



**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2001-2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Lake Lorelei Regional Water District
Brown County
586 Lorelei Drive
Fayetteville, Ohio 45118

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of Lake Lorelei Regional Water District, Brown County, Ohio (the District), as of and for the years ended June 30, 2001 and 2000. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 audits 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Lorelei Regional Water District, as of June 30, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note #9 to the financial statements, the District is contemplating a sale of the Regional Water District to the Western Water Company.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2001, 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 our audit performed in accordance with the *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

Jim Petro
Auditor of State

November 6, 2001

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**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001 and 2000**

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
<u>Assets:</u>		
Current Assets:		
Cash and Cash Equivalents	\$182,804	\$134,718
Accounts Receivable (net of Allowance for Doubtful Accounts)	\$4,064	\$3,926
Interest Receivable	7,931	7,997
Prepaid Expenses	<u>5,040</u>	<u>3,300</u>
Total Current Assets	<u>199,839</u>	<u>149,941</u>
Restricted Assets:		
Cash and Cash Equivalents:		
Bond Account - 1998 Revenue Bonds	30,754	31,392
Debt Service Reserve Account - 1998 Revenue Bonds	<u>103,920</u>	<u>98,668</u>
Total Restricted Assets	<u>134,674</u>	<u>130,060</u>
Other Assets:		
Unamortized Debt Expense	<u>29,469</u>	<u>31,194</u>
Fixed Assets:		
Land	21,042	21,042
Buildings	44,997	44,997
Water Plant Equipment	1,248,596	1,247,070
Furniture and Fixtures	3,009	3,623
Vehicles	9,995	9,995
Less: Accumulated Depreciation	<u>(278,670)</u>	<u>(250,152)</u>
Total Fixed Assets	<u>1,048,969</u>	<u>1,076,575</u>
Total Assets	<u><u>\$1,412,951</u></u>	<u><u>\$1,387,770</u></u>

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

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001 and 2000**

	June 30, 2001	June 30, 2000
<u>Liabilities and Retained Earnings:</u>		
Liabilities:		
Current Liabilities:		
Accounts Payable	\$14,079	\$11,118
Intergovernmental Payable	447	1,923
Unearned Revenues	6,000	3,000
Unearned Interest	7,931	7,997
Total Current Liabilities	28,457	24,038
Current Liabilities Payable from Restricted Assets:		
Current Maturities of Revenue		
Bonds Payable	35,000	35,000
Accrued Interest Payable	17,731	18,233
Total Current Liabilities Payable from Restricted Assets	52,731	53,233
Noncurrent Liabilities:		
Revenue Bonds Payable (Net of Current Maturities)	965,000	1,000,000
Deferred Amount on Refunding	(75,688)	(80,140)
Total Noncurrent Liabilities	889,312	919,860
Total Liabilities	970,500	997,131
Retained Earnings:		
Reserved for Revenue Bonds Current		
Debt Service	30,754	31,392
Reserved for Revenue Bonds Future		
Debt Service	103,920	98,668
Unreserved	307,777	260,579
Total Retained Earnings	442,451	390,639
Total Liabilities and Retained Earnings	1,412,951	1,387,770

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

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

	2001	2000
Operating Revenues:		
Water Service Fees	\$292,476	\$290,500
Water Connect Fees	7,403	18,545
Miscellaneous	10,149	5,232
 Total Operating Revenues	 310,028	 314,277
Operating Expenses:		
Wages and Benefits	85,199	89,926
Professional Services	22,781	16,852
Depreciation	28,764	27,765
Supplies	20,144	22,106
Automobile	755	5,445
Insurance	6,826	6,025
Utilities	14,081	14,020
Repairs and Improvements	22,605	12,584
Water Line Connections	7,403	18,545
Professional Fees	11,875	16,018
Bad Debt Expense	2,600	(1,934)
Miscellaneous	2,637	1,710
 Total Operating Expenses	 225,670	 229,062
 Operating Income/(Loss)	 84,358	 85,215
Non-Operating Revenues:		
Interest Revenue	14,212	11,224
Connection Fees in Excess of Cost	13,617	14,455
 Total Non-Operating Revenues	 27,829	 25,679
Non-Operating Expenses:		
Interest Expense	58,650	60,120
Amortization of Debt Expense	1,725	1,725
 Total Non-Operating Expenses	 60,375	 61,845
 Net Income (Loss)	 51,812	 49,049
Retained Earnings, July 1	390,639	341,590
 Retained Earnings, June 30	 \$442,451	 \$390,639

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

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

	2001	2000
Operating Income:	\$84,358	\$85,215
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	28,764	27,765
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable (net)	(138)	105
Decrease (Increase) in interest receivable	66	(2,667)
(Decrease) Increase in unearned interest	(66)	2,667
(Increase) Decrease in prepaid expenses	(1,740)	669
Increases in accounts payable	2,961	8,549
(Decrease) Increase in intergovernmental payable	(1,476)	822
Net cash provided by operating activities	112,729	123,125
Cash flows from capital financing activities:		
Acquisition and disposal of capital assets (net)	(1,158)	(12,786)
Principal paid on long-term debt	(35,000)	(35,000)
Interest paid on long-term debt	(54,700)	(56,153)
Connection fees in excess of cost	16,617	17,455
Net cash provided (used) by capital financing activities	(74,241)	(86,484)
Cash flows from investing activities:		
Interest income	14,212	11,224
Net cash provided by investing activities	14,212	11,224
Net increase/(decrease) in cash and cash equivalents	52,700	47,865
Cash and cash equivalents, July 1, 2000 and 1999	264,778	216,913
Cash and cash equivalents, June 30, 2001 and 2000	\$317,478	\$264,778
Reconciliation of cash and cash equivalents to the balance sheet:		
Current assets - Cash and cash equivalents	\$182,804	\$134,718
Restricted assets - Cash and cash equivalents	134,674	130,060
Total cash and cash equivalents, June 30, 2001 and 2000	\$317,478	\$264,778

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

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Lake Lorelei Regional Water District, Brown County, Ohio (the District), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Brown County in March of 1989. The District is directed by a publicly-elected three-member Board of Trustees. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district residents of the Lake Lorelei subdivision of Fayetteville, Ohio.

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

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 District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Unbilled water utility service receivables are recorded at year end.

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

The District has adopted GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*. The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

C. Cash and Cash Equivalents

Investments are reported as assets and are valued at fair value, which is based on quoted market prices. During fiscal years 2001 and 2000, investments were limited to U.S. Treasury Money Market Funds.

D. Restricted Assets

Restricted assets represent cash and cash equivalents and investments set aside in the fiscal agent's accounts to meet bond debt covenants.

E. Budgetary Process

The District's Board of Trustees adopted an operating budget beginning with fiscal year 2001. Recent Ohio Attorney General Opinion No. 99-020 has clarified that the budget process described in Chapter 5705, Revised Code, applies to the District, regardless of whether the District levies property taxes. The District must henceforth adopt annual appropriations, limited by estimated resources. Expenditures will be limited by appropriations.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Ohio Revised Code requires that the fund be budgeted annually. The District budgets on a GAAP (Generally Accepted Accounting Principles) basis.

1. Appropriations

Budgetary expenditures (that is, expenses and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission is not required to approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of revenue to be earned, and retained earnings as of July 1. The County Budget Commission is not required to approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The District did not encumber all commitments as required by Ohio law. A summary of 2001 budgetary activity appears in Note 3.

F. 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 is calculated utilizing the straight-line method. The estimated useful lives of major fixed asset classes are as follows:

Building	40 years
Water Plant Equipment	5 to 50 years
Furniture and Fixtures	3 to 10 years
Vehicles	5 years

G. Accounts Receivable

Accounts receivable are presented net of allowance for doubtful accounts. Old accounts receivable are estimated to be 95% uncollectible. The significant portion of the old accounts receivable balance is unpaid water availability fees on vacant lots within the Water District. The District has no effective means of collecting these balances. Many of these properties end up in a tax foreclosure sale and the proceeds are rarely enough to cover delinquent property taxes and subsequently, the unpaid utility water availability fees. The allowance for doubtful accounts at June 30, 2001 and 2000, was \$78,150 and \$75,550, respectively.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Statement of Cash Flows

For purposes of the statement of cash flows, all cash and investments (including restricted trustee and retainage accounts) with original maturities of 3 months or less when purchased are considered to be cash equivalents.

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

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

Interim monies may 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 the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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. Bonds and other obligations of the State of Ohio;

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in divisions (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 (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies 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 June 30, 2001, the carrying amount of the District's deposits was \$29,559 and the bank balance was \$23,642. At June 30, 2000, the carrying amount of the District's deposits was \$33,649 and the bank balance was \$33,312. The entire bank balance was covered by federal depository insurance.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at each fiscal 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 which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which they are held by the counterparty, or by its trust department or agent but not in the District's name. Money Market Fund investments are unclassified since they are not evidenced by securities that exist in physical or book entry form.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Investments at June 30, 2001:

	Unclassified	Carrying Value	Fair Value
Fifth Third Treasury Money Market Mutual Funds	\$287,919	\$287,919	\$287,919

Investments at June 30, 2000:

	Unclassified	Carrying Value	Fair Value
Fifth Third Treasury Money Market Mutual Funds	\$231,129	\$231,129	\$231,129

3. BUDGETARY

Budgetary activity for the years ending June 30, 2001 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Enterprise Fund	334,500	337,857	3,357
Total	\$334,500	\$337,857	\$3,357

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Enterprise Fund	278,878	286,045	(7,167)
Total	\$278,878	\$286,045	(\$7,167)

4. DEBT

Debt outstanding at June 30, 2001 was as follows:

	Principal	Interest Rate
Water Resource Revenue Refunding Bonds, Series A	\$1,000,000	4.00% - 5.50%

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

4. DEBT (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30:	Water Revenue Bonds
2002	\$88,195
2003	86,637
2004	90,028
2005	88,127
2006	86,168
2007 - 2011	441,612
2012 - 2016	446,275
2017 - 2019	266,950
Total	\$1,593,992

The Official Statement for the Water Resource Revenue Refunding Bonds Series 1998A provides for maturities of serial bonds annually from 2002 through 2008, and term bonds of \$720,000 due in 2019. However, the District intends to follow an amortization schedule which will retire the term bonds in annual increments from 2009 through 2019. This amortization was prepared by bond counsel and is summarized above.

The District issued water revenue bonds in 1989 to finance the purchase of the water system serving the Lake Lorelei Property Owners' Association from Lorelei Utilities Incorporated, which filed for bankruptcy. In August of 1998, the District advance-refunded the bonds. The refunding bonds were issued on August 1, 1998 for \$1,100,000 and have maturities through March 1, 2019. The bonds are collateralized solely by the future revenues from the District's water operations.

The difference between the reacquisition price and the net carrying amount of the 1989 Revenue Bonds of \$89,044 was reported as Deferred Amount on Refunding, a deduction to the liability for the 1998 Revenue Bonds. The Deferred Amount on Refunding is being amortized over the life of the 1998 Revenue Bonds (twenty years), using the straight line method. Debt issuance costs of \$34,500 were reported as unamortized debt expense and are being amortized over twenty years, using the straight line method.

5. RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and omissions

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

6. RESTRICTED ASSETS

As discussed in note 4, the District advance-refunded the 1989 Water Revenue Bonds in August of 1998 through the issuance of 1998 Water Revenue Bonds. The Trust Agreement related to the 1998 Water Revenue Bonds requires certain trust accounts be established and maintained. Cash and investments in these accounts are held by a trustee financial institution. These accounts include a Bond Account, and a Debt Service Reserve Account. The Bond Account is used to segregate resources accumulated for debt service principal and interest payments. The Bond Account consists of two subaccounts; the Principal Account, and the Interest Account. The Debt Service Reserve Account is used to account for a debt service reserve requirement and can only be used for payment of principal and interest on the 1998 Bonds, if necessary. The debt service reserve requirement is calculated as the maximum annual debt service, or \$91,152.

The restricted asset amounts at June 30, 2001 were as follows:

Bond Account	\$30,754
Debt Service Reserve Account	<u>103,920</u>
Total Restricted Cash and Investments	<u><u>\$134,674</u></u>

The restricted asset amounts at June 30, 2000 were as follows:

Bond Account	\$31,392
Debt Service Reserve Account	<u>98,668</u>
Total Restricted Cash and Investments	<u><u>\$130,060</u></u>

7. DEFINED BENEFIT PENSION PLAN

Public Employees Retirement System

All full-time employees of the District participate in the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The District is also required to contribute a percentage established by state statute. The District's required contributions to PERS for the years ended June 30, 2001, 2000, and 1999 were \$10,324, \$9,158, and \$9,509, respectively. The full amounts have been contributed for 2001, 2000, and 1999.

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000**

8. POST-EMPLOYMENT BENEFITS

Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipient of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an "Other Post-Employment Benefit" (OPEB) as described in GASB Statement Number 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on authority granted by state statute. The employer contribution rate for 2001 was 10.84 percent of covered payroll and 4.3 percent was the portion used to fund health care. The employer contribution rate for 2000 was 13.55 percent of covered payroll and 4.2 percent was the portion used to fund health care. The District's actual contributions for 2001 and 2000, which were used to fund OPEB were \$4,207 and \$2,838, respectively.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions based on PERS' latest actuarial review performed as of December 31, 1999, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional pay increases. Health care premiums were assumed to increase 4.75 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 401,339. The actual contribution and the actuarially required contribution amounts are the same. PERS' net assets available for payment of benefits at December 31, 1999, (the latest information available) were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million, respectively.

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

9. SUBSEQUENT EVENT

The Trustees of the Lake Lorelei Regional Water District have made an offer to sell the Water District to Western Water Company. A purchase agreement has been received from Western Water Company. Negotiations are currently in process regarding the terms of this sale, however, as of the report date, no contract has been signed. The District's intent is that when a contract is signed, a hearing will be held with the Brown County Common Pleas Court Judge. At that time, the Judge will review the contract and issue a court order regarding the sale. This sale would result in the probable dissolution of the Lake Lorelei Regional Water District.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

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

Lake Lorelei Regional Water District
Brown County
586 Lorelei Drive
Fayetteville, Ohio 45118

To the Board of Trustees:

We have audited the accompanying financial statements of Lake Lorelei Regional Water District, Brown County, Ohio (the District), as of and for the years ended June 30, 2001 and 2000, and have issued our report thereon dated November 6, 2001. 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 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2001-60408-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 6, 2001.

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 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 a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 6, 2001.

Lake Lorelei Regional Water District
Brown County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
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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.

Jim Petro
Auditor of State

November 6, 2001

**LAKE LORELEI REGIONAL WATER DISTRICT
BROWN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001 AND 2000**

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

FINDING NUMBER 2001-60408-001

Ohio Rev. Code, Section 5705.41 (D), provides that a subdivision or taxing unit shall not make any contract or order involving the disbursement of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate--This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the fiscal officer is completing the certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

- B. Amounts of less than \$1,000 for the District, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Our tests indicated that in 2001, when the budgetary requirements became effective for the Water District, 100% of disbursements had obligations entered into without prior certification of the fiscal officer, contrary to this requirement. We recommend that prior certifications be provided for all disbursements. In instances when prior certifications are not practical, "then and now" certifications should be made.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

LAKE LORELEI REGIONAL WATER DISTRICT

BROWN 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
DECEMBER 6, 2001**