

Adams County Regional Water District

Adams County

Regular Audit

January 1, 2003 through December 31, 2003

Fiscal Years Audited Under GAAS: 2003

BALESTRA, HARR & SCHERER, CPAS, INC.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Adams County Regional Water District

We have reviewed the Independent Auditor's Report of the Adams County Regional Water District, Adams County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2003 through 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 Adams County Regional Water District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 20, 2004

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ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Adams County Regional Water District (the District), Adams County, as of and for the years ended December 31, 2003 and December 31, 2002. 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 general purpose 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 Adams County Regional Water District, as of December 31, 2003 and December 31, 2002, and the results of its operations and cash flows of its proprietary fund type for the year 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 March 16, 2004 on our consideration of the District's internal control over financial reporting and our tests of 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, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

March 16, 2004

Adams County Regional Water District
Balance Sheet
December 31, 2003 and 2002

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$2,411,759	\$2,711,959
Certificates of deposit	839,297	905,035
Accounts receivable:		
Customers, net of allowance for doubtful accounts of \$11,201	328,223	332,874
Other receivables	32	6,699
Accrued interest receivable	18,389	3,248
Insurance receivable	39,016	0
Inventories	146,097	163,763
Prepaid expenses	53,482	32,510
Total current assets	3,836,295	4,156,088
OTHER ASSETS		
Restricted cash and certificates of deposit	365,962	366,426
Deferred costs, net of amortization	63,959	67,465
Total other assets	429,921	433,891
OPERATING FACILITIES (at cost)		
Land and land improvements	428,727	428,727
Buildings	524,995	493,987
Wells and wellfield improvements	1,322,302	1,311,363
Mains, lines and meters	23,116,763	22,970,798
Storage tanks	1,472,552	1,390,655
Water treatment and plant equipment	407,943	409,081
Trucks, tractors and equipment	620,076	585,356
Office furniture and equipment	70,923	88,116
Construction in progress	28,054	14,154
	27,992,335	27,692,237
Less: accumulated depreciation	(8,871,798)	(7,766,122)
Net operating facilities	19,120,537	19,926,115
Total assets	\$23,386,753	\$24,516,094

Notes to the financial statements are an integral part of these statements.

Liabilities and Members' Equity

	<u>2003</u>	<u>2002</u>
CURRENT LIABILITIES		
Accounts payable	\$29,326	\$23,351
Other payable	31,531	0
Accrued expenses	190,042	191,593
Accrued interest	397,789	420,027
Current portion of long-term debt	496,677	485,051
Customer deposits	<u>23,250</u>	<u>23,250</u>
Total current liabilities	1,168,615	1,143,272
LONG-TERM DEBT, less current portion	15,882,765	16,375,307
EQUITY		
Contributed capital	3,239,523	3,239,523
Members' Tap Fees	2,102,936	2,102,936
Members' Equity	<u>992,914</u>	<u>1,655,056</u>
Total equity	<u>6,335,373</u>	<u>6,997,515</u>
Total liabilities and equity	<u><u>\$23,386,753</u></u>	<u><u>\$24,516,094</u></u>

Notes to the financial statements are an integral part of these statements.

Adams County Regional Water District
 Statements of Revenues, Expenses and Changes in Equity
 For the Years Ending December 31, 2003 and 2002

	2003	2002
OPEARATING REVENUES		
Sales to customers	\$1,765,783	\$1,825,260
Sales to public authorities	683,633	662,536
Other revenues	67,650	74,348
Total operating revenues	2,517,066	2,562,144
OPERATING EXPENSES		
Salaries	695,879	693,046
Utilities	202,104	215,056
Depreciation expense	1,175,684	1,143,443
Amortization expense	3,506	2,292
Repairs	104,012	93,836
Truck expense	23,487	23,449
Supplies	27,340	16,275
Pension expense	121,147	117,589
Payroll taxes	18,704	19,464
Insurance	180,701	182,245
Office supplies and postage	29,515	26,074
Legal and engineering fees	22,219	13,914
Accounting fees	10,955	9,116
Director fees	22,650	26,650
Advertising	3,550	3,891
Bank Charges	1,124	1,123
Other Expenses	52,084	47,706
Total operating expenses	2,694,661	2,635,169
OPERATING INCOME (LOSS)	(177,595)	(73,025)
NON-OPERATING REVENUE/(EXPENSES)		
Tap fee revenue	145,500	175,700
Contribution in aid of Construction	96,840	49,093
Gain on disposal of equipment	0	23,990
Gain from insurance proceeds	31,674	0
Interest income	64,003	127,668
Interest expense	(822,564)	(856,286)
Total nonoperating revenues/(expenses)	(484,547)	(479,835)
NET INCOME (LOSS)	(662,142)	(552,860)
MEMBERS' EQUITY, JANUARY 1	1,655,056	2,207,916
MEMBERS' EQUITY, DECEMBER 31	\$992,914	\$1,655,056

Notes to the financial statements are an integral part of these statements.

Adams County Regional Water District
Statements of Cash Flows
For the Years Ending December 31, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operations	(\$177,595)	(\$73,025)
Items not requiring cash:		
Depreciation	1,175,684	1,143,443
Amortization	3,506	2,292
Changes in:		
Accounts receivable, customers and other	11,318	324
Inventories	17,666	(9,338)
Prepaid expenses	(20,972)	(13,557)
Accounts payable and other accrued expenses	4,424	9,995
Net cash provided by operating activities	1,014,031	1,060,134
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income on investments	48,862	175,466
Net cash provided by investing activities	48,862	175,466
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of operating facilities, including construction in progress and capitalized interest	(368,021)	(622,834)
Members tap fees	145,500	175,700
Proceeds from disposal of equipment	0	25,887
Insurance proceeds	22,104	0
Proceeds from issuance of long-term debt	0	478,947
Payments on long-term debt obligations	(480,916)	(463,890)
Proceeds from construction contributions	96,840	49,093
Interest paid on long-term debt obligations	(844,802)	(863,552)
Net cash used in capital and related financing activities	(1,429,295)	(1,220,649)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(366,402)	14,951
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,983,420	3,968,469
CASH AND CASH EQUIVALENTS, END OF YEAR	\$3,617,018	\$3,983,420

Notes to the financial statements are an integral part of these statements.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Adams County Regional Water District (the District) is a water district organized under the provisions of Section 6119 of the Ohio Revised Code. The District operates under the direction of a nine member board of trustees. An appointed staff consisting of a general manager and an office manager are responsible for fiscal control of the resources of the Adams County Regional Water District. The Adams County Regional Water District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all or parts of the following political subdivisions:

Adams County:	Bratton Township	Brush Creek Township	Franklin Township
	Green Township	Jefferson Township	Liberty Township
	Meigs Township	Monroe Township	Oliver Township
	Scott Township	Sprigg Township	Tiffin Township
	Wayne Township	Winchester Township	
Brown County:	Byrd Township	Huntington Township	

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 Adams County Regional Water District 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 Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Water 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 that each fund be budgeted annually.

Appropriations

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BUDGETARY PROCESS (Continued)

Estimated Resources

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

A summary of 2003 budgetary activity appears in Note 5.

D. CONTRIBUTED CAPITAL

Contributed capital was recorded by the District for receipts of capital grants or contributions from developers and customers prior to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 33 and 36 in 2002. Contributed capital of the Adams County Regional Water District has been entirely from customers.

E. 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:

Building	45 years
Wells and well field improvements	10-20 years
Mains, lines and meters	20-50 years
Storage tanks	10-50 years
Equipment	5-10 years

F. INVENTORY

The District maintains material inventory for its proprietary fund. All inventory is valued at cost and the District uses the first-in, first-out (FIFO) flow assumption in determining cost.

G. COMPENSATED ABSENCES

Accumulated vacation leave and accumulated compensatory time are recorded as an expense and liability of the District as the benefits accrue to the employees. In accordance with the provisions of Governmental Accounting Standards Board (GASB) Number 16, Accounting for Compensated Absences, a liability is recorded for vested sick pay benefits which have been defined by District policy.

H. PENSIONS

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. CASH & CASH EQUIVALENTS

To improve cash management, cash received by the District is pooled. The proprietary fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

During fiscal year 2003, investments were limited to a Money Market Account.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District's cash and cash equivalents are considered to be cash on hand, deposits and short term investments (including restricted assets) with maturities of three months or less from the date of acquisition.

J. FUND ACCOUNTING

The Adams County Regional Water District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific revenues and expenses. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restriction associated with each type of fund is as follows:

PROPRIETARY FUND

The proprietary fund is used to account for the District's ongoing activities that are similar to those found in the private sector. The following is the District's proprietary fund type:

Enterprise Fund

This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

K. DEFERRED FINANCING COSTS

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. PREPAID EXPENSES

Charges entered in the accounts for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operation. Prepaid expenses for 2003 and 2002 were \$53,482 and \$32,510, respectively.

M. OPERATING FACILITIES

Operating facilities are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 2003 and 2002, the District capitalized \$0 and \$181,161 in interest, respectively. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments are capitalized.

N. CUSTOMER ACCOUNTS RECEIVABLE

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

O. 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 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS

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);
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.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Cash on Hand At year end, the District had \$150 in undeposited cash on hand which is included on the balance sheet of the District as part of "cash and cash equivalents".

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

Deposits At year end, the carrying amount of the District's deposits was \$2,543,701 and the bank balance was \$3,565,280.

1. \$399,150 was covered by federal depository insurance.
2. \$2,166,130 was covered by pooled or pledged collateral.

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

	Category 1	Category 3	Carrying Amount	Fair Value
Repurchase Agreement	\$0	\$1,073,167	\$1,073,167	\$1,073,167
Total Investments			\$1,073,167	\$1,073,167

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

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

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	\$3,617,018	\$0
Cash on Hand	(150)	0
Investments:		
Repurchase Agreement	(1,073,167)	1,073,167
GASB Statement 3	\$2,543,701	\$1,073,167

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 3 - RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Restricted cash and certificates of deposit consist of savings accounts and certificates of deposit and represent amounts designated as reserved to comply with loan agreements with the U.S. Department of Agriculture Farmers Home Administration (FMHA) described more fully in Note 6.

NOTE 4 - BUDGETARY ACTIVITY

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

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Enterprise	\$2,785,000	\$2,855,083	\$70,083
2003 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Enterprise	\$4,440,056	\$3,551,739	\$888,317

NOTE 5 - DEBT OBLIGATIONS

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

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

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

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 5 - DEBT OBLIGATIONS (Continued)

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2003, is as follows:

	Principal	Interest	Total
2004	\$496,677	\$824,035	\$1,320,712
2005	519,555	801,224	1,320,779
2006	543,636	777,200	1,320,836
2007	569,339	751,884	1,321,223
2008	595,722	725,185	1,320,907
Thereafter	13,654,513	7,519,764	21,174,277
Total	\$16,379,442	\$11,399,292	\$27,778,734

The following is a summary of changes in long-term debt for the year ended December 31, 2003:

	Balance 12/31/02	Additions	Payments	Balance 12/31/03
1999 water revenue refunding bonds	\$2,233,500	\$0	\$130,600	\$2,102,900
Note payable OWDA, payable in semiannual installments of \$342,839 starting January 1, 2002, including interest at 6.39%, due July 2026.	8,353,867	0	148,728	8,205,139
Note payable OWDA, payable in semiannual installments of \$66,981 starting January 1, 2000, including interest at 2%, due July 2024.	2,365,531	0	86,651	2,278,880
Note payable OWDA, payable in semiannual installments of \$342,839 starting January 1, 2002, including interest at 6.39%, due July 2026.	1,316,361	0	30,887	1,285,474
Note payable OWDA, payable in semiannual installments of \$25,260 starting January 1, 2000, including interest at 5.56%, due January 2025.	644,084	0	14,913	629,171
Note payable OWDA, payable in semiannual installments of \$53,061 starting January 1, 2000, including interest at 2%, due January 2025.	1,907,582	0	67,971	1,839,611
Note payable OWDA, payable in semiannual installments of \$1,819 starting January 1, 2003, including interest at 5.15%, due January 2025.	39,433	0	1,166	38,267
Totals	\$16,860,358	\$0	\$480,916	\$16,379,442

Operating facilities, together with all revenue and service charges which may arise from the operations of the Company, are pledged for the payment of revenue bond debt.

The notes payable OWDA are secured by operating facilities.

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2003 and 2002 was \$365,962 and \$366,426, respectively. These amounts equaled the required reserve.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 6 - RISK MANAGEMENT

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

The District contracted with private commercial insurance carriers for real property, building contents, vehicle, and liability insurance coverage. Real property and building contents are 90% insured. Vehicle policies include liability coverage for bodily injury and property damage.

Health insurance was provided by a private carrier for the year.

Workers compensation benefits are provided through the State Bureau of Workers Compensation. The District pays all elected official's bonds by statute.

The District has not incurred significant reductions in insurance coverage for the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three years.

NOTE 7 - CONTRIBUTIONS IN AID OF CONSTRUCTION

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

NOTE 8 - PENSION PLAN

A. Public Employees Retirement System

1. Pension Benefit Obligation

All employees of the District participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees is 8.5 percent. The 2003 and 2002 employer rate for local government employer units was 13.55 percent, of covered payroll, 8.55 percent to fund the pension benefit obligation and 5.00 percent to fund health care. The contribution requirements of plan members and the District are established and may be amended by the Public Employees Retirement Board. The District's contributions to the PERS of Ohio For the years ended December 31, 2003, 2002 and 2001 were \$100,195, \$110,969, and \$109,601 respectively which was equal to the required contributions.

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 8 - PENSION PLAN (Continued)

A. Public Employees Retirement System (Continued)

2. Other Postemployment Benefits

Public Employees Retirement System: The Public Employees Retirement System of Ohio (the System) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by state statute.

The 2003 and 2002 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care for both years. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OEPB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

As of December 31, 2001 the unaudited estimated net assets available for future OPEB payments were \$11.6 billion. The number of benefit recipients eligible for OPEB at December 31, 2001 was 402,041.

NOTE 9 - COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to all employees to specified maximums. Upon separation from the District, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2003 and 2002, were \$163,835 and \$165,116, respectively.

NOTE 10 - FIXED ASSETS

A summary of the District's fixed assets as of December 31, 2003, are as follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
Land & Land Improvements	\$428,727	\$	\$0	\$428,727
Buildings	493,987	32,851	1,843	524,995
Wells & Wellfield Improvements	1,311,363	47,349	36,410	1,322,302
Mains, Lines & Meters	22,970,798	151,942	5,977	23,116,763
Storage Tanks	1,390,655	84,420	2,523	1,472,552
Water Treatment & Plant Equipment	409,081	3,119	4,257	407,943
Trucks, Tractors & Equipment	585,356	45,978	11,258	620,076
Office Furniture & Equipment	88,116	14,711	31,904	70,923
Construction in Progress	14,154	112,971	99,071	28,054
Total	<u>\$27,692,237</u>	<u>\$493,341</u>	<u>\$193,243</u>	<u>\$27,992,335</u>

ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 11 -CONCENTRATION OF CREDIT RISK

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

NOTE 12 -CONTINGENCIES

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

BALESTRA, HARR & SCHERER, CPAs, INC.

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

We have audited the financial statements of the Adams County Regional Water District (the District), Adams County, as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated March 16, 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 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 general purpose 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.

This report is intended 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, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

March 16, 2004



**Auditor of State
Betty Montgomery**

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ADAMS COUNTY REGIONAL WATER DISTRICT

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 1, 2004**