

**SOUTHERN PERRY COUNTY
WATER DISTRICT**

Perry County

Regular Audit

January 1, 2002 Through December 31, 2003

**BALESTRA, HARR & SCHERER, CPAs, INC.
CERTIFIED PUBLIC ACCOUNTANTS**

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Piketon, Ohio 45661

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**Auditor of State
Betty Montgomery**

Board of Trustees
Southern Perry County Water District
155 School Ave.
P.O. Box 335
Corning, Ohio 43730

We have reviewed the Independent Auditor's Report of the Southern Perry County Water District, Perry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2002 to December 31, 2003. 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 Southern Perry County 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

September 14, 2004

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SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR-S REPORT

Board of Trustees
Southern Perry County Water District
P.O. Box 335
Corning, Ohio 43730-0335

We have audited the accompanying financial statements of the Southern Perry County Water District, Perry County, Ohio, (the District) as of and for the years ended December 31, 2003 and 2002, 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 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 Southern Perry County Water District, as of December 31, 2003 and 2002, and the results of its operations and cash flows 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 22, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Balestra, Harr & Scherer
Balestra, Harr & Scherer

July 22, 2004

SOUTHERN PERRY COUNTY WATER DISTRICT

Balance Sheet

as of December 31, 2003 and 2002

	<u>December 31,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 306,206	\$ 287,457
Accounts receivable - customers	30,505	46,155
Inventories	<u>6,814</u>	<u>6,814</u>
Total current assets	<u>343,525</u>	<u>340,426</u>
Restricted assets		
Cash equivalents	<u>149,864</u>	<u>144,093</u>
Total noncurrent assets	<u>149,864</u>	<u>144,093</u>
Fixed assets		
Land	19,968	19,968
Water system	4,702,232	4,618,816
Transportation, equipment, and tools	<u>110,250</u>	<u>138,065</u>
Total fixed assets	<u>4,832,450</u>	<u>4,776,849</u>
Less: Accumulated depreciation	<u>(1,386,395)</u>	<u>(1,294,954)</u>
Net fixed assets	<u>3,446,055</u>	<u>3,481,895</u>
Total assets	\$ <u>3,939,444</u>	\$ <u>3,966,414</u>
<u>LIABILITIES AND EQUITY</u>		
Current liabilities		
Accounts payable	\$ 37,130	\$ 27,653
Current portion of USDA-RD notes	24,196	23,877
Current portion other loans and capital leases	20,486	27,183
Payroll taxes and PERS payable	4,176	4,099
Interest payable USDA-RD	22,994	23,441
Interest payable other loans and capital leases	<u>476</u>	<u>694</u>
Total current liabilities	<u>109,458</u>	<u>106,947</u>
Long-term liabilities		
Notes payable USDA-RD	1,245,757	1,269,953
Other loans and capital leases payable	<u>562,422</u>	<u>568,767</u>
Total long term liabilities	<u>1,808,179</u>	<u>1,838,720</u>
Total liabilities	<u>1,917,637</u>	<u>1,945,667</u>
Equity:		
Contributed capital	1,537,845	1,537,845
Retained Earnings - Reserved	149,864	144,093
Retained Earnings - Unreserved	<u>334,098</u>	<u>338,809</u>
Total equity	<u>2,021,807</u>	<u>2,020,747</u>
Total liabilities and equity	\$ <u>3,939,444</u>	\$ <u>3,966,414</u>

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

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Equity
For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues		
Water sales	\$ 643,516	\$ 653,591
Tap fees	89,500	13,395
Turn on fees	1,475	975
Late penalty charges	21,313	21,329
Miscellaneous	0	4,858
Total operating revenues	<u>755,804</u>	<u>694,148</u>
Operating expenses		
Purchased water	282,154	268,545
Salaries, payroll taxes, & employers share PERS	121,125	122,167
Directors fees	7,125	4,300
Employee health and life insurance	20,025	25,669
Workers compensation	7,279	2,179
Utilities	18,564	19,930
Maintenance and operations	56,572	54,803
Office expenses and operation	15,945	15,770
Professional fees	45,520	50,636
Depreciation	119,257	108,829
Total operating expenses	<u>693,566</u>	<u>672,828</u>
Operating income	<u>62,238</u>	<u>21,320</u>
Nonoperating revenues (expenses)		
Interest revenue	9,248	12,553
Interest expense USDA-RD	(61,670)	(62,809)
Interest expense other	(11,818)	(9,037)
Gain on disposal of asset	3,062	556
Total nonoperating revenues (expenses)	<u>(61,178)</u>	<u>(58,737)</u>
Net income(loss)	1,060	(37,417)
Retained earnings - beginning of period	<u>482,902</u>	<u>520,319</u>
Retained earnings - end of period	483,962	482,902
Contributed capital - beginning and end of period	<u>1,537,845</u>	<u>1,537,845</u>
Total equity - end of period	\$ <u>2,021,807</u>	\$ <u>2,020,747</u>

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

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Receipts from customers	\$ 771,454	\$ 695,775
Payments to suppliers	(453,230)	(458,071)
Payments to employees	<u>(111,524)</u>	<u>(103,912)</u>
Net cash provided by operating activities:	<u>206,700</u>	<u>133,792</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of debt	18,653	224,904
Acquisitions of capital assets	(83,416)	(296,052)
Proceeds from sale of capital assets	3,062	556
Principal paid on capital debt	(55,573)	(49,766)
Interest paid on debt	<u>(74,153)</u>	<u>(71,585)</u>
Net cash used by capital and related financing activities:	<u>(191,427)</u>	<u>(191,943)</u>
Cash flows from investing activities:		
Interest	<u>9,248</u>	<u>12,553</u>
Net cash provided by investing activities	<u>9,248</u>	<u>12,553</u>
Net increase (decrease) in cash and cash equivalents	24,521	(45,598)
Balances - beginning of year	<u>431,549</u>	<u>477,147</u>
Balances - end of year	<u>\$ 456,070</u>	<u>\$ 431,549</u>
Reconciliation of operating income to net cash Provided by operating activities:		
Operating income	\$ 62,237	\$ 21,320
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	119,257	108,829
Changes in net assets and liabilities:		
Receivables	15,650	1,627
Accounts payable	9,479	175
Taxes payable	<u>77</u>	<u>1,841</u>
Net cash provided by operating activities	<u>\$ 206,700</u>	<u>\$ 133,792</u>
Reconciliation of cash to the statement of assets, liabilities, and net assets:		
Cash and cash equivalents	\$ 306,206	\$ 287,456
Cash equivalents - restricted	<u>149,864</u>	<u>144,093</u>
Total cash and cash equivalents	<u>\$ 456,070</u>	<u>\$ 431,549</u>

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

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Southern Perry County Water District, Inc. (the District) is a water district organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Perry County on February 11, 1975. The District operates under the direction of a seven member board of trustees. The staff, consisting of an appointed Board Treasurer, a distribution superintendent, and an office manager are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users and business use. The District serves all or parts of the following political subdivisions in Perry County:

Bearfield Township
Coal Township
Harrison Township
Jackson Township
Monroe Township
Pike Township
Pleasant Township
Saltlick Township
Village of Rendville

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Southern Perry County Water District, Inc. utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Un-billed water utility service receivables are recorded at year end.

Expenses are recognized under the accrual basis of accounting when the liability is incurred.

Under the guidelines of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the District has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, to its proprietary activities.

C. BUDGETARY PROCESS

The Ohio Revised Code requires the District to adopt an annual budget. The district adopts its annual budget on the cash basis.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

Estimated Resources

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

A summary of 2003 and 2002 budgetary activity appears in Note 3.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. CASH & CASH EQUIVALENTS

Cash in the District's operating account, certificates of deposit, and the District's participation in the State Treasurer's Investment Pool (STAROhio) are treated as cash and cash equivalents for the purposes of the Statement of Cash Flows.

E. INVENTORY

The inventory is valued at cost, which approximates market, utilizing the first-in, first-out (FIFO) method. The inventory of the District consists of expendable materials and supplies. The cost is recorded as an expense at the time individual inventory items are used.

F. RESTRICTED ASSETS

Restricted assets represent monies legally restricted for payment of bond issues.

G. PROPERTY, PLANT, AND EQUIPMENT

Fixed assets acquired or constructed for the general use of the District in providing service are recorded at cost. Donated assets are recorded at their estimated fair market value at the time received. Depreciation of fixed assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation. The estimated useful lives by major fixed asset class are as follows:

Department of Natural Resources Tap Fees	40 years
Water Lines	50 years
Water Tanks	50 years
Water Meters and Installation	50 years
Transportation Equipment	5 to 10 years
Equipment and Tools	2 to 5 years

H. COMPENSATED ABSENCES

GASB Statement 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. Compensated absence is earned on the basis of services already performed by employees.
2. It is probable that the compensated absence will be paid in a future period.

The District does not record compensated absences in accordance with GASB 16, as the District feels that any liability would be immaterial to the general purpose financial statements as a whole.

I. PENSIONS

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

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. CONTRIBUTED CAPITAL

Contributed capital is recorded by the District for receipts of capital grants or contributions from developers or customers. Contributed capital of the District has been from customers, donated assets and grants.

K. ESTIMATES

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

NOTE 2 - CASH AND CASH EQUIVALENTS

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;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits At December 31, 2003, the carrying amount of the District's deposits was \$207,389 and the bank balance was \$205,705. Of the bank balance: \$139,497 was covered by the Federal Deposit Insurance Corporation, and \$66,208 was covered by collateral pledged by the financial institution.

At December 31, 2002, the carrying amount of the District's deposits was \$195,576 and the bank balance was \$196,468. Of the bank balance: \$136,794 was covered by the Federal Deposit Insurance Corporation, and \$56,675 was covered by collateral pledged by the financial institution.

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. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>
<u>STAROhio</u>	<u>\$248,681</u>	<u>\$248,681</u>	<u>235,973</u>	<u>235,973</u>

The classification of "Cash and Cash Equivalents" on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments
GASB Statement 9	\$456,070	\$0	\$ 431,549	\$0
Investments:				
STAROhio	<u>(248,681)</u>	<u>248,681</u>	<u>(235,973)</u>	<u>235,973</u>
GASB Statement 3	<u>\$ 207,389</u>	<u>\$ 248,681</u>	<u>\$ 195,576</u>	<u>\$ 235,973</u>

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2003 and 2002 is as follows:

	<u>Budgeted vs. Actual Receipts</u>	
	<u>2003</u>	<u>2002</u>
Budgeted Receipts	\$1,128,850	\$1,080,000
Actual Receipts	<u>782,873</u>	<u>875,404</u>
Variance	<u>\$ 345,977</u>	<u>\$ 204,596</u>

	<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>	
	<u>2003</u>	<u>2002</u>
Appropriation Authority	\$1,127,025	\$1,079,242
Actual Expenditures	<u>779,559</u>	<u>921,789</u>
Variance	<u>\$ 347,466</u>	<u>\$ 157,453</u>

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 4 - FIXED ASSETS

A summary of the fixed assets as of December 31, 2003 and 2002 is as follows:

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Land	\$ 19,968	\$ 19,968
Water lines and buildings	4,171,136	4,087,720
DNR tap fees	503,516	503,516
Transportation equipment	74,796	102,611
Furniture and equipment	<u>63,034</u>	<u>63,034</u>
 Total	 <u>4,832,450</u>	 <u>4,776,849</u>
 Less accumulated depreciation:		
Water lines and buildings	1,005,663	915,809
DNR Tap fees	311,729	299,141
Transportation equipment	36,725	49,781
Furniture and equipment	<u>32,278</u>	<u>30,223</u>
 Total accumulated depreciation	 <u>1,386,395</u>	 <u>1,294,954</u>
 Total net fixed assets	 <u><u>\$3,446,055</u></u>	 <u><u>\$3,481,895</u></u>

NOTE 5 - DEBT OBLIGATIONS

Debt outstanding at December 31, 2003, consisted of the following:

	<u>Outstanding Balance</u>	<u>Interest Rate</u>
Farmer's Home Administration (FmHA), Revenue Bonds, Phase I	\$185,000	5.00%
FmHA, Revenue Bonds, Phase II	577,100	5.00%
FmHA, Revenue Bonds, Phase III	351,590	4.50%
FmHA, Revenue Bonds, Phase III	156,263	4.50%
Ohio Public Works Commission (OPWC) Issue II Loan Payable	311,944	2.00%
Ohio Water Development Authority (OWDA) Loan 3622	165,943	1.50%
Ohio Water Development Authority (OWDA) Loan 3748	87,572	1.50%
General Motors Acceptance Corporation (GMAC) Capital Lease Payable	<u>17,449</u>	5.95%
Total	<u><u>\$1,852,861</u></u>	

A. The FmHA outstanding revenue bonds were issued for the acquisition and construction of Phase I, II, and III of the water resource expansion project. Revenue of the District has been pledged to repay these debts.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 5 - DEBT OBLIGATIONS (continued)

The annual requirements to amortize the FmHA bonded debt outstanding as of December 31, 2003, including interest payments of \$1,071,579, are as follows:

<u>Year Ending</u> <u>December 31,</u>	Phase I Water Revenue <u>Bonds</u>	Phase II Water Revenue <u>Bonds</u>	Phase III Water Revenue <u>Bonds</u>	Phase III Water Revenue <u>Bonds</u>	<u>Totals</u>
2004	\$ 17,250	\$ 38,155	\$ 9,307	\$ 20,942	\$ 85,654
2005	17,850	38,090	9,307	20,942	86,189
2006	17,400	38,105	9,307	20,942	85,754
2007	17,950	38,095	9,307	20,942	86,294
2008	17,450	38,160	9,307	20,942	85,859
2009-2013	89,050	190,570	46,537	104,709	430,866
2014-2018	91,250	190,525	46,537	104,709	433,021
2019-2023		190,520	46,537	104,709	341,766
2024-2028		190,630	46,537	104,709	341,876
2029-2033		152,510	46,537	104,709	303,756
2034-2035			18,614	418,83	60,497
Total	<u>\$ 268,200</u>	<u>\$1,105,360</u>	<u>\$297,834</u>	<u>\$670,138</u>	<u>\$2,341,532</u>

B. Issue II loans:

The outstanding Issue II loan was issued by Perry County. The District has assumed this debt because the water improvements are to be turned over to the District.

The annual requirements to retire the Issue II loan liability at December 31, 2003, including interest payments of \$54,112, are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Issue II</u> <u>Loan</u>
2004	\$22,879
2005	22,879
2006	22,879
2007	22,879
2008	22,879
2009-2013	114,393
2014-2018	114,393
2019-2020	<u>22,875</u>
Total	<u>\$366,056</u>

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 5 - DEBT OBLIGATIONS(continued)

C. Ohio Water Development Authority (OWDA) loans:

1. The outstanding OWDA loan was used to construct an elevated storage tank in Oakfield.

The annual requirements to retire the OWDA loan liability at December 31, 2003, including interest payments of \$38,602, are as follows:

Year Ending <u>December 31,</u>	OWDA Loan <u>3622</u>
2004	\$ 7,177
2005	7,177
2006	7,177
2007	7,177
2008	7,177
2009-2013	35,885
2014-2018	35,885
2019-2023	35,885
2024-2028	35,885
2029-2032	<u>25,120</u>
Total	<u>\$204,545</u>

2. The District has obtained an advance on an OWDA loan in the amount of \$87,572 for the Moores Pump Station project. The total estimated total project cost is \$100,250. The advance of \$87,572 will become part of the principal balance on the OWDA loan at project closing.

D. The outstanding capital lease was obtained for the acquisition of a pickup truck. The truck may be purchased at the end of the lease for \$1. The annual requirement to retire the capital lease liability at December 31, 2003, including interest payments of \$1,572 and the \$1 purchase option, is as follows:

Year Ending <u>December 31</u>	GMAC Capital Lease
2004	\$9,510
2005	<u>9,512</u>
Total	<u>\$19,022</u>

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 6 - RISK MANAGEMENT

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years. There has been no significant change in coverage from the prior year.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

The District also provides health care insurance coverage for its full-time employees.

NOTE 7 - PENSION PLAN

A. Public Employees Retirement System

1. Pension Benefit Obligation

All employees of the District participate in the Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) - a cost sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2003 member contribution rates were 8.5 percent.. The 2003 employer contribution rate for local government employer units was 13.55 percent of covered payroll

The District's contribution to OPERS for the years ending December 31, 2003, 2002 and 2001 was \$15,111, \$13,931 and \$12,255 respectively which was equal to the required contributions. Also, during 2002, \$7,133 was paid to OPERS as required back contributions for certain employees who were not included in the OPERS system in the past.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

2. Other Postemployment Benefits

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age, and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll, and 5.00% was used to fund health care for the year.

The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The rates are the actuarially determined contribution requirements for OPERS. \$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experiences by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

NOTE 8 - SUBSEQUENT EVENT

Subsequent to the December 31, 2003 year end, the District has entered into a water tank and waterline construction project and has obtained approval for a OWDA installment loan of \$165,000 at 1.5% interest.

NOTE 9 – PENDING LITIGATION

The District is a party to legal proceedings. District management is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

NOTE 10 – CONTRIBUTED CAPITAL

Contributed capital consists of capital grants for plant expansion as well as donations of assets from various sources. Contributed capital did not change during the audit period.

**BALESTRA, HARR & SCHERER
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Accountants

Ohio Society of Certified Public

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

Board of Trustees
Southern Perry County Water District
P.O. Box 335
Corning, Ohio 43730

We have audited the financial statements of the Southern Perry County Water District, Perry County, as of and for the year ended December 31, 2003, and have issued our report thereon dated July 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Southern Perry County Water 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated July 22, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southern Perry County Water 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 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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated July 22, 2004.

Board of Trustees
Southern Perry County Water District
Corning, Ohio 43730
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit
of Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

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

Balestra, Harr & Scherer
Balestra, Harr & Scherer

July 22, 2004



**Auditor of State
Betty Montgomery**

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SOUTHERN PERRY COUNTY WATER DISTRICT

PERRY 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
SEPTEMBER 28, 2004**