

Adams County Regional Water District

Adams County

Regular Audit

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAs, INC.

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**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of Adams County Regional Water District, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2004 through December 31, 2004. 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. Adams County Regional Water District is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

June 13, 2005

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Adams County Regional Water District
Basic Financial Statements
For the Year Ended December 31, 2004

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	2
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Revenues and Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements	12
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Governmental Auditing Standards</i>	28

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Adams County Regional Water District (the District), Adams County, as of and for the year ended December 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 respective financial position of the business-type activities of the District, as of December 31, 2004, and the respective changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 15 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.



Balestra, Harr & Scherer, CPAs, Inc.
May 30, 2005

Adams County Regional Water District

Management's Discussion and Analysis

The following discussion provides a summary overview of the financial activities of the Adams County Regional Water District ("the District") for the year ended December 31, 2004. The information should be read in conjunction with the basic financial statements included in this report.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

- Assets exceeded liabilities by \$5,952,999 as of December 31, 2004.
- Net assets decreased by \$382,372 in 2004.
- Operating revenues increased by \$263,112 (10.5%) and operating expenses increased by \$11,496 (0.4%) in 2004.
- Retirements of debt principal totaled \$508,439.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statements of Net Assets, the Statements of Revenues and Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Assets presents the District's financial position and reports the resources owned by the District (assets), obligations owed by the District (liabilities) and District net assets (the difference between assets and liabilities). It provides a way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses and Changes in Net Assets presents a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees.

The Statement of Cash Flows provides information about the District's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities.

The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

Financial Analysis of the District's Financial Position and Results of Operations

The tables below provide a summary of the District's financial position and operations for 2004 and 2003, respectively.

Table 1
Condensed Statement of Net Assets
December 31,

	2004	2003	Change	
			Amount	%
<u>Assets</u>				
Current & other assets	\$ 3,955,588	\$ 4,266,214	\$ (310,626)	-7.3%
Capital assets, net	18,494,231	19,120,537	(626,306)	-3.3%
Total assets	22,449,819	23,386,751	(936,932)	-4.0%
<u>Liabilities</u>				
Current liabilities	1,145,372	1,168,615	(23,243)	-1.9%
Long-term debt	15,351,448	15,882,765	(531,317)	-3.3%
Total liabilities	16,496,820	17,051,380	(554,560)	-3.3%
<u>Net assets</u>				
Invested in capital assets, net of related debt	2,623,228	2,741,095	(117,867)	-4.3%
Restricted for debt service	365,977	365,962	15	0.0%
Unrestricted	2,963,794	3,228,314	(264,520)	-8.2%
Total net assets	\$ 5,952,999	\$ 6,335,371	\$ (382,372)	-6.0%

As noted earlier, the net assets may serve as a useful indicator of financial position. The District assets exceeded liabilities by \$5,952,999 as of December 31, 2004, of which \$2,623,228 is for net investment in capital assets.

The largest portion of the District's net assets is reflected in its cash and certificates of deposit, and its capital assets, less accumulated depreciation and related debt outstanding. The District strives to keep adequate cash reserves on hand in order to maintain or expand its facilities to meet the needs of its customers and to comply with regulatory requirements.

For the year ended December 31, 2004, total assets of the District decreased by \$936,932 due to depreciation of capital assets and a decrease in net cash flows. Total liabilities of the District decreased by \$554,560 due mainly to retirement of debt.

The following table summarizes the changes in revenues and expenses for the District between 2004 and 2003:

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31

	2004	2003	Change	
			Amount	%
<u>Operating Revenue</u>				
Sales to customers	\$ 1,862,346	\$ 1,765,783	\$ 96,563	5.5%
Sales to public authorities	671,085	683,633	(12,548)	-1.8%
Other revenues	246,747	67,650	179,097	264.7%
Total operating revenue	2,780,178	2,517,066	263,112	10.5%
<u>Non-operating revenue</u>				
Tap fee revenue	197,600	145,500	52,100	35.8%
Interest income	60,528	64,003	(3,475)	-5.4%
Gain on disposal of equipment	-	31,674	(31,674)	100.0%
Total non-operating revenue	258,128	241,177	16,951	7.0%
Total revenue	3,038,306	2,758,243	280,063	10.2%
<u>Operating expenses</u>				
Operations	1,366,090	1,360,632	5,458	0.4%
Maintenance	149,012	154,839	(5,827)	-3.8%
Depreciation	1,191,055	1,179,190	11,865	1.0%
Total operating expense	2,706,157	2,694,661	11,496	0.4%
<u>Non-operating expenses</u>				
Interest expense	810,169	822,564	(12,395)	-1.5%
Total non-operating expenses	810,169	822,564	(12,395)	-1.5%
Total expenses	3,516,326	3,517,225	(899)	0.0%
Income/(loss) before contributions	(478,020)	(758,982)	280,962	-37.0%
Capital contributions	95,648	96,840	(1,192)	-1.2%
Change in net assets	\$ (382,372)	\$ (662,142)	\$ 279,770	-42.3%

Operating revenues consist of user charges for water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2004:

- Operating revenue increased by \$263,112 (10.5%) due to the addition of new customers and ARC grant revenue in the amount of \$182,690.

- Non-operating revenues increased by \$16,951 (7.0%) due to an increase in the number of tap fees.
- Operating expenses stayed relatively consistent increasing by only \$11,496 (0.4%) due to reductions in staff and professional fees. Total expenses increased by only \$899 (0.0%)

Capital contributions from customers decreased slightly in 2004 by \$1,192 (1.2%). These contributions are provided by customers and grants from various agencies and are used to help cover the costs of line extensions.

Capital Assets

As of December 31, 2004, the District had \$18,494,231 invested in net capital assets. This amount represents a net decrease of \$626,306 (3.3%) over 2003.

Table 3
Capital Assets
December 31,

	2004	2003	Change	
			Amount	%
Land	\$ 438,731	\$ 428,727	\$ 10,004	2.3%
Construction in progress	264,496	28,054	236,442	842.8%
Buildings	533,700	524,995	8,705	1.7%
Wells and wellfield improvements	1,313,709	1,322,302	(8,593)	-0.6%
Mains, lines and meters	23,265,960	23,116,763	149,197	0.6%
Storage Tanks	1,548,521	1,472,552	75,969	5.2%
Water Treatment & other equipment	1,163,683	1,098,942	64,741	5.9%
Less: Accumulated depreciation	(10,034,569)	(8,871,798)	(1,162,771)	13.1%
Totals	\$ 18,494,231	\$ 19,120,537	\$ (626,306)	-3.3%

Major additions in 2004, at cost included:

Line extensions	\$ 331,022
Rehab and painting of Decatur Tank	57,460
Telemetry upgrade	26,111
Fencing at various tanks	17,409
2004 Chevy 4x4 Truck	15,204
2005 Chevy Truck	15,204
Blacktopping at plant	10,005
	<u>\$ 472,415</u>

Debt Administration

The District finances its construction primarily through the issuance of revenue bonds or through low interest loan programs with the State of Ohio. At December 31, 2004 the District had total debt outstanding of \$15,871,003 compared to \$16,379,442 at December 31, 2003. This represents a decrease of \$508,439 from payments on principal of the debt. There were no additions to debt during 2004.

Additional information on the District's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and 2005 Budget

Effective January 1, 2005 the District increased service rates for the first time in four years. Rates increased by 20.5 % to \$17.00 per month (2,000 gallon minimum) for retail customers. Effective July 1, 2005 rate for wholesale customers will increase by 5% to \$3.00 per 1,000 gallons. The service area of the District continues to grow. The District is encouraging more rural customers to come on line by allowing them to pay for the materials cost of their line extensions over a ten year period as a facility charge on their monthly bill. 250 additional customers are expected over the next two years.

The operating budget for 2005 is \$3,479,545 which is \$245,643 more than the 2004 budget due to expected increased costs for capital improvements and equipment in 2005. Such projects include an upgrade of the Pumpkin Ridge Tank, wellfield improvements and completion of the Vaughn Ridge project. It is anticipated that the increase in rates and new customers will cover these additional costs and provide an excess of revenues over expenses for 2005.

Contacting the District's Financial Management

This report is designed to provide the District's customers, bondholders, creditors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact the General Manager Adams County Regional Water District, 9203 St. Rt. 136, West Union, Ohio 45693.

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

ASSETS		2004
CURRENT ASSETS		
Cash and cash equivalents	\$	2,029,920
Certificates of deposit		868,666
Accounts receivable:		
Customers, net of allowance for doubtful accounts of \$11,201		378,559
Other receivables		129
Accrued interest receivable		22,890
Inventories		168,085
Prepaid expenses		<u>60,909</u>
Total current assets		3,529,158
NONCURRENT ASSETS		
Restricted cash and certificates of deposit		365,977
Deferred costs, net		<u>60,453</u>
Total noncurrent assets		426,430
CAPITAL ASSETS (at cost)		
Non depreciable capital assets		
Land		392,160
Construction in progress		<u>264,496</u>
Total non depreciable assets		656,656
Depreciable capital assets		
Land and land improvements		46,571
Buildings		533,700
Wells and wellfield improvements		1,313,709
Mains, lines and meters		23,265,960
Storage tanks		1,548,521
Water treatment and plant equipment		410,748
Trucks, tractors and equipment		677,653
Office furniture and equipment		75,282
Less: accumulated depreciation		<u>(10,034,569)</u>

See accompanying notes to the financial statements

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

ASSETS

2004

Total depreciable capital assets	17,837,575
Total capital assets (net of depreciation)	18,494,231
Total noncurrent assets	18,920,661
TOTAL ASSETS	\$ 22,449,819

CURRENT LIABILITIES

Accounts payable	\$ 30,085
Accrued expenses	188,256
Accrued interest	385,526
Current portion of long-term debt	519,555
Customer deposits	21,950

Total current liabilities	1,145,372
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LONG-TERM DEBT, less current portion	15,351,448
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Total Liabilities	16,496,820
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NET ASSETS

Invested in capital assets, net of debt service	2,623,228
Restricted for debt service	365,977
Unrestricted net assets	2,963,794

Total net assets	\$ 5,952,999
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See accompanying notes to the financial statements

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
AND
CHANGES IN NET ASSETS
FOR THE PERIOD ENDING DECEMBER 31, 2004**

	2004
OPERATING REVENUES	
Sales to customers	\$ 1,862,346
Sales to public authorities	671,085
Other revenues	<u>246,747</u>
Total operating revenues	2,780,178
OPERATING EXPENSES	
Salaries	681,725
Utilities	207,850
Depreciation expense	1,187,549
Amortization expense	3,506
Repairs	96,697
Truck expense	27,383
Supplies	24,932
Pension expense	114,821
Payroll taxes	26,733
Insurance	211,611
Office supplies and postage	30,304
Legal and engineering fees	3,809
Accounting fees	9,560
Director fees	31,150
Advertising	2,322
Bank charges	1,124
Bad debt expense	141
Other expenses	<u>44,940</u>
Total operating expenses	<u>2,706,157</u>
OPERATING INCOME (LOSS)	74,021
NON-OPERATING REVENUE/(EXPENSES)	
Tap fee revenue	197,600
Interest income	60,528
Interest expense	<u>(810,169)</u>
Total nonoperating revenues/(expenses)	<u>(552,041)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(478,020)
CAPITAL CONTRIBUTIONS	<u>95,648</u>
INCREASE (DECREASE) IN NET ASSETS	(382,372)
NET ASSETS	
Beginning of year	<u>6,335,371</u>
End of year	<u><u>\$ 5,952,999</u></u>

See accompanying notes to the financial statements

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from customers	\$ 2,767,461
Cash payments to employees for services	(681,725)
Cash payments to suppliers for goods and services	<u>(895,349)</u>

Net Cash Provided by Operating Activities 1,190,387

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income on investments	<u>56,027</u>
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Net Cash Provided By Investing Activities 56,027

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of operating facilities, including construction in progress and capitalized interest	(561,246)
Members tap fees	197,600
Payments on long term debt obligations	(508,439)
Proceeds from construction contributions	95,648
Interest paid on long term debt obligations	<u>(822,432)</u>

Net Cash Used In Capital and Related Financing Activities (1,598,869)

NET INCREASE IN CASH AND CASH EQUIVALENTS (352,455)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 3,617,018

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 3,264,563

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2004**

**RECONCILIATION OF OPERATING INCOME TO
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:**

Operating Income	\$ 74,021
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,187,549
Amortization	3,506
Changes in assets and liabilities:	
Accounts receivable, customers and other	(11,417)
Inventories	(21,988)
Prepaid expenses	(7,427)
Accounts payable and other accrued expenses	(32,557)
Deposits	<u>(1,300)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,190,387</u>

See accompanying notes to the financial statements

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Note 1. DESCRIPTION OF ENTITY

(a) Description of Operations

Adams County Regional Water District (the "District"), was organized under the provisions of Section 6119 of the Ohio Revised Code on January 1, 1997. Prior to that date, the District was operated as an Ohio not-for-profit corporation known as Adams County Water Co., Inc. The District provides water service to its members in Adams County. The accounting policies used by the District reflect practices common to the industry.

(b) Reporting Entity

The financial reporting entity consists of the Adams County Regional Water District (the primary government). No component units have been separately organized.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or after November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

(b) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers cash in operating bank accounts, money market accounts, and certificates of deposit with an original maturity of three months or less as cash.

(c) Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

(d) Deferred Financing Costs

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

(e) Capital Assets

Capital assets are stated at cost. Construction period interest is capitalized as part of construction costs. During the year ended December 31, 2004, the District capitalized \$-0- interest. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments are capitalized.

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Depreciation

Provision for depreciation has been made on the basis of estimated lives of assets, using the straight-line method. Depreciable lives for the various assets are as follows:

Land Improvements	10-20 Years
Building	45 Years
Wells and wellfield improvements	10-20 Years
Mains, lines and meters	20-50 Years
Storage tanks	10-50 Years
Equipment	5-10 Years

(g) Estimates

The preparation of financial statements in conformity 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 the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(h) Customer Accounts Receivable

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

(i) Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Net Assets

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Note 3. RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Restricted cash and certificates of deposit consist of savings accounts and certificates of deposit and represent amounts designated as reserved to comply with loan agreements with the U.S. Department of Agriculture Farmers Home Administration (FMHA) described more fully in Note 4.

Note 4. LONG-TERM DEBT

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

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Note 4. LONG-TERM DEBT (Continued)

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

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

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2004, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	519,555	801,224	1,320,779
2005	543,636	777,200	1,320,836
2006	569,339	751,884	1,321,223
2007	595,722	725,185	1,320,907
2008	533,143	697,059	1,230,202
Thereafter	13,109,608	6,822,705	19,932,313
Total	<u>\$15,871,003</u>	<u>\$ 10,575,257</u>	<u>\$ 26,446,260</u>

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Note 4. LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2004:

	<u>Balance 12/31/03</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/04</u>
1999 water revenue refunding bonds	\$ 2,102,900	\$ -	\$ 137,100	\$ 1,965,800
Note payable OWDA, payable in semiannual installments of \$671,589 starting January 1, 2002, including interest at 6.39%, due July 2026.	8,205,139		163,946	8,041,193
Note payable OWDA, payable in semiannual installments of \$66,981 starting Jan. 1, 2000, including interest at 2%, due July 2024.	2,278,880		88,385	2,190,495
Note payable OWDA, payable in 50 semiannual installments of \$56,346 starting Jan. 1, 2000, including interest at 5.86%, due July 2024.	1,285,474		32,697	1,252,777
Note payable OWDA, payable in 50 semiannual installments of \$25,643, starting July 1, 2000, including interest at 5.56%, due January 2025.	629,171		15,755	613,416

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 4. LONG-TERM DEBT (Continued)

	Balance 12/31/03	Additions	Payments	Balance 12/31/04
Note Payable OWDA, payable in 50 semiannual installments of \$53,061, starting July 1, 2000 including interest at 2%, due January, 2025.	\$ 1,839,611		\$ 69,330	\$ 1,770,281
Note payable OWDA, payable in 40 semiannual installments of \$1,819, starting July 1, 2003, including interest at 5.15% due January, 2022.	38,267		1,226	37,041
	\$ 16,379,442	\$	\$ 508,439	\$ 15,871,003

Capital assets, together with all revenue and service charges which may arise from the operations of the District, are pledged for the payment of revenue bond debt.

The notes payable OWDA are secured by operating facilities.

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2004 was \$365,977. This amount equaled the required reserve.

Note 5. CONTRIBUTIONS IN AID OF CONSTRUCTION

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

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 6. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

State statute permits monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 6. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and shall be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and ,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

ADAMS COUNTY REGIONAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004**

Note 6. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At year end, the District had \$185 in undeposited cash on hand which is included on the balance sheet of the District as part of “cash and cash equivalents”.

The following information classifies deposits and investments by categories of risk as defined in Governmental Accounting Standards Board (GASB) Statement No. 3 “Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.”

Deposits At year end, the carrying amount of the District’s deposits was \$2,606,541 and the bank balance was \$2,613,864. \$299,150 of the bank balance was covered by federal depository insurance. The remaining \$2,314,714 was covered by pooled or pledged collateral.

Investments The District’s investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the District’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District’s name.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 6. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	1	Category 3	Carrying Amount	Fair Value
Repurchase Agreement	\$0	\$657,837	\$657,837	\$657,837
Total Investments			\$657,837	\$657,837

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 9, "Reporting on Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per Governmental Accounting Standards Board (GASB) Statement No. 3 is as follows:

	Cash and Cash Equivalents <u>Deposits</u>	<u>Investments</u>
GASB Statement 9	\$3,264,563	\$0
Cash on Hand	(185)	
Investments:		
Repurchase Agreements	(657,837)	657,837
GASB Statement 3	\$2,606,541	\$657,837

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 7. PENSION PLAN

A. Public Employees Retirement System

1. Plan Description and Funding Policy

All employees of the District participate in the Ohio Public Employees Retirement System (“OPERS”), a cost-sharing multiple employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS 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. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio, 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees is 8.5%. The 2004 employer rate for local government employer units was 13.55% of covered payroll, 9.55% to fund the pension benefit obligation and 4.00% to fund health care. The contribution requirements of plan members and the Commission are established and may be amended by the Public Employees Retirement Board. The District’s contributions to the OPERS for the year ended December 31, 2004 were \$109,775 which is equal to 13.55% of covered payroll.

2. Other Postemployment Benefits

In addition to the pension benefit obligation described above, the PERS of Ohio provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer’s contribution to the PERS of Ohio is set aside

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 7. PENSION PLAN (Continued)

for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate for employees was 13.55% of covered payroll for the year 2004; 4.0% was the portion used to fund health care, while employee contribution rates were 8.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The health inflation and significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation was used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) became part of unfunded actuarial accrued liability.

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. The investment assumption rate for 2003 was 8.00%. An annual increase of 4.00% compounded annually was the base portion of the individual pay increase assumptions, which assumed no change in the number of active employees. Additionally, annual pay increases over and above the 4.00% base increase were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB's are advanced- funded on an actuarially determined basis. The number of active contributing participants was 369,885. The District contributions actually made to fund postemployment benefits during the year 2004 were \$40,507. \$10.5 billion represents the actuarial present value of the Retirement System's net assets available for OPEB at December 31, 2003 (the most recent data available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 8. CAPITAL ASSETS

The balance of capital assets at December 31, 2004 consists of the following:

	Balance 12/31/03	Additions	Dispositions	Balance 12/31/04
Land and land improvements	\$ 428,727	\$ 10,004	\$ -	\$ 438,731
Accumulated Depreciation	(13,044)	(2,217)	0	(15,261)
Buildings	524,995	8,705	-	533,700
Accumulated Depreciation	(212,344)	(16,562)	-	(228,906)
Wells and wellfield improvements	1,322,302	16,188	(24,781)	1,313,709
Accumulated Depreciation	(1,008,385)	(32,412)	24,781	(1,016,016)
Mains, lines and meters	23,116,763	149,197	-	23,265,960
Accumulated Depreciation	(6,209,263)	(989,584)	-	(7,198,847)
Storage tanks	1,472,552	75,969	-	1,548,521
Accumulated Depreciation	(592,872)	(77,240)	-	(670,112)
Water treatment and plant equipment	407,943	4,712	(1,907)	410,748
Accumulated Depreciation	(356,061)	(7,778)	(222)	(364,061)
Trucks, tractors and equipment	620,076	57,577	-	677,653
Accumulated Depreciation	(427,686)	(55,012)	-	(482,698)
Office furniture and equipment	70,923	4,359	-	75,282
Accumulated Depreciation	(52,142)	(6,526)	-	(58,668)
Construction in progress	28,054	317,948	(81,506)	264,496
Total	<u>\$ 19,120,538</u>	<u>\$ (542,672)</u>	<u>\$ (83,635)</u>	<u>\$ 18,494,231</u>

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 9. COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to full-time, permanent employees to specified maximums. Upon termination, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2004 was \$163,209.

Note 10. CONCENTRATION OF CREDIT RISK

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

Note 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Significant risk of losses are covered by commercial insurance.

Note 12. CONTINGENCIES

The District is involved in various legal actions arising in the normal course of business. The District intends to vigorously defend these actions. The ultimate resolution of these matters is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

Note 13. DEFERRED COSTS

Deferred costs are the result of the capitalization of fees incurred to obtain loans from OWDA.

Note 14. ADVERTISING COSTS

The District expenses advertising costs as incurred. Advertising expenses amounted to \$2,322 in 2004.

ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 15. CHANGE IN ACCOUNTING PRINCIPLE

For the year December 31, 2004, Adams County Regional Water District has implemented GASB Statement No. 34, "*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*"; GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*"; GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*"; and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement.*" The net changes to the 2004 financial statements relate to the net assets at the beginning of the year and end of year containing the sum of retained earnings and contributed capital previously reported. Other than these reclassifications, there was no restatement of net assets as a result of implementing GASB Statements 34, 37, 38 or Interpretation No. 6.

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the Adams County Regional Water District, Adams County, Ohio (the District), as of and for the year ended December 31, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 30, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, and Interpretation 6. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the District's management in a separate letter dated May 30, 2005.

Adams County Regional Water District
Adams County
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

May 30, 2005



**Auditor of State
Betty Montgomery**

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

ADAMS COUNTY REGIONAL WATER DISTRICT

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 28, 2005**