Authority did not use the encumbrance method of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Cash Equivalents

Cash balances of the Authority are invested in short-term investments in order to provide improved cash management. These balances are presented on the balance sheet in the account “Cash and Cash Equivalents.” During 2001, investments consisted of overnight repurchase agreements, which are reported at cost.

The Authority’s investments are categorized to give an indication of the level of risk assumed by the Authority at fiscal year end. At fiscal year end, the Authority’s investments were categorized as category 3. 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 Authority’s name.

For purpose of the statement of cash flows and for presentation on the balance sheet, investments with an initial maturity of three months or less are considered to be cash equivalents.

D. Inventory of Supplies

Inventory of the enterprise fund is stated at the lower of cost or market. The costs of inventory items are recorded as expenses in the enterprise fund when used.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2001, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

F. Fixed Assets and Depreciation

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset of materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The Authority maintains a capitalization threshold of five hundred dollars.

Depreciation of fixed assets is computed using the straight-line method over the following estimated useful lives:

Infrastructure	40 years
Buildings	40 years
Equipment	10 years
Vehicles	5 years
Machinery	10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Compensated Absences

The Authority follows the provisions of Governmental Accounting Standards Board No. 16, "Accounting for Compensated Absences." The Authority only has one type of leave "paid time off" (PTO). Unused leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributed to services already rendered and it is probable that the Authority will compensate the employee for the benefits through paid time off or some other means.

The Authority records a liability for all accumulated unused leave time when earned for all employees with more than one year of service. These amounts are recorded in the account "compensated absences payable."

H. Reservations of Fund Balance

The Authority reserves fund balances for amounts that are legally segregated for a specific purpose or which are not available for current appropriations or expenditures because of their non-monetary nature or lack of liquidity. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balance has been reserved for FMHA Loan.

I. Estimates

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

3. DEPOSITS AND INVESTMENTS

The investments and deposits of the Authority's monies are governed by the Ohio Revised Code. State statutes classify monies held by the Authority 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 Authority's 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 or deposit account including passbook accounts.

3. DEPOSITS AND INVESTMENTS (Continued)

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director 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.

Inactive monies are permitted to be deposited or invested in the following securities:

A. 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;

B. 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;

C. 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;

D. Bonds and other obligations of the State of Ohio;

E. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

F. The State Treasurer's investment pool (STAR Ohio).

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 Authority, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payments 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 and investments by categories of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements".

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits

At year end, the carrying amount of the Authority's deposits was $176,489 and the bank balance was $226,353. Of the bank balance, $159,477 was covered by federal depository insurance, and $66,876 was uninsured and uncollateralized. Although the securities serving as collateral was held by the pledging financial institutions' trust department in the Authority's name and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Authority to a successful claim by the Federal Deposit Insurance Corporation. In addition, the Authority had $500 in a petty cash fund.

Investments

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the Authority's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority'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 Authority'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 Authority's name.

	Category 1	Category 2	Category 3	Carrying and Fair Value
Repurchase Agreement	$0	$0	$418,226	$418,226

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Government Entities that use Proprietary Fund Accounting." The reconciliation between classifications of cash and cash equivalents and investments on the general purpose financial statements and the classifications per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	$595,215	$0
Repurchase Agreement	(418,226)	418,226
GASB Statement 3	$176,989	$418,226

4. ACCOUNTS RECEIVABLE

Accounts receivable represent monies due from customers for their portion of water services, and are considered collectible in full.

5. FIXED ASSETS

A summary of the Authority's fixed assets as December 31, 2001, follows:

	2001
Land	$ 110,816
Infrastructure	4,237,160
Buildings	748,343
Equipment	48,935
Vehicles	21,209
Machinery	40,998
Total	5,207,461
LESS: Accumulated Depreciation	(2,243,294)
Total	$ 2,964,167

6. LOANS PAYABLE

The Authority had the following loans outstanding at December 31, 2001.

	Balance at 12/31/2000	Additions	Deletions	Balance at 12/31/2001
FMHA Loan, 1982, 5.00%	$1,740,000	$0	$45,000	$1,695,000
OWDA Loan, 1991, 7.51%	553,415	0	21,172	532,243
Total Loans	$2,293,415	$0	$66,172	$2,227,243

Farmers Home Administration (FMHA) Loan 1982 - The loan was issued on September 1, 1982, for a period of 40 years with an interest rate of 5.00 percent. The original issue was for $2,232,000. Current operations are expected to provide sufficient cash flows to fund debt service requirements.

Ohio Water Development Authority (OWDA) Loan 1991 - The loan was issued on July 1, 1991, for a period of 25 years in the amount of $698,674 with an interest rate of 7.51 percent. Current operations are expected to provide sufficient cash flows to fund debt service requirements.

The annual debt service requirements for payment of principal and interest at December 31, 2001 are as follows:

6. LOANS PAYABLE (Continued)

FMHA Loan 1982

	Principal	Interest	Total
2002	$45,000	$84,750	$129,750
2003	50,000	82,500	132,500
2004	50,000	80,000	130,000
2005	55,000	77,500	132,500
2006 - 2010	320,000	343,000	663,000
2011 - 2015	405,000	205,250	610,250
2016 - 2020	525,000	142,500	667,500
2021 - 2022	245,000	18,500	263,500
Totals	$1,695,000	$1,034,000	$2,729,000

OWDA Loan 1991

	Principal	Interest	Total
2002	$22,761	$39,972	$62,733
2003	24,471	38,262	62,733
2004	26,309	36,424	62,733
2005	28,285	34,449	62,734
2006 - 2010	176,661	137,004	313,665
2011 - 2016	253,756	59,909	313,665
Totals	$532,243	$346,020	$878,263

7. RISK MANAGEMENT

The Authority 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. The Authority carries liability insurance with Swartzel/Affiliated Insurance. The Authority pays an annual premium for this coverage.

The following is a list of insurance coverage and deductibles for 2001:

Coverage	Limit	Deductible
Property	$1,435,275	$500
General Liability	3,000,000	0
Computer Equipment	Replacement Cost	250
Inland Marine	63,739	250
Automobile:		
Liability	300,000	None
Comprehensive	Actual Cash Value	50
Collision	Actual Cash Value	250

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT PENSION PLAN

The Authority's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer public employee retirement system 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.

Contribution rates are also prescribed by the Ohio Revised Code. For 2001, PERS members contributed 8.5% of their gross salaries. The 2001 employer pension contribution rate for the Authority was 9.25 percent of covered payroll, an increase from 6.54 percent in 2000. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Authority's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999, were $13,819, $10,594, and $13,832, respectively. The full amount has been contributed for 2000 and 1999. 97 percent has been contributed for fiscal year 2001. The $438 representing the unpaid contribution for year 2001 is recorded as a liability.

9. PUBLIC EMPLOYEES RETIREMENT SYSTEM POST EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2001 contribution rate was 13.55 percent of covered payroll; 4.3 percent of each employer contribution will be used to fund health care. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.3 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's 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 annual 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 Authority's actual contributions for 2000 which were used to fund post-employment benefits were $594. 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 $14,364.60 million and $2,628.7 million, respectively.

9. PUBLIC EMPLOYEES RETIREMENT SYSTEM POST EMPLOYMENT BENEFITS (Continued)

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

10. OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plan

The Authority's employees participate in the Ohio Public Employees Deferred Compensation Plan. This plan is created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

B. Insurance Benefits

The Authority pays 100 percent of health care premiums for all full time employees. Health insurance coverage is provided by United Healthcare of Ohio, Inc.

C. Compensated Absences

The Authority's employees earn paid time off (PTO) leave based on length of service. Employees may accrue an unlimited amount of PTO days. In the event of a termination of employment, death or retirement, the employee (or the estate) would be paid for unused leave. The total obligation for leave accrual for the Authority amounted to $1,888 at December 31, 2001.

11. BUDGETARY BASIS OF ACCOUNTING

While the Authority is reporting financial position, results of operations, and changes in retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash revenues, and expenses. The Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

B. Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

C. The acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

D. Principal payments made on the OWDA and FMHA loan payable are reported on the operating statement (budget basis) rather than as a balance sheet transaction (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements.

11. BUDGETARY BASIS OF ACCOUNTING (Continued)

	Net Income/Excess of Revenues Over Expenses
GAPP Basis	($36,422)
Net Adjustment for Revenues Accruals	(8,692)
Net Adjustment for Expenditure Accruals	(762)
Principal Payment	(66,172)
Capital Asset Acquisitions	(22,341)
Depreciation	132,804
Budget Basis	($1,585)

12. LITIGATION

The Authority is a party in a lawsuit. Although the outcome of this suit is not presently determinable, counsel believes that the resolution of this matter will not materially aversely affect the Authorities financial condition.

13. NONCOMPLIANCE

Ohio Rev. Code Section 5705.41(B) prohibits expenditures unless the funds have been properly appropriated. At December 31, 2001, total expenditures exceeded total appropriations at the legal level of control, in the contractual services, capital outlay and debt principal retirement line items.

Ohio Rev. Code Section 5705.41 (D), provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money without attaching thereto the certificate of the fiscal officer of the subdivision that the amount required to meet the same in the fiscal year in which the contract is made 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. The Authority failed to certify funds for all expenditure transactions tested during 2001.

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

Jefferson Regional Water Authority
Montgomery County
P.O. Box 369
Miamisburg, OH 45342

To the Board of Trustees:

We have audited the accompanying financial statements of Jefferson Regional Water Authority (the Authority) as of and for the year ended December 31, 2001, and have issued our report thereon dated October 1, 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 Authority'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 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 2001-60357-001 and 2001-60357-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated October 1, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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. 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 not matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Authority in a separate letter dated October 1, 2002.

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

Jim Petro
Auditor of State

October 1, 2002

JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001

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

FINDING NUMBER 2001-60357-001

Ohio Rev. Code Section 5705.41(B) prohibits expenditure of monies unless the funds have been properly appropriated. This Section also prohibits expenditures from exceeding appropriations at the legal level of budgetary control. At December 31, 2001, total expenditures exceeded total appropriations at the legal level of control, in the following line items:

Line Item	Total Expenditures	Total Appropriations	Variance
Contractual Services	$164,237	$105,450	($58,787)
Capital Outlay	$22,341	$0	($22,341)
Debt Principal Retirement	$66,172	$0	($66,172)

During fiscal year 2001, total expenditures for the Authority exceed total appropriations by $95,601 or 16%. An amendment to appropriations should have been adopted. The Authority should monitor budgetary reports throughout the year to ensure budgetary expenditures do not exceed appropriations at the legal level of control. In instances where it appears appropriations are insufficient to meet projected needs, the Authority's Board of Trustees should pass a resolution to amend appropriations.

FINDING NUMBER 2001-60357-002

Ohio Rev. Code Section 5705.41 (D) provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money without attaching thereto the certificate of the fiscal officer of the subdivision that the amount required to meet the same in the fiscal year in which the contract is made 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. Contracts and orders for expenditures lacking prior certification should be null and void.

This section also provides an exception to this requirement:

> If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that these funds were properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over $1,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

The Authority failed to certify funds for all expenditure transactions tested during 2001. Failure to certify obligations prior to incurring the obligations could result in deficit spending by the Authority. The Authority should comply with the abovementioned section of Ohio Revised Code by verifying amounts are certified before obligations are incurred.

JEFFERSON REGIONAL WATER AUTHORITY
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2000-60357-001	ORC 5705.41(B), expenditures exceeding appropriations	No	Finding repeated in current audit as finding 2001-60357-001.
2000-60357-002	ORC 5705.41(D), failure to certify funds	No	Finding repeated in current audit as finding 2001-60357-002.

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JEFFERSON REGIONAL WATER AUTHORITY

MONTGOMERY 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
NOVEMBER 7, 2002