

NORTHWESTERN WATER AND SEWER DISTRICT
(Formerly Wood County Regional Water and Sewer District)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees
Northwestern Water & Sewer District

We have reviewed the Independent Auditor's Report of the Northwestern Water & Sewer District, Wood County, prepared by Weber O'Brien Ltd. for the audit period January 1, 2001 through December 31, 2001. 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 Northwestern Water & Sewer District is responsible for compliance with these laws and regulations.

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

JIM PETRO
Auditor of State

June 19, 2002

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NORTHWESTERN WATER AND SEWER DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Northwestern Water and Sewer District
One Courthouse Square
P.O. Box 348
Bowling Green, Ohio 43402

We have audited the accompanying balance sheets of the Northwestern Water and Sewer District (formerly Wood County Regional Water and Sewer District - the "District") as of December 31, 2001 and 2000, and the related statements of revenues, expenses and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 2002 on our consideration of the District's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Board of Trustees
Northwestern Water and Sewer District
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Our audits were performed for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the additional information on pages 25-30, which is presented for purposes of additional analysis, are not a required part of the financial statements. Such additional information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated, in all material respects in relation to the financial statements taken as a whole.

W. Ober O'Brien, CTO.

April 12, 2002

NORTHWESTERN WATER AND SEWER DISTRICT
BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 244,206	\$ 3,423,369
Investments - (Note 2)	4,107,759	440,174
Accounts receivable - trade	1,620,779	1,601,007
Other receivables	627,958	450,000
Special assessments receivable - current portion	369,660	287,192
Inventory	166,851	219,487
Prepaid expenses	46,400	21,702
Total current assets	<u>7,183,613</u>	<u>6,442,931</u>
Restricted assets (Note 2):		
Board restricted:		
Investments	1,275,640	1,607,789
Restricted for debt retirement:		
Cash and cash equivalents	400,179	990,483
Investments	798,000	-
Total restricted assets	<u>2,473,819</u>	<u>2,598,272</u>
Special assessments receivable	5,500,813	5,973,873
Reserve with County Commissioners (Note 6)	258,769	258,769
Deferred loan costs - net of accumulated amortization of \$46,230 and \$37,950, respectively	36,521	44,801
Fixed assets:		
Land	200,578	200,578
Sewer and water lines	96,614,932	92,697,555
Buildings, pumps and lift stations	4,824,318	4,648,168
Machinery and equipment	1,035,134	1,007,223
Vehicles	877,093	848,763
Furniture and fixtures	32,969	32,969
Computer equipment	253,047	226,859
Improvements-Oregon Waste Water Trtmt. Plant	3,539,929	3,083,226
Construction in progress	7,167,945	4,319,273
Total fixed assets	<u>114,545,945</u>	<u>107,064,614</u>
Accumulated depreciation and amortization	<u>(43,363,203)</u>	<u>(41,210,265)</u>
Net fixed assets	<u>71,182,742</u>	<u>65,854,349</u>
 Total assets	 <u><u>\$ 86,636,277</u></u>	 <u><u>\$ 81,172,995</u></u>

"SEE INDEPENDENT AUDITORS' REPORT"

"THE ACCOMPANYING NOTES ARE AN INTEGRAL
PART OF THESE FINANCIAL STATEMENTS"

	<u>2001</u>	<u>2000</u>
LIABILITIES		
Current liabilities:		
Notes payable (Note 4)	\$ 2,965,000	\$ 400,000
Current portion of long-term debt (Note 5)	710,387	763,417
Accounts payable - trade	254,641	238,953
Accounts payable - other	674,880	182,387
Compensated absences payable (Note 9)	104,300	89,544
Accrued payroll and payroll taxes	77,660	92,493
Accrued interest payable	323,481	335,918
Amounts due others	<u>129,302</u>	<u>119,308</u>
Total current liabilities	5,239,651	2,222,020
Long-term debt, less current portion (Note 5)	<u>13,027,218</u>	<u>13,720,404</u>
Total liabilities	<u>18,266,869</u>	<u>15,942,424</u>
Contingencies and commitments (Note 11)		
EQUITY		
Contributed Capital (Note 7)	63,760,952	61,081,437
Retained earnings	<u>4,608,456</u>	<u>4,149,134</u>
Total equity	<u>68,369,408</u>	<u>65,230,571</u>
Total liabilities and equity	<u><u>\$ 86,636,277</u></u>	<u><u>\$ 81,172,995</u></u>

NORTHWESTERN WATER AND SEWER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND RETAINED EARNINGS
 YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
Operating Revenues:		
Utility revenue	\$ 4,028,301	\$ 3,797,329
Fees and permits	173,963	200,875
Contract services	111,745	118,543
Other	54,496	30,186
Total operating revenues	4,368,505	4,146,933
Operating Expenses:		
Depreciation and amortization	2,230,902	2,157,864
Labor	1,030,419	1,022,876
Employee Benefits	393,127	332,596
Professional services	419,747	598,944
Purchased water	599,660	495,316
Materials and supplies	464,433	469,449
Utilities	261,239	220,317
Rent	24,274	26,013
Other	126,422	101,723
Total operating expenses	5,550,223	5,425,098
 Operating revenues over (under) operating expenses	 (1,181,718)	 (1,278,165)
Nonoperating revenues (expenses):		
Interest income	668,883	759,655
Interest expense	(771,955)	(845,477)
Other	(63,983)	(18,582)
Net nonoperating revenues (expenses)	(167,055)	(104,404)
 Net expense (over) revenues	 (1,348,773)	 (1,382,569)
 Transfer from contributed capital to retained earnings amount equal to current depreciation and amortization on assets acquired through contributed capital and capital grants (Note 7)	 1,808,095	 1,726,458
 Net change to retained earnings	 459,322	 343,889
Retained Earnings - beginning	4,149,134	3,805,245
Retained Earnings - ending	\$ 4,608,456	\$ 4,149,134

"SEE INDEPENDENT AUDITORS' REPORT"

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NORTHWESTERN WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
<u>CASH FLOWS FROM OPERATIONS:</u>		
Excess of operating expenses over revenues	\$(1,181,718)	\$(1,278,165)
Adjustments to reconcile to net cash:		
Depreciation and amortization	2,230,902	2,157,864
Changes in operating assets and liabilities that increase (decrease) cash flows:		
Special assessments receivable	390,592	(1,532,726)
Accounts and grants receivable	428,270	(371,988)
Inventory	52,636	(4,002)
Other	(9,942)	2,824
Accounts payable	15,688	(218,735)
Accrued payroll and payroll taxes	(14,833)	15,221
Amounts due others	9,994	(123,526)
Total adjustments	3,103,307	(75,068)
NET CASH PROVIDED (USED) BY OPERATIONS	1,921,589	(1,353,233)
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING:</u>		
Capital contributed	233,292	2,050,105
Proceeds from capital grant	2,990	590,261
System development fees	817,318	579,019
Acquisition and construction of fixed assets, net of related payables	(4,241,469)	(3,317,119)
Proceeds on sale of fixed assets	-	6,305
Proceeds from issuance of short-term notes	2,965,000	5,827,000
Proceeds from issuance of long-term debt	-	5,336,972
Repayment of short-term notes	(400,000)	(9,315,000)
Repayment of long-term debt	(746,216)	(551,049)
Interest paid	(784,392)	(834,912)
NET CASH PROVIDED (USED) BY FINANCING	(2,153,477)	371,582
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Interest received	668,883	759,655
Proceeds on sale of investments	6,017,716	208,280
Purchases of investments	(10,224,178)	(703,036)
NET CASH PROVIDED (USED) BY INVESTING	(3,537,579)	264,899
 <u>DECREASE IN CASH AND CASH EQUIVALENTS</u>	 (3,769,467)	 (716,752)
Cash and cash equivalents - beginning of year	4,413,852	5,130,604
 <u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	 \$ 644,385	 \$ 4,413,852
Restricted cash	\$ 400,179	\$ 990,483
Unrestricted cash	\$ 244,206	\$ 3,423,369

"SEE INDEPENDENT AUDITORS' REPORT"

"THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS"

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Northwestern Water and Sewer District (District) commenced operations on January 1, 1994. The District was created upon approval by the Wood County Court of Common Pleas pursuant to Section 6119 of the Ohio Revised Code for the purpose of supplying water and providing for the collection, treatment, and disposal of wastewater to users within and without the District. The District was previously known as the Wood County Sanitary Engineer's Office and was under the control of Wood County (the County). Upon commencement, the County transferred the use of all related assets and liabilities to the District at carrying value.

Effective January 1, 2001, the District changed its legal name to Northwestern Water and Sewer District from Wood County Regional Water and Sewer District.

The District is governed by a nine-member Board of Trustees (Board), three appointed by the participating municipalities, three by the participating townships, and three by the County Commissioners. Board members serve staggered terms of six years. The Board controls the employment of the Executive Director of the District, who is responsible for staffing the respective departments and overseeing the day-to-day operations.

The District is authorized to issue revenue bonds and notes to finance the cost of projects which are payable from the revenues of the District. The District is also authorized to levy taxes for the current expenses of the District or for the issuance of bonds upon approval of a majority of the electorate. The District may also assess real estate for certain improvements and issue bonds in anticipation of the collection of such special assessments. The District has not exercised these taxing powers.

As a political subdivision, the District is distinct from, and is not an agency of, the State of Ohio or any other local governmental unit. The District is not subject to federal, state, or local income taxes or sales taxes.

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government." A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability is the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The District does not have financial accountability over any entities.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Process

Beginning with fiscal year 2000 the District is required by law to budget its funds, through adoption of an operating budget by July 15 of each year for the following fiscal year. The operating budget includes estimates for total revenues, total expenses, and debt service requirements for the fiscal year. The District prepares its operating budget on the accrual basis of accounting, the same basis on which its financial statements are prepared.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

Cash and Cash Equivalents

The District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounts Receivable – Trade

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is included in the financial statements. When amounts are deemed to be uncollectible, they are expensed in the year in which that determination is made.

Deferred Loan Costs

Deferred loan costs are amortized using the straight-line method over the term of the related debt.

Special Assessments Receivable

Special assessments receivable include amounts due from property owners that benefited from projects constructed by the District. The District receives proceeds from the property owners through assessments collected by the County over a 20 year period.

Inventory

Inventory items are stated at lower of cost or market. Inventory consists primarily of water meters and maintenance parts and supplies for the water and sewer lines.

Fixed Assets

Fixed assets are recorded at cost. Costs that materially add to the productive capacity or extend the life of an asset are capitalized while maintenance and repair costs are expensed as incurred. Contributed assets are stated at fair value at the time of contribution.

Depreciation is recorded using the straight-line method over the estimated lives of the depreciable assets.

Construction in process includes all of the District's costs to develop fixed asset projects. The projects are funded through Board restriction of assets and construction loans. Interest expense incurred throughout the construction phase of a project is capitalized as part of the cost of the asset under construction to the extent it exceeds interest income on the related invested debt proceeds. The District capitalized interest of \$72,000 and \$56,700 for the years ended December 31, 2001 and 2000, respectively.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investments

Investments are stated at fair value.

Restricted Assets

Restricted assets consist of monies and other resources which are restricted by the District's Board of Trustees or as specified in debt agreements. These restrictions are described below:

Board Restricted Assets - These assets are restricted for capital and operating expenditures, and debt service.

Restricted in Accordance with Debt Agreements - These assets are restricted in accordance with the debt agreements to satisfy debt service requirements.

Contributed Capital, Grants and Assistance

Contributed capital relates primarily to the excess of the book value of assets transferred from the County over the liabilities assumed by the District upon creation of the District. Contributed capital also includes system development fees, assets whose construction was financed by special assessments, and donations from private sources. Grants for the acquisition of fixed assets are credited to contributed capital as the related qualified expenditures are incurred. Any grant cash received prior to the incurrence of related qualified expenditures is deferred. Depreciation on fixed assets resulting from contributed capital and capital grants is computed using the straight-line method and such depreciation is transferred from retained earnings and reported as a reduction to contributed capital.

User Rates and Expenses

The District's sewer and water utility rates are determined in conjunction with periodic rate studies performed by independent third parties. Nondirect expenses are generally allocated based upon management's estimate of costs applicable to the respective divisions. Nondirect expenses were allocated to the sewer and water divisions, 62% and 38%, respectively.

Compensated Absences

The District follows GASB Statement No. 16, Accounting for Compensated Absences, which requires that a liability be accrued if it is probable that the employee will be compensated through cash payment.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 2 - CASH AND INVESTMENTS

Deposits

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

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

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

The District's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the District or its safekeeping agent in the District's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the District's name. Category 3 includes uninsured and uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the District's name.

NORTHWESTERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 2 - CASH AND INVESTMENTS, Continued

The carrying value of the District's deposits was \$140,393 and \$1,256,164 at December 31, 2001 and 2000, respectively. The following shows the bank balances of the District's deposits in each category:

- Category 1. \$100,000 was covered by federal depository insurance.
- Category 3. \$91,019 and \$1,277,546 as of December 31, 2001 and 2000, respectively, was covered by collateral held by the pledging financial institution, but not in the name of the District.

A reconciliation of the carrying value of the District's deposits above to the balance sheet follows:

	<u>2001</u>	<u>2000</u>
Deposits	\$140,393	\$1,256,164
Cash Equivalents	<u>103,813</u>	<u>2,167,205</u>
Unrestricted Cash and Cash Equivalents Total	<u>\$244,206</u>	<u>\$3,423,369</u>

Collateral is required for demand deposits and certificates of deposit at 105 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments

State Statute and Board Resolutions authorize the District to invest in obligations of U. S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. 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 finance director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

NORTHWESTERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 2 - CASH AND INVESTMENTS, Continued

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2001 and 2000.

The District's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category A 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 B 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 C includes uninsured and unregistered investments for which securities are held by the counterparty or its Trust department but not in the District's name. Star Ohio is not classified, since it is not evidenced by securities that exist in physical or book entry form.

The District's investments consist of the following:

<u>INVESTMENT</u>	<u>2001</u>		<u>2000</u>	
	<u>CATEGORY B</u>	<u>CARRYING/ FAIR VALUE</u>	<u>CATEGORY B</u>	<u>CARRYING/ FAIR VALUE</u>
U.S. Treasuries and Federal Agency Obligations	\$6,181,398	\$6,181,398	\$2,048,763	\$2,048,763
Money Market Mutual Funds	56,977	56,977		-0-
Star Ohio		<u>447,016</u>		<u>3,156,888</u>
Total Investments (including restricted)		<u>\$6,685,391</u>		<u>\$5,205,651</u>

The above amounts are included in the balance sheet as follows:

	<u>2001</u>	<u>2000</u>
Unrestricted	\$4,211,572	\$2,607,379
Restricted	<u>2,473,819</u>	<u>2,598,272</u>
Total	<u>\$6,685,391</u>	<u>\$5,205,651</u>

NORTHWESTERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2001 was as follows:

	<u>Budget</u>	<u>Actual</u>	Favorable/ (Unfavorable) <u>Variance</u>
Total Revenue	\$4,748,563	\$5,037,388	\$288,825
Total Expenses	4,735,294	4,578,066	157,228
Debt Service - Principal	885,993	746,216	139,777

Budgetary activity for the year ended December 31, 2000 was as follows:

	<u>Budget</u>	<u>Actual</u>	Favorable/ (Unfavorable) <u>Variance</u>
Total Revenue	\$4,643,000	\$4,906,588	\$263,588
Total Expenses	\$4,357,000	\$4,562,699	(\$205,699)
Debt Service - Principal	\$ 547,089	\$ 551,049	(\$ 3,960)

The above budget vs. actual comparison was prepared on the same accrual basis of accounting used to prepare the District's financial statements.

NOTE 4 - NOTES PAYABLE

Notes payable issued to provide temporary financing of sewer and water construction projects outstanding at December 31, 2001 and 2000 are as follows:

Date of <u>Issue</u>	<u>Purpose</u>	Interest <u>Rate</u>	2001		2000	
			<u>Maturity Date</u>	<u>Amount Outstanding</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>
11/01/01	MidStar/Stearnscrest SS	3.32%	11/01/02	\$2,750,000		\$ -0-
05/11/01	Rudolph SS	4.50%	05/09/02	215,000		-0-
05/12/00	Stearnscrest/Rudolph SS	6.00%	05/12/01	-0-	5/12/01	400,000
	Total Notes Payable			<u>\$2,965,000</u>		<u>\$400,000</u>

The notes are secured by the underlying fixed assets.

NORTHWESTERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 5 - DEBT

Ohio Water Development Authority Loans Payable

The District has five loans with the Ohio Water Development Authority (OWDA) to finance the cost of developing and improving the water and sewer systems. The following table shows remaining principal amounts outstanding on the individual loans as of December 31, 2001 and 2000:

<u>Project Number</u>	<u>Date of Loan</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Final Payment Date</u>	<u>2001</u>	<u>2000</u>
					<u>Amount Outstanding</u>	<u>Amount Outstanding</u>
SS #200	6/16/71	\$1,367,947	5.25%	7/01/01	\$ -0-	\$ 87,588
SS #140	9/29/94	1,065,000	4.18%	7/01/14	787,138	831,924
WL #234	7/27/95	5,496,313	6.36%	1/01/16	4,582,443	4,772,223
WL #167-183	5/27/99	3,503,947	5.56%	7/01/20	3,404,920	3,503,947
SS #904 & WL #904	8/31/00	1,660,596	3.0% -6.39%	1/01/21	<u>1,629,996</u>	<u>1,660,596</u>
					<u>\$10,404,497</u>	<u>\$10,856,278</u>

Other long-term loans at December 31, 2001 and 2000 are as follows:

<u>Date of Issue</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>2001 Amount Outstanding</u>	<u>2000 Amount Outstanding</u>
1/01/87	Sewer Improvement - SS #220	7.76%	12/31/06	\$ 295,830	\$ 333,477
12/01/97	Jerry City SS/Cygnnet Lagoon	6.04%	12/01/36	214,956	216,759
8/13/98	Jerry City SS #1800 OPWC Loan	0.00%	7/01/19	455,122	480,407
9/08/98	Jerry City SS #1800 USDA Loan	4.75%	9/08/38	<u>279,200</u>	<u>281,900</u>
				<u>\$1,245,108</u>	<u>\$1,312,543</u>

Bonded debt at December 31, 2001 and 2000 are as follows:

<u>Date of Issue</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>2001 Amount Outstanding</u>	<u>2000 Amount Outstanding</u>
6/06/96	1996 Revenue Refunding Bond	\$1,775,000	5.70%	12/01/06	\$ 935,000	\$1,095,000
9/17/96	Special Assessments Bond	277,159	6.20%	12/01/16	208,000	235,000
10/01/98	Special Assessments Bonds	360,000	4.25 - 5.25%	10/01/18	305,000	325,000
9/23/99	Special Assessments Bonds	500,000	5.85%	12/01/19	470,000	485,000
9/20/00	Special Assessments Bonds	175,000	6.13%	12/01/20	<u>170,000</u>	<u>175,000</u>
					<u>\$2,088,000</u>	<u>\$2,315,000</u>

NORTHWESTERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 5 - DEBT, Continued

Debt is secured by the underlying fixed assets, assessments against property owners or general revenues of the District.

The District is subject to certain restrictive debt covenants, including financial ratio requirements such as maintenance of minimum debt service coverage ratios.

The annual principal and interest requirements on all long term debt outstanding at December 31, 2001 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 710,387	\$ 728,069	\$ 1,438,456
2002	741,448	689,609	1,431,057
2003	788,950	532,716	1,321,666
2004	828,089	605,442	1,433,531
2005	859,698	582,599	1,442,297
2006 and Thereafter	<u>9,809,033</u>	<u>4,067,806</u>	<u>13,876,839</u>
Total	<u>\$13,737,605</u>	<u>\$7,206,241</u>	<u>\$20,943,846</u>

At December 31, 2001 and 2000, respectively, the District had \$1,198,179 and \$990,483 in cash and cash equivalents and investments restricted in accordance with loan agreements.

NOTE 6 - COUNTY DEBT OBLIGATIONS

The County has issued special assessment debt on behalf of the District to fund District projects. This debt will be paid from the proceeds of special assessments levied against those property owners that benefited from the projects. In the event that property owners fail to make their special assessment payments, the County is responsible for the annual principal and interest payments. This debt is backed by the full faith and credit of the County and is not reflected in the District's financial statements.

At December 31, 2001 and 2000, \$3,276,000 and \$3,668,000, respectively, in special assessment debt related to the District is outstanding. During the formation of the District, the County retained \$208,000 to establish a reserve to fund shortfalls in the collection of special assessments. Further, the District has agreed to advance additional funds, if necessary, to the extent shortfalls exceed the reserve. The County has agreed to remit to the District any balance that may be remaining in this reserve. During 2001 and 2000, the County did not make any withdrawals from the reserves; withdrawals in prior years have reduced this reserve to \$183,769 as of December 31, 2001 and 2000.

NORTHWESTERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 6 - COUNTY DEBT OBLIGATIONS, Continued

The County is also obligated for loans received from the Ohio Sewer and Rotary Commission (Rotary Commission) for the District's sewer and water line assessments, the collection of which is deferred or exempt pursuant to Section 6103.051 of the Ohio Revised Code. The County is responsible for collecting the assessments when the property no longer meets the exemption criteria. This money must be remitted to the Rotary Commission within one year, even if not collected by the County.

At both December 31, 2001 and 2000, \$2,197,000 in loans from the Rotary Commission are outstanding. These amounts have not been reflected in the District's financial statements, since the County is ultimately responsible for the payment of this debt. The County retained \$75,000 during the formation of the District to establish a reserve to fund shortfalls in the collection of amounts due. Further, the District has agreed to advance additional funds, if necessary, to the extent shortfalls exceed the reserve. The County has agreed to remit to the District any balance that may be remaining in this reserve. No withdrawals from the reserve were made during 2001 and 2000, or in prior years on this reserve.

NOTE 7 - CONTRIBUTED CAPITAL

Changes in contributed capital for the year ended December 31, 2001 and 2000 were as follow:

	<u>2001</u>	<u>2000</u>
Balances at January 1	\$61,081,437	\$57,620,427
Capital contributed	3,042,302	4,147,176
System development fees	817,318	496,792
Capital grant	627,990	543,500
Transfer from retained earnings the depreciation on assets acquired through contributed capital and capital grants	(1,808,095)	(1,726,458)
Balance at December 31	<u>\$63,760,952</u>	<u>\$61,081,437</u>

The additions to contributed capital include sewer and water lines financed through special assessments, system development fees, or private developers.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 8 - RETIREMENT AND OTHER BENEFIT PLANS

The employees of the District are covered by the Public Employees Retirement System of Ohio (PERS), a statewide cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50% of qualifying gross wages for all employees. The total 2001 employer contribution rate was 13.55% of covered payroll. The PERS Board instituted a temporary employer contribution rate rollback for 2000. The rate rollback was 20% for local government employers, for a net employer contribution rate of 10.84% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The District's contributions to P.E.R.S. for the years ending December 31, 2001, 2000 and 1999 were \$154,900, \$126,800 and \$144,200, respectively. All required contributions were made prior to each of those fiscal year ends.

Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and to primary survivor 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. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 and 2000 employer contribution rate was 13.55% and 10.84%, respectively, of covered payroll; 4.3% was the portion that was used to fund health care for both 2001 and 2000, which is \$49,100 and \$50,300 for 2001 and 2000, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contribution to PERS.

OPEB is financed through employer contributions and investment earnings thereon. During 2000, P.E.R.S. elected to return to advance funding of its OPEB's on an actuarially determined basis. The most recent actuarial valuation of P.E.R.S.' OPEB liability was performed as of December 31, 2000. The following significant actuarial assumptions were used in this valuation and the prior valuation as of December 31, 1999:

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 8 - RETIREMENT AND OTHER BENEFIT PLANS, Continued

Funding Method An entry age normal actuarial cost method of valuation is used in the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

Assets Valuation Method All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Investment Return The investment assumption rate was 7.75%.

Active Employee Total Payroll An annual increase of 4.75% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.

Health Care Costs Health care costs was assumed to increase 4.75% annually.

The number of active contributing participants of P.E.R.S. as of December 31, 2000 was 411,076. The contribution rates discussed above are the actuarially determined contribution requirements for P.E.R.S. The Retirement System's net assets available for OPEB had an actuarial value of \$11,735,900,000 as of December 31, 2000. The actuarial accrued liability as of that date was \$14,364,600,000 resulting in an unfunded actuarial accrued liability of \$2,628,700,000.

NOTE 9 - COMPENSATED ABSENCES

Vacation and sick leave policies are established by agreement between the District and the American Federation of State, County and Municipal Employees, for members of the bargaining unit, and by personnel policy for management employees not covered by the labor agreement.

For both union and non-union employees, these agreements provide for two weeks of paid vacation after one year of service, three weeks after eight years of service, four weeks after fifteen years of service, and five weeks after twenty-five years of service. Vacation time relating to a maximum of two years of service may be accumulated before it is lost.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 9 - COMPENSATED ABSENCES, Continued

For union personnel, the labor agreement provides for sick leave pay to be credited at a rate of 4.6 hours for each eighty hours "in active pay status." By limiting the use of sick leave during the fiscal year, an employee may receive a bonus.

In the event of termination of employment after ten consecutive years of service, or due to retirement, such employees are entitled to receive payment for one fourth of their accumulated sick leave, up to a maximum of 120 days.

At December 31, 2001 and 2000, \$104,300 and \$89,544, respectively, of vested compensated absences was accrued by the District, for both union and non-union personnel. Nonvested amounts have not been accrued, as the amounts are not material to the financial statements.

NOTE 10 - INSURANCE

The District maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. There were no significant reductions in coverage from the prior year, except for an uninsured motorists policy on the District's vehicles which was not renewed during 2001.

NOTE 11 - CONTINGENCIES AND COMMITMENTS

Grants

The District received financial assistance from a state agency in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of District management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at December 31, 2001 and 2000.

Construction Commitments

At December 31, 2001, the District has construction commitments, on which work has not commenced, totaling approximately \$6,876,000, which will be funded by existing resources or the issuance of new revenue debt.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 11 – CONTINGENCIES AND COMMITMENTS, Continued

Litigation and Claims

At December 31, 2001 and 2000, the District was involved in the following litigation:

City of Northwood v. Northwestern Water and Sewer District, Ohio Supreme Court Case 98-522.

This case began in August 1995 with the City of Northwood attempting to extend the District's water and sewer lines and provide service to an area without the District's approval. In October 1995, the City of Northwood attempted to appropriate the District's main transmission and local distribution waterlines and sewer lines within the City's boundaries. The District filed a separate action contending the City had no right under the Ohio Constitution to appropriate any of the District facilities.

The trial court found in favor of the District in 1997. After subsequent appeals by both parties, the matter was brought before the Ohio Supreme Court in 1998. The Ohio Supreme Court found in favor of the City but within certain limitations. The case was remanded back to the trial court, which ordered non-binding mediation of the case on March 14, 2000.

By settlement Agreement dated September 14, 2000 the parties resolved all claims asserted. The District agreed to pay to Northwood system development fees collected within the City for a ten (10) year term beginning in 1999 in an aggregate amount not to exceed \$500,000. Northwood relinquished any claim that it owns the District's facilities and any claim to appropriate the facilities. In 2001, the District remitted approximately \$40,400 of development fees. In 2000, the District remitted approximately \$147,100 of development fees covering 1999 and 2000, for cumulative fees paid under the agreement of \$187,500 at December 31, 2001.

City of Perrysburg v. City of Toledo and the Northwestern Water and Sewer District, Lucas County Case CI-1998-01930.

On March 30, 1998, the City of Perrysburg filed suit claiming it had the sole and exclusive right to provide water service within its Perrysburg Service Area (which includes part of Perrysburg Township) in Wood County and that it had the right to employ the District's line to transport water purchased from Toledo without charge. Both Toledo and the District counterclaimed. The District claims that it has the right to serve customers in this same service area and further contends Perrysburg has no exclusive rights to serve customers in their Toledo contract service area, the District has the right to enforce its rules and regulations as to service and the District has the right to charge any user for: tap-in fees, service connection fees, and operation and maintenance fees for service.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 11 - CONTINGENCIES AND COMMITMENTS, Continued

Litigation and Claims, Continued

The District claims damages in excess of \$379,000 for costs of a tap into the District's transmission lines at Glenwood Road and \$5,500,000 for facilities on which the City of Perrysburg has initiated annexation procedures.

The parties have engaged in limited discovery. A pre-trial conference was held on March 10, 1999. No trial date has been set, and the trial court has not ruled on cross motions for summary judgment.

Northwestern Water and Sewer District v. Carol M. Browner, et al., United States District Court, Case No. 3:00 CV7502

On August 16, 2000, the District filed suit against Carol M. Browner, Administrator for the U.S. EPA, Governor Robert Taft, Christopher Jones, Director of the Ohio EPA and the Toledo Metropolitan Area Council of Governments. The District seeks declaratory judgment and injunctive relief under the Federal Clean Water Act. The District claims that all Defendants have failed to perform duties mandated under the Clean Water Act to prepare, annually update, certify and approve an areawide water quality management plan for portions of Perrysburg and Middleton Township. The District seeks to enjoin the Ohio EPA from denying any permits sought by the District in the subject area until such time as a valid Section 208 plan is adopted, certified by the Governor and approved by the Administrator of the U.S. EPA.

The State defendants have all filed answers denying the substantive allegations. The Administrator has moved to dismiss for lack of federal subject matter.

The City of Perrysburg and certain commercial developers have been granted leave to intervene. A preliminary injunction hearing was held on April 10, 2001.

On February 12, 2001, the City of Perrysburg filed a counterclaim against the District and a cross-claim against the Director of the Ohio EPA. By its counterclaim, the City asserts that the District violated federal regulations, 40 CFR §130.9, by failing to cooperate with Perrysburg in the extension of wastewater services. The City seeks to enjoin the District from providing any sewer services in conflict with any Section 208 plan. Additionally, the City of Perrysburg, on December 19, 2000, passed Resolution No. 49-2000 which authorized the City to commence appropriation proceedings to appropriate the District's pump station and related facilities in the Route 20 area. The City has not proceeded with this appropriation.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 11 - CONTINGENCIES AND COMMITMENTS, Continued

Litigation and Claims, Continued

In May 2001, the District and the City of Perrysburg reached a tentative agreement regarding sewer services in the Perrysburg and Middleton Township areas. The tentative agreement would establish a defined contract service area in Perrysburg and Middleton Townships. The City of Perrysburg would provide sewage treatment service and the District would provide sewage collection services. Rates are established as well as other terms and conditions of service. The term of the agreement is twenty (20) years.

The agreement was formally approved by the District's Board and the City of Perrysburg's City Council. Upon the agreement's effective date in June 2001, the District and the City of Perrysburg dismissed all claims and counterclaims in the case.

*Environmental Review Appeals Commission:
Simmons Road Waterline, Case 874022 and Case 874070*

The City of Perrysburg has filed several appeals to the Environmental Review Appeals Commission (ERAC) regarding EPA approval of design plans for District water and sewer line extensions contending these projects are contrary to their master plan completed several years ago for the township areas. The City feels it has paramount right to serve these areas outside of their corporate limits. The District feels the design and engineering on these projects are the issues in the appeals and not the City's master plan. For the *Simmons Road Waterline, Case No.'s 874022 and 874070*, no trial has been scheduled yet for these cases.

The ultimate outcome of all of the above matters cannot be determined: however it is the opinion of management that any resulting liability to the District will not have a material effect on the Districts' financial position.

NORTHWESTERN WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 11 - CONTINGENCIES AND COMMITMENTS, Continued

Other Pending EPA and Local Health Department Ordered Projects

The District has received various orders for installation of wastewater treatment facilities and collection systems within various areas of the District. As of December 31, 2001 there are eight such ordered areas with preliminary or updated cost estimates totaling \$11.8 million for projects commencing or finishing over the next few years. These projects will be paid for by federal and state financial assistance and by the property owners benefiting from the projects through real estate special assessments and connection fees.

The District has approximately \$850,000 at December 31, 2001 in potential receivables related to special assessments that have been deferred by the County. The special assessments were deferred on properties, most of which would have qualified for loans from the Rotary Commission pursuant to Section 6103.051 of the Ohio Revised Code, had these funds been available from the Rotary Commission. As these receivables become due and payable only in the event the properties no longer qualify, and therefore collection is uncertain, they have not been reflected in the financial statements.

NOTE 12 - SEGMENT INFORMATION

Significant financial data for the respective divisions of the District's enterprise fund at and for the years ended December 31, 2001 and 2000 is as follows:

	2001			2000		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues	\$ 2,500,093	\$ 1,868,412	\$ 4,368,505	\$ 2,417,500	\$ 1,729,433	\$ 4,146,933
Operating expenses:						
Depreciation and amortization	1,437,583	793,319	2,230,902	1,393,015	764,849	2,157,864
Other	<u>1,660,502</u>	<u>1,658,819</u>	<u>3,319,321</u>	<u>1,680,750</u>	<u>1,586,484</u>	<u>3,267,234</u>
Total operating expenses	<u>3,098,085</u>	<u>2,452,138</u>	<u>5,550,223</u>	<u>3,073,765</u>	<u>2,351,333</u>	<u>5,425,098</u>
Excess of operating expenses over operating revenues	(<u>597,992</u>)	(<u>583,726</u>)	(<u>1,181,718</u>)	(<u>656,265</u>)	(<u>621,900</u>)	(<u>1,278,165</u>)
Net expenses over revenues	(<u>736,007</u>)	(<u>612,766</u>)	(<u>1,348,773</u>)	(<u>751,291</u>)	(<u>631,278</u>)	(<u>1,382,569</u>)
Current capital contributions	3,009,515	1,478,095	4,487,610	3,155,682	2,031,786	5,187,468
Fixed assets						
Additions	4,710,629	2,832,342	7,542,971	3,268,871	2,148,072	5,416,943
Disposals	66,000	-0-	66,000	22,332	113,241	135,573
Depreciation on contributed assets	1,171,370	636,725	1,808,095	1,120,212	606,246	1,726,458
Net working capital	2,018,570	(74,608)	1,943,962	3,161,262	1,059,649	4,220,911
Total assets*	51,776,404	34,859,873	86,636,277	47,398,158	33,774,837	81,172,995
Notes and bonds payable*	9,935,931	6,766,674	16,702,605	7,839,090	7,044,731	14,883,821
Total equity	41,573,522	26,795,886	68,369,408	39,300,016	25,930,555	65,230,571

*Includes elimination of the inter-division receivable and note payable.

NORTHWESTERN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 13 - SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS

As of December 31, 2001 a capital grant receivable for \$625,000 was recognized and credited to contributed capital.

Developers dedicated water and sewer lines with total costs of \$2,809,010 and \$1,968,084 in 2001 and 2000, respectively, with such contributions credited to contributed capital.

NOTE 14 - SUBSEQUENT EVENTS

In January 2002 the District issued a building construction note payable to a bank in the amount of \$3.0 million. The note has a term of one year and bears interest of 3.20%. It is interim financing on a new facility that will allow all District personnel to be housed under one roof. This note is expected to be replaced with permanent financing from the U.S. Department of Agriculture when construction is completed.

In March 2002 the District issued \$4.2 million in system revenue bonds comprised of a series of bonds with stated coupon interest rates ranging from 3.0% to 5.25% and with maturities beginning in December 2002 through December 2021. This bond issuance was to refinance, at lower rates, existing debt, without materially changing current principal retirement schedules, and to finance water construction projects.

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF BALANCE SHEET INFORMATION BY DIVISION
DECEMBER 31, 2001

	Water	Sewer	Elimination Adjustments	Combined
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 85,558	\$ 158,648		\$ 244,206
Investments	73,315	4,034,444		4,107,759
Accounts receivable - trade	740,176	880,603		1,620,779
Accounts and notes receivable - contract services	-	175,000	\$ (175,000)	-
Other Receivables	2,683	625,275		627,958
Special assessments receivable - current portion	265,741	103,919		369,660
Inventory	157,396	9,455		166,851
Prepaid expenses	17,513	28,887		46,400
Total current assets	<u>1,342,382</u>	<u>6,016,231</u>	<u>(175,000)</u>	<u>7,183,613</u>
Restricted assets:				
Board restricted:				
Investments	377,954	897,686		1,275,640
Restricted for debt retirement:				
Cash and cash equivalents	267,961	132,218		400,179
Investments	798,000	-		798,000
Total restricted assets	<u>1,443,915</u>	<u>1,029,904</u>	<u>-</u>	<u>2,473,819</u>
Special assessments receivable	3,675,793	1,825,020		5,500,813
Reserve with County Commissioners	36,836	221,933		258,769
Deferred loan costs, net of accumulated amortization of \$46,320	-	36,521		36,521
Fixed assets:				
Land	42,083	158,495		200,578
Sewer and water lines	38,049,356	58,565,576		96,614,932
Buildings, pumps and lift stations	1,292,316	3,532,002		4,824,318
Machinery and equipment	378,303	656,831		1,035,134
Vehicles	291,337	585,756		877,093
Furniture and fixtures	11,825	21,144		32,969
Computer equipment	91,855	161,192		253,047
Improvements-Oregon Waste Water Trtmt. Plant	459,193	3,080,736		3,539,929
Construction in progress	2,508,148	4,659,797		7,167,945
Total fixed assets	<u>43,124,416</u>	<u>71,421,529</u>	<u>-</u>	<u>114,545,945</u>
Accumulated depreciation and amortization	<u>(14,763,469)</u>	<u>(28,599,734)</u>		<u>(43,363,203)</u>
Net fixed assets	<u>28,360,947</u>	<u>42,821,795</u>	<u>-</u>	<u>71,182,742</u>
Total assets	<u>\$ 34,859,873</u>	<u>\$ 51,951,404</u>	<u>\$ (175,000)</u>	<u>\$ 86,636,277</u>

	Water	Sewer	Elimination Adjustments	Combined
LIABILITIES				
Current liabilities:				
Notes payable	\$ 175,000	\$ 2,965,000	\$ (175,000)	\$ 2,965,000
Current portion of long-term debt	294,677	415,710		710,387
Accounts payable - trade	169,594	85,047		254,641
Accounts payable - other	674,880	-		674,880
Compensated absences payable	39,600	64,700		104,300
Accrued payroll and payroll taxes	29,827	47,833		77,660
Accrued interest payable	182,848	140,633		323,481
Amounts due others	25,564	103,738		129,302
	<u>1,591,990</u>	<u>3,822,661</u>	<u>(175,000)</u>	<u>5,239,651</u>
Total current liabilities				
Long-term debt, less current portion	<u>6,471,997</u>	<u>6,555,221</u>		<u>13,027,218</u>
Total liabilities	<u>8,063,987</u>	<u>10,377,882</u>	<u>(175,000)</u>	<u>18,266,869</u>
EQUITY				
Contributed Capital	25,752,417	38,008,535		63,760,952
Retained earnings	<u>1,043,469</u>	<u>3,564,987</u>		<u>4,608,456</u>
Total equity	<u>26,795,886</u>	<u>41,573,522</u>	<u>-</u>	<u>68,369,408</u>
Total liabilities and equity	<u>\$ 34,859,873</u>	<u>\$ 51,951,404</u>	<u>\$ (175,000)</u>	<u>\$ 86,636,277</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF BALANCE SHEET INFORMATION BY DIVISION
DECEMBER 31, 2000

	Water	Sewer	Elimination Adjustments	Combined
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 418,122	\$ 3,005,247		\$ 3,423,369
Investments	140,198	299,976		440,174
Accounts receivable - trade	710,526	890,481		1,601,007
Accounts and notes receivable - contract services	-	200,000	\$ (200,000)	-
Other Receivables	225,000	225,000		450,000
Special assessments receivable - current portion	227,397	59,795		287,192
Inventory	208,393	11,094		219,487
Prepaid expenses	8,128	13,574		21,702
Total current assets	<u>1,937,764</u>	<u>4,705,167</u>	<u>(200,000)</u>	<u>6,442,931</u>
Restricted assets:				
Board restricted:				
Investments	555,122	1,052,667		1,607,789
Restricted for debt retirement:				
Cash and cash equivalents	923,483	67,000		990,483
Investments	-	-		-
Total restricted assets	<u>1,478,605</u>	<u>1,119,667</u>	<u>-</u>	<u>2,598,272</u>
Special assessments receivable	4,007,753	1,966,120		5,973,873
Reserve with County Commissioners	36,836	221,933		258,769
Deferred loan costs, net of accumulated amortization of \$37,950	-	44,801		44,801
Fixed assets:				
Land	42,083	158,495		200,578
Sewer and water lines	36,973,322	55,724,233		92,697,555
Buildings, pumps and lift stations	1,292,316	3,355,852		4,648,168
Machinery and equipment	368,062	639,161		1,007,223
Vehicles	280,890	567,873		848,763
Furniture and fixtures	11,825	21,144		32,969
Computer equipment	81,904	144,955		226,859
Improvements-Oregon Waste Water Trtmt. Plant	2,490	3,080,736		3,083,226
Construction in progress	1,239,182	3,080,091		4,319,273
Total fixed assets	<u>40,292,074</u>	<u>66,772,540</u>	<u>-</u>	<u>107,064,614</u>
Accumulated depreciation and amortization	<u>(13,978,195)</u>	<u>(27,232,070)</u>		<u>(41,210,265)</u>
Net fixed assets	<u>26,313,879</u>	<u>39,540,470</u>	<u>-</u>	<u>65,854,349</u>
Total assets	<u>\$ 33,774,837</u>	<u>\$ 47,598,158</u>	<u>\$ (200,000)</u>	<u>\$ 81,172,995</u>

	Water	Sewer	Elimination Adjustments	Combined
LIABILITIES				
Current liabilities:				
Notes payable	\$ 200,000	\$ 400,000	\$ (200,000)	\$ 400,000
Current portion of long-term debt	278,564	484,853		763,417
Accounts payable - trade	130,839	108,114		238,953
Accounts payable - other	182,387	-		182,387
Compensated absences payable	34,027	55,517		89,544
Accrued payroll and payroll taxes	35,447	57,046		92,493
Accrued interest payable	192,910	143,008		335,918
Amounts due others	23,941	95,367		119,308
	<u>1,078,115</u>	<u>1,343,905</u>	<u>(200,000)</u>	<u>2,222,020</u>
Total current liabilities				
	1,078,115	1,343,905	(200,000)	2,222,020
Long-term debt, less current portion	<u>6,766,167</u>	<u>6,954,237</u>		<u>13,720,404</u>
Total liabilities	<u>7,844,282</u>	<u>8,298,142</u>	<u>(200,000)</u>	<u>15,942,424</u>
EQUITY				
Contributed Capital	24,911,047	36,170,390		61,081,437
Retained earnings	<u>1,019,508</u>	<u>3,129,626</u>		<u>4,149,134</u>
Total equity	<u>25,930,555</u>	<u>39,300,016</u>	<u>-</u>	<u>65,230,571</u>
Total liabilities and equity	<u>\$ 33,774,837</u>	<u>\$ 47,598,158</u>	<u>\$ (200,000)</u>	<u>\$ 81,172,995</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES BY DIVISION
YEAR ENDED DECEMBER 31, 2001

	Water	Sewer	Elimination Adjustments	Combined
Operating Revenues:				
Utility revenue	\$ 1,686,081	\$ 2,342,220		\$ 4,028,301
Fees and permits	113,600	60,363		173,963
Contract services	24,104	87,641		111,745
Other	44,627	9,869		54,496
Total operating revenues	<u>1,868,412</u>	<u>2,500,093</u>	-	<u>4,368,505</u>
Operating Expenses:				
Depreciation and amortization	793,319	1,437,583		2,230,902
Labor	397,605	632,814		1,030,419
Employee Benefits	149,828	243,299		393,127
Professional services	107,408	312,339		419,747
Purchased water	599,660	-		599,660
Materials and supplies	226,296	238,137		464,433
Utilities	119,404	141,835		261,239
Rent	9,224	15,050		24,274
Other	49,394	77,028		126,422
Total operating expenses	<u>2,452,138</u>	<u>3,098,085</u>	-	<u>5,550,223</u>
Operating revenues over (under) operating expenses	(583,726)	(597,992)	-	(1,181,718)
Nonoperating revenues (expenses):				
Interest income	363,547	305,336		668,883
Interest expense	(410,931)	(361,024)		(771,955)
Other	18,344	(82,327)		(63,983)
Net nonoperating revenues (expenses)	<u>(29,040)</u>	<u>(138,015)</u>	-	<u>(167,055)</u>
Net expense (over) under revenues	(612,766)	(736,007)	-	(1,348,773)
Transfer to retained earnings current depreciation and amortization on assets acquired through contributed capital and capital grants	<u>636,725</u>	<u>1,171,370</u>		<u>1,808,095</u>
Net change to retained earnings	23,959	435,363		459,322
Retained Earnings - beginning	1,019,508	3,129,626		4,149,134
Retained Earnings - ending	<u>\$ 1,043,467</u>	<u>\$ 3,564,989</u>	<u>\$ -</u>	<u>\$ 4,608,456</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES BY DIVISION
YEAR ENDED DECEMBER 31, 2000

	Water	Sewer	Elimination Adjustments	Combined
Operating Revenues:				
Utility revenue	\$ 1,569,513	\$ 2,227,816		\$ 3,797,329
Fees and permits	119,933	80,942		200,875
Contract services	28,231	90,312		118,543
Other	11,756	18,430		30,186
Total operating revenues	<u>1,729,433</u>	<u>2,417,500</u>	<u>-</u>	<u>4,146,933</u>
Operating Expenses:				
Depreciation and amortization	764,849	1,393,015		2,157,864
Labor	390,061	632,815		1,022,876
Employee Benefits	126,958	205,638		332,596
Professional services	193,302	405,642		598,944
Purchased water	495,316	-		495,316
Materials and supplies	244,258	225,191		469,449
Utilities	85,449	134,868		220,317
Rent	9,885	16,128		26,013
Other	41,255	60,468		101,723
Total operating expenses	<u>2,351,333</u>	<u>3,073,765</u>	<u>-</u>	<u>5,425,098</u>
Operating revenues over (under) operating expenses	(621,900)	(656,265)	-	(1,278,165)
Nonoperating revenues (expenses):				
Interest income	396,695	362,960		759,655
Interest expense	(417,675)	(427,802)		(845,477)
Other	11,602	(30,184)		(18,582)
Net nonoperating revenues (expenses)	<u>(9,378)</u>	<u>(95,026)</u>	<u>-</u>	<u>(104,404)</u>
Net expense (over) under revenues	(631,278)	(751,291)	-	(1,382,569)
Transfer to retained earnings current depreciation and amortization on assets acquired through contributed capital and capital grants	<u>606,246</u>	<u>1,120,212</u>		<u>1,726,458</u>
Net change to retained earnings	(25,032)	368,921		343,889
Retained Earnings - beginning	1,044,540	2,760,705		3,805,245
Retained Earnings - ending	<u>\$ 1,019,508</u>	<u>\$ 3,129,626</u>	<u>\$ -</u>	<u>\$ 4,149,134</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF CASH FLOWS BY DIVISION
YEAR ENDED DECEMBER 31, 2001

	Water	Sewer	Elimination Adjustments	Combined
<u>CASH FLOWS FROM OPERATIONS:</u>				
Excess of operating expenses over revenues	\$ (583,726)	\$ (597,992)		\$ (1,181,718)
Adjustments to reconcile to net cash:				
Depreciation and amortization	793,319	1,437,583		2,230,902
Changes in operating assets and liabilities that increase (decrease) cash flows:				
Special assessments receivable	293,616	96,976		390,592
Accounts receivable	193,667	259,603	(25,000)	428,270
Inventory	50,997	1,639		52,636
Other	(3,812)	(6,130)		(9,942)
Accounts payable	38,755	(23,067)		15,688
Accrued payroll and payroll taxes	(5,620)	(9,213)		(14,833)
Amounts due others	1,623	8,371		9,994
Total adjustments	<u>1,362,545</u>	<u>1,765,762</u>	<u>(25,000)</u>	<u>3,103,307</u>
NET CASH USED BY OPERATIONS	778,819	1,167,770	(25,000)	1,921,589
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING:</u>				
Capital contributed	89,189	144,103		233,292
Proceeds from capital grant	-	2,990		2,990
System development fees	312,872	504,446		817,318
Acquisition and construction of fixed assets, net of related payables	(1,263,815)	(2,977,654)		(4,241,469)
Proceeds on sale of fixed assets	-	-		-
Proceeds from issuance of short-term notes	-	2,965,000		2,965,000
Proceeds from issuance of long-term debt	-	-		-
Repayment of short-term notes	(25,000)	(400,000)	25,000	(400,000)
Repayment of long-term debt	(278,057)	(468,159)		(746,216)
Interest paid	(420,993)	(363,399)		(784,392)
NET CASH PROVIDED BY FINANCING	<u>(1,585,804)</u>	<u>(592,673)</u>	<u>25,000</u>	<u>(2,153,477)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Interest received	363,547	305,336		668,883
Proceeds on sale of investments	2,255,008	3,762,708		6,017,716
Purchases of investments	(2,799,656)	(7,424,522)		(10,224,178)
NET CASH PROVIDED BY INVESTING	<u>(181,101)</u>	<u>(3,356,478)</u>	<u>-</u>	<u>(3,537,579)</u>
<u>DECREASE IN CASH AND CASH EQUIVALENTS:</u>				
	(988,086)	(2,781,381)		(3,769,467)
Cash and cash equivalents - beginning of year	<u>1,341,605</u>	<u>3,072,247</u>		<u>4,413,852</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR:</u>				
	<u>\$ 353,519</u>	<u>\$ 290,866</u>	<u>\$ -</u>	<u>\$ 644,385</u>
Restricted cash	\$ 267,961	\$ 132,218	\$ -	\$ 400,179
Unrestricted cash	<u>\$ 85,558</u>	<u>\$ 158,648</u>	<u>\$ -</u>	<u>\$ 244,206</u>

NORTHWESTERN WATER AND SEWER DISTRICT
SCHEDULE OF CASH FLOWS BY DIVISION
YEAR ENDED DECEMBER 31, 2000

	Water	Sewer	Elimination Adjustments	Combined
<u>CASH FLOWS FROM OPERATIONS:</u>				
Excess of operating expenses over revenues	\$ (621,900)	\$ (656,265)		\$ (1,278,165)
Adjustments to reconcile to net cash:				
Depreciation and amortization	764,849	1,393,015		2,157,864
Changes in operating assets and liabilities that increase (decrease) cash flows:				
Special assessments receivable	(566,212)	(966,514)		(1,532,726)
Accounts receivable	(216,887)	(105,101)	\$ (50,000)	(371,988)
Inventory	(3,532)	(470)		(4,002)
Other	1,192	1,632		2,824
Accounts payable	167,750	(386,485)		(218,735)
Accrued payroll and payroll taxes	6,128	9,093		15,221
Amounts due others	(45,894)	(77,632)		(123,526)
Total adjustments	<u>107,394</u>	<u>(132,462)</u>	<u>(50,000)</u>	<u>(75,068)</u>
NET CASH USED BY OPERATIONS	<u>(514,506)</u>	<u>(788,727)</u>	<u>(50,000)</u>	<u>(1,353,233)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING:</u>				
Capital contributed	843,964	1,206,141		2,050,105
Proceeds from capital grant	225,000	365,261		590,261
System development fees	217,237	361,782		579,019
Acquisition and construction of fixed assets, net of related payables	(1,398,484)	(1,918,635)		(3,317,119)
Proceeds on sale of fixed assets	2,220	4,085		6,305
Proceeds from issuance of short-term notes	1,386,426	4,390,574	50,000	5,827,000
Proceeds from issuance of long-term debt	1,536,791	3,800,181		5,336,972
Repayment of short-term notes	(2,139,426)	(7,175,574)		(9,315,000)
Repayment of long-term debt	(196,216)	(354,833)		(551,049)
Interest paid	(408,422)	(426,490)		(834,912)
NET CASH PROVIDED BY FINANCING	<u>69,090</u>	<u>252,492</u>	<u>50,000</u>	<u>371,582</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Interest received	396,695	362,960		759,655
Proceeds on sale of investments	208,280	-		208,280
Purchases of investments	(368,281)	(334,755)		(703,036)
NET CASH PROVIDED BY INVESTING	<u>236,694</u>	<u>28,205</u>		<u>264,899</u>
<u>DECREASE IN CASH AND CASH EQUIVALENTS:</u>				
	(208,722)	(508,030)		(716,752)
Cash and cash equivalents - beginning of year	<u>1,550,327</u>	<u>3,580,277</u>		<u>5,130,604</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR:</u>	<u>\$ 1,341,605</u>	<u>\$ 3,072,247</u>	<u>\$ -</u>	<u>\$ 4,413,852</u>
Restricted cash	\$ 923,483	\$ 67,000		\$ 990,483
Unrestricted cash	<u>\$ 418,122</u>	<u>\$ 3,005,247</u>		<u>\$ 3,423,369</u>

NORTHWESTERN WATER AND SEWER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 (CASH BASIS)
 FOR THE YEAR ENDED DECEMBER 31, 2001

<u>Federal Grantor/Pass - Through Grantor Program Titles</u>	<u>Project Number</u>	<u>CFDA Number</u>	<u>Grant Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Water and Waste Program		10.760	\$1,320,988
<u>U.S. Housing and Urban Development</u>			
Community Development Block Grant	BE990801	14.228	<u>145,096</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$1,466,084</u>



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

To the Board of Trustees
Northwestern Water and Sewer District
One Courthouse Square
P.O. Box 348
Bowling Green, Ohio 43402

We have audited the financial statements of Northwestern Water and Sewer District (District) as of and for the year ended December 31, 2001, and have issued our report thereon dated April 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Northwestern Water and Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests 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 Northwestern Water and Sewer 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

The Board of Trustees
Northwestern Water and Sewer District
Page Two

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. However, we noted matters involving the internal control over financial reporting that we have reported to the management of Northwestern Water and Sewer District in a separate letter dated April 12, 2002.

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

Walter D. Bahr, CTO.

April 12, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133

The Board of Trustees
Northwestern Water and Sewer District
One Courthouse Square
P.O. Box 348
Bowling Green, Ohio 43402

Compliance

We have audited the compliance of Northwestern Water and Sewer District ("District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2001. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2001.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of and use of the District's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

W. Weber · O'Brien, CA.

April 12, 2002

NORTHWESTERN WATER AND SEWER DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2001

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:		<u>Unqualified</u>
Internal control over financial reporting:		
Material weakness(es) identified?	_____yes	___X___no
Reportable condition(s) identified not considered to be material weaknesses?	_____yes	___X___none reported
Noncompliance material to financial statements noted?	_____yes	___X___no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____yes	___X___no
Reportable conditions(s) identified not considered to be material weaknesses?	_____yes	___X___none reported

Type of auditors' report issued on compliance for major programs:		<u>Unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____yes	___X___no
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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10.760	Water and Waste Program
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Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low risk auditee?	_____yes	___X___no
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SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

NORTHWESTERN WATER AND SEWER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2001

NONE



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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800-282-0370
Facsimile 614-466-4490

NORTHWESTERN WATER AND SEWER DISTRICT

WOOD 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
JULY 2, 2002**