

NORTHERN AREA WATER AUTHORITY

Basic Financial Statements

December 31, 2004

with

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Northern Area Water Authority
260 South Garber Drive
Tipp City, Ohio 45371

We have reviewed the Independent Auditor's Report of the Northern Area Water Authority, Miami County, prepared by Clark, Schaefer, Hackett & Co. 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. The Northern Area Water Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 14, 2005

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NORTHERN AREA WATER AUTHORITY

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

Board of Trustees
Northern Area Water Authority
260 South Garber Drive
Tipp City, Ohio 45371

We have audited the accompanying financial statements of the Northern Area Water Authority (the Authority) as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Area Water Authority as of December 31, 2004, and the changes in financial position and cash flows, where applicable, 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 July 12, 2005, on our consideration of the Authority'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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 4 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
July 12, 2005

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended December 31, 2004

Unaudited

The discussion and analysis of the Northern Area Water Authority's (NAWA) financial performance provides an overall review of NAWA for the year ended December 31, 2004. The intent of this discussion and analysis is to look at NAWA's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of NAWA's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$11,264. Virtually all revenues (loan proceeds) and expenses (contractual services) have been capitalized into balance sheet accounts, loans payable and construction in progress.
- General revenues (interest income) accounted for 100% of all revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*.

The financial statements include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS

A comparative analysis of 2004 and 2003 is presented below:

	2004	2003	Increase (Decrease) over/ (under) 2003
Current and other assets	\$164,587	\$118,442	\$46,145
Capital assets, Net	1,464,154	963,457	500,697
Total assets	1,628,741	1,081,899	546,842
Long-term debt outstanding	1,492,924	981,173	511,751
Other liabilities	126,691	80,336	46,355
Total liabilities	1,619,615	1,061,509	558,106
Net assets			
Invested in capital assets, net of related debt	(28,770)	(17,716)	(11,054)
Unrestricted	37,896	38,106	(210)
Total net assets	\$9,126	\$20,390	(\$11,264)

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004

Unaudited

Changes in Net Assets

The following table shows the changes in net assets for the fiscal year 2004 and 2003:

	<u>2004</u>	<u>2003</u>	Increase (Decrease) over/ (Under) 2003
Revenues			
General revenues:			
Investment Income	\$199	\$345	(\$146)
Total revenues	199	345	(146)
Program Expenses:			
Contractual Services	11,463	0	11,463
Materials and Supplies	0	49	(49)
Total expenses	11,463	49	11,414
Total Change in Net Assets	(11,264)	296	(11,560)
Beginning Net Assets	20,390	20,094	296
Ending Net Assets	<u>\$9,126</u>	<u>\$20,390</u>	<u>(\$11,264)</u>

Investment earnings decreased slightly due to lower invested balances throughout 2004. Insurance and services related to financial report preparation accounted for the increase in expenses in 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 NAWA had \$1,464,154 invested in construction in progress. The following table shows fiscal year 2004 and 2003 balances:

	<u>2004</u>	<u>2003</u>	Increase (Decrease)
Construction in Progress	\$1,464,154	\$963,457	\$500,697
Totals	<u>\$1,464,154</u>	<u>\$963,457</u>	<u>\$500,697</u>

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended December 31, 2004

Unaudited

The increase in construction in progress predominately reflects the engineering costs associated with the construction of the water plant facilities. Construction of the facilities began in late 2004.

Additional information on the NAWA's capital assets can be found in Note 3.

Debt

At December 31, 2004, NAWA had \$1,492,924 in Ohio Water Development Authority (OWDA) Loans outstanding. The following table summarizes NAWA's debt outstanding as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
OWDA Loans Payable	<u>\$1,492,924</u>	<u>\$981,173</u>
Totals	<u><u>\$1,492,924</u></u>	<u><u>\$981,173</u></u>

Additional information on NAWA's long-term debt can be found in Note 4.

CURRENT FINANCIAL ISSUES AND CONCERNS

At December 31, 2004, NAWA had total assets of \$1,628,741 and total net assets of \$9,126 which resulted from a decrease in net assets of \$11,264. Property insurance and contractual services related to the preparation of the financial statements accounted for the net loss in 2004.

REQUESTS FOR INFORMATION

This financial report is designed to provide the citizens, taxpayers, and consumers of the Cities of Tipp City and Vandalia, creditors and investors with a general overview of NAWA's finances and to show NAWA's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 937-667-8426 or writing to City of Tipp City Finance Department, 260 South Garber Drive, Tipp City, Ohio 45371.

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Statement of Net Assets

Proprietary Funds

December 31, 2004

ASSETS:	
Current assets:	
Cash and Cash Equivalents	\$ 119,215
Accounts Receivable	<u>45,372</u>
Total current assets	<u>164,587</u>
Noncurrent assets:	
Capital assets:	
Construction in Progress	<u>1,464,154</u>
Total capital assets (net of accum. depr.)	<u>1,464,154</u>
Total noncurrent assets	<u>1,464,154</u>
Total assets	<u>1,628,741</u>
LIABILITIES:	
Current liabilities:	
Accounts Payable	<u>126,691</u>
Total current liabilities	<u>126,691</u>
Noncurrent liabilities:	
Ohio Water Development Authority Loans Payable	<u>1,492,924</u>
Total noncurrent liabilities	<u>1,492,924</u>
Total liabilities	<u>1,619,615</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	(28,770)
Unrestricted	<u>37,896</u>
Total Net Assets	<u>\$ 9,126</u>

See accompanying notes to the basic financial statements

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2004

Total Operating Revenues	<u>\$ 0</u>
Operating Expenses:	
Contractual Services	<u>11,463</u>
Total Operating Expenses	<u>11,463</u>
Operating Loss	(11,463)
Non-Operating Revenues:	
Interest Income	<u>199</u>
Total Non-Operating Revenues	<u>199</u>
Net Loss	(11,264)
Net Assets, Beginning of Year	<u>20,390</u>
Net Assets, End of Year	<u>\$ 9,126</u>

See accompanying notes to the basic financial statements

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2004

<u>Cash Flows from Operating Activities:</u>	
Cash Payments for Goods and Services	(\$11,463)
Net Cash Used by Operating Activities	<u>(11,463)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(\$394,416)
Proceeds from Ohio Water Development Authority Loans	<u>485,878</u>
Net Cash Provided by Capital and Related Financing Activities	<u>91,462</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	<u>199</u>
Net Cash Provided Investing Activities	<u>199</u>
Net Increase in Cash and Cash Equivalents	80,198
Cash and Cash Equivalents at Beginning of Year	<u>39,017</u>
Cash and Cash Equivalents at End of Year	<u><u>\$119,215</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</u>	
Operating Loss	<u>(\$11,463)</u>
Net Cash Used by Operating Activities	<u><u>(\$11,463)</u></u>

Schedule of Noncash Investing, Capital and Financing Activities:

As of December 31, 2004, NAWA had accounts receivable and accounts payable in the amounts of \$45,372 and \$126,691, respectively. Due to the nature of the OWDA Loan program, both amounts affect the Loan balance at year end yet do not have impact on cash balances.

See accompanying notes to the basic financial statements

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northern Area Water Authority (NAWA) is a joint venture between the Cities of Tipp City and Vandalia, Ohio. NAWA will oversee the design, construction and operation of a new water treatment plant that will be located in Tipp City and provide water treatment services to both communities. NAWA is governed by a five-member management board, which will have complete authority over all aspects of the plant's operation. The City of Tipp City is the fiscal agent for NAWA and, accordingly, NAWA is reported as an agency fund of the City. The accompanying financial statements present only NAWA and are not intended to present the financial position of either City participating in the joint venture.

The accompanying basic financial statements of NAWA present the financial position, results of operations and the cash flows of the entity. The financial statements are presented as of December 31, 2004 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of the GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which NAWA (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) NAWA's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on NAWA.

Based on the foregoing, NAWA's financial reporting entity has no component units but includes all funds that are part of the primary government.

The accounting policies and financial reporting practices of NAWA conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of NAWA's significant accounting policies:

B. Basis of Presentation

NAWA is accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the entity are included on the balance sheet. The operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

NAWA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with NAWA's principal ongoing operations. The principal operating revenues of NAWA are charges to customers for sales and services. Operating expenses for NAWA includes the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the NAWA's policy to use restricted resources first, then unrestricted resources as they are needed.

Management's Discussion and Analysis (MD&A) presents information regarding program and general revenues. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of NAWA, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which NAWA is self-financing or draws from the general revenues of the entity. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*," NAWA follows GASB guidance as applicable to proprietary funds and FASB 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.

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

An operating budget for NAWA is prepared and approved annually by the Board of Directors. Budgetary modifications may only be made by resolution of the Board.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits.

F. Capital Assets and Depreciation

Capital assets are defined by NAWA as assets with an initial, individual cost of more than \$750 and an estimated useful life threshold of three or more years.

Property, plant and equipment acquired is stated at cost. Contributed capital assets are recorded at fair market value at the date received.

Depreciation will be provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (Years)</u>
Buildings	50
Improvements Other Than Buildings	10 - 45
Machinery, Equipment, Furniture and Fixtures	3 - 35

Depreciation on capital assets will be charged to net assets. At December 31, 2004 the only capital assets in existence are construction in progress. These assets will not be depreciated until they are completed and placed into service.

G. Operating Revenues and Expenses

NAWA distinguishes operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of NAWA. For NAWA, these revenues are charges for services for water treatment and distribution. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of NAWA. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Ohio law requires the classification of funds held by NAWA into three categories:

Category 1 consists of “active” funds - those funds required to be kept in “cash” or “near cash” status for immediate use by NAWA. Such funds must be maintained either as cash in the NAWA Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;
- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which NAWA places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,*" collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by NAWA or by its agent in NAWA's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in NAWA's name.
- Category 3 Uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent but not in NAWA's name.

Investments:

- Category 1 Insured or registered with securities held by NAWA or its agent in NAWA's name.
- Category 2 Uninsured and unregistered with securities held by the counterparty's trust department or agent in NAWA's name.
- Category 3 Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in NAWA's name.

A. Deposits

At year end, the carrying amount of NAWA's deposits was \$119,215 and the bank balance was \$119,215. Federal depository insurance covered \$100,000 of the bank balance.

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 3 - CAPITAL ASSETS

Summary by category of changes in capital assets:

<u>Category</u>	<u>December 31, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2004</u>
Construction in Progress	\$963,457	\$500,697	\$0	\$1,464,154
Totals	\$963,457	\$500,697	\$0	\$1,464,154

NOTE 4 - LONG-TERM OBLIGATIONS

Long-term debt of NAWA at December 31, 2004 was as follows:

	<u>Maturity Date</u>	<u>Balance December 31, 2003</u>	<u>Issued (Retired)</u>	<u>Balance December 31, 2004</u>
Ohio Water Development Authority Loan: 5.64% Planning Loan	2008	\$981,173	\$511,751	\$1,492,924

Principal and interest requirements on the OWDA loan will not be established until all proceeds have been received by NAWA. The original loan was approved in the amount of \$2,500,000. Payments on the loan will commence (at the earliest) on January 1, 2008, or the date at which NAWA obtains long-term financing for the project.

NOTE 5 - RISK MANAGEMENT

NAWA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. As of December 31, 2004, NAWA has acquired Directors and Officers Liability Coverage in the amount of \$3,000,000 with a deductible of \$10,000. The policy took effect January 28, 2004. The City of Tipp City will provide property and general liability coverage for NAWA as part of its operating contract with NAWA.

NORTHERN AREA WATER AUTHORITY

TIPP CITY, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2004***

NOTE 6 – CONSTRUCTION COMMITMENTS

As of December 31, 2004, NAWA had the following significant construction commitments:

<u>Commitment Description</u>	<u>Remaining Construction Commitment</u>	<u>Estimated Date of Completion</u>
Engineering Services	\$325,235	Fall 2006
Construction Management	133,520	Fall 2006
Water Line Construction	96,687	Winter 2005
Total	<u><u>\$555,442</u></u>	

NOTE 7 – SUBSEQUENT EVENTS

On May 26, 2005 the Ohio Water Development Authority approved a construction loan with NAWA in the amount of \$24,000,000 at an interest rate of 3.99%. The loan will be amortized over 30 years with the first payment due on July 1, 2007.

On June 1, 2005 NAWA entered into contract with Shook Construction from Dayton, Ohio to build a Water Treatment Plant. The amount of the contract was \$14,987,102. NAWA also entered into contract with Howell Construction from Kentucky in the amount of \$4,329,850 for completion of the water transmission line between Tipp City and Vandalia.

On June 1, 2005 the City of Vandalia became the fiscal agent for the Authority.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
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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

To the Board of Trustees
Northern Area Water Authority
260 South Garber Drive
Tipp City, Ohio 45371

We have audited the financial statements of the Northern Area Water Authority (the Authority), as of and for the year ended December 31, 2004, and have issued our report thereon dated July 12, 2005. 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 Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 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 with in 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 Authority'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 are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the Authority in a separate letter date July 12, 2005.

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

Clark, Schaefer, Hachett & Co.

Springfield, Ohio
July 12, 2005



**Auditor of State
Betty Montgomery**

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NORTHERN AREA WATER AUTHORITY

MIAMI 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
OCTOBER 13, 2005**