

SOUTHERN PERRY COUNTY WATER DISTRICT

Perry County

Regular Audit

January 1, 2006 Through December 31, 2007

BALESTRA, HARR & SCHERER, CPAs, INC.

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Piketon, Ohio 45661

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Mary Taylor, CPA
Auditor of State

Members of the Board
Southern Perry County Water District
PO Box 335
Corning, Ohio 43730-0335

We have reviewed the *Independent Auditors' Report* of the Southern Perry County Water District, Perry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2006 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 31, 2008

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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

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

We have audited the accompanying financial statements of the business-type activities of the Southern Perry County Water District, Perry County, Ohio, (the District) as of and for the years ended December 31, 2007 and 2006. 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.

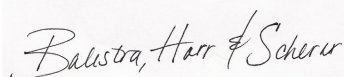
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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 business-type activities of the Southern Perry County Water District, Perry County, Ohio, as of December 31, 2007 and 2006, and the respective changes in financial position and cash flows, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 9 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement Number 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.



Balestra, Harr & Scherer, CPAs, Inc.
May 2, 2008

SOUTHERN PERRY COUNTY WATER DISTRICT
Management's Discussion and Analysis
For the Years Ended December 31, 2007, 2006 and 2005

This discussion and analysis, along with the accompanying financial report, of Southern Perry County Water District Inc., ("the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets of the District exceed liabilities on December 31, 2007, 2006 and 2005 by 1.9 million. The District's net assets decreased \$5 thousand (less than -1%) in 2007; decreased \$18 thousand (less than -1%) in 2006; and decreased \$32 thousand (-1%) in 2005.

The District's Operating Revenues decreased \$7 thousand (less than -1%) during 2007; increased \$10 thousand (1%) during 2006; and increased \$11 thousand (1%) in 2005. Operating Expenses decreased \$14 thousand (-2%) during 2007; increased \$20 thousand (3%) during 2006; and decreased \$4 thousand (less than -1%) during 2005.

The District issued additional long term debt of \$45 thousand, \$150 thousand, and \$41 thousand during 2007, 2006, and 2005, respectively.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statements of Net Assets** include all of the District's assets and liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets (equity) are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past two years and the success of recovering all of its costs through service charges, tap fees, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, and financing activities.

SOUTHERN PERRY COUNTY WATER DISTRICT
Management's Discussion and Analysis
For the Years Ended December 31, 2007, 2006 and 2005

NET ASSETS

Table 1 summarizes the Net Assets of the District. Capital Assets are reported less accumulated depreciation. The line "Invested in Capital, Net of Debt" is Capital Assets, less outstanding debt that was used to acquire those assets.

	TABLE 1				
	2007	2006	Change	2005	Change
Current & Other Assets	\$515,259	\$471,771	\$43,488	\$478,483	\$ (6,712)
Capital Assets	3,431,816	3,477,512	(45,696)	3,399,828	77,684
Total Assets	<u>3,947,075</u>	<u>3,949,283</u>	<u>(2,208)</u>	<u>3,878,311</u>	<u>70,972</u>
Long term liabilities	1,884,176	1,900,938	(16,762)	1,810,362	90,576
Other liabilities	133,923	114,560	19,363	116,447	(1,887)
Total liabilities	<u>2,018,099</u>	<u>2,015,498</u>	<u>2,601</u>	<u>1,926,809</u>	<u>88,689</u>
Net assets					
Invested in capital, net of debt	1,485,585	1,518,536	(32,951)	1,535,678	(17,142)
Restricted	173,683	164,981	8,702	158,123	6,858
Unrestricted	269,708	250,268	19,440	257,701	(7,433)
Total net assets	<u>\$1,928,976</u>	<u>\$1,933,785</u>	<u>\$(4,809)</u>	<u>\$1,951,502</u>	<u>\$(17,717)</u>

The District's Net Assets decreased \$5 thousand (-1%) in 2007; decreased \$18 thousand (less than -1%) in 2006; and decreased \$32 thousand (-1%) in 2005.

Restricted net assets increased by \$9 thousand, \$7 thousand, and \$4 thousand, respectively for 2007, 2006, and 2005. This increase was 5% for 2007, and 4% for both 2006 and 2005, and resulted from interest earned. Restricted assets are cash that is limited in use as part of the District's loan covenants with the United States Department of Agriculture – Rural Development.

Unrestricted assets increased \$19 thousand during 2007 (8%); decreased \$7 thousand during 2006 (-3%); and increased \$4 thousand (2%) during 2005. Unrestricted assets may be used without constraints established by loan covenants, and as provided by in the adopted budget. Cash and Cash Equivalents increased \$40 thousand during 2007; decreased \$16 thousand during 2006; and increased \$4 thousand during 2005.

SOUTHERN PERRY COUNTY WATER DISTRICT
Management's Discussion and Analysis
For the Years Ended December 31, 2007, 2006 and 2005

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Table 2 summarizes the changes in Revenues and Expenses and the resulting change in Net Assets.

	TABLE 2				
	2007	2006	Change	2005	Change
Total operating revenues	\$764,370	\$771,567	\$(7,197)	\$761,149	\$10,418
Purchased water	305,759	311,369	(5,610)	302,704	8,665
Wages and fringe benefits	165,272	167,891	(2,619)	163,529	4,362
Maintenance and operations	87,875	82,178	5,697	78,121	4,057
Office expenses and operation	16,106	11,771	4,335	12,752	(981)
Engineering, legal, audit & accounting fees	33,909	46,494	(12,585)	42,348	4,146
Depreciation	116,426	119,971	(3,545)	120,223	(252)
Total operating expenses	725,347	739,674	(14,327)	719,677	19,997
Operating income	39,023	31,893	7,130	41,472	(9,579)
Non-operating revenues	23,205	19,302	3,903	18,699	603
Non-operating expenses	(67,037)	(68,912)	1,875	(91,706)	22,794
Changes in net assets	(4,809)	(17,717)	12,908	(31,535)	13,818
Net assets at beginning of year	1,933,785	1,951,502	(17,717)	1,983,037	(31,535)
Net assets at end of year	\$1,928,976	\$1,933,785	\$(4,809)	\$1,951,502	\$(17,717)

Operating revenues decreased in 2007 by \$7 thousand as a result of fewer tap fees. Operating revenues increased during 2006 and 2005 by \$10 and \$11 thousand, respectively, due to customer growth.

Operating expenses decreased \$14 thousand (-2%) in 2007, due mainly to a decrease in professional fees and a decrease in the purchase of water. During 2006, operating expenses increased by \$20 thousand (3%), as expenses increases in most categories. Operating expenses decreased in 2005 by \$4 thousand (less than -1%) due to a decrease in professional fees.

SOUTHERN PERRY COUNTY WATER DISTRICT
Management's Discussion and Analysis
For the Years Ended December 31, 2007, 2006 and 2005

CAPITAL ASSETS

The District had \$5.3 million invested in Capital Assets (before depreciation) at the end of 2007. This amount is an increase of \$70 thousand (1%) from the previous year. The District had \$5.2 million invested in Capital Assets (before depreciation) at the end of 2006, and this amount is an increase of \$198 thousand (4%) from the previous year. The District had \$5.0 million invested in Capital Assets (before depreciation) at the end of 2005, and this amount is an increase of \$63 thousand (1%) from the previous year.

TABLE 3

	2007	2006	Change	2005	Change
Land	\$19,968	\$19,968	\$ 0	\$19,968	\$ 0
Construction in Progress	0	150,489	(150,489)	0	150,489
Water lines and buildings	4,606,793	4,385,574	221,219	4,349,305	36,269
DNR tap fees	503,516	503,516	0	503,516	0
Transportation equipment	87,857	88,857	(1,000)	77,960	10,897
Furniture and equipment	60,729	60,729	0	60,729	0
Total before depreciation	5,278,863	5,209,133	69,730	5,011,478	197,655
Accumulated depreciation	(1,847,047)	(1,731,621)	(115,426)	(1,611,650)	(119,971)
Total net capital assets	\$3,431,816	\$3,477,512	\$(45,696)	\$3,399,828	\$77,684

For additional information regarding capital assets, please see Note 4 to the Basic Financial Statements.

DEBT

The District issues long term debt to finance much of its construction. During 2007, 2006, and 2005, all of the long term debt issued was through the Ohio Water Development Authority.

TABLE 4

	2007	2006	Change	2005	Change
USDA Revenue Bonds	\$1,162,412	\$1,191,551	\$(29,139)	\$1,218,829	\$(27,278)
Ohio Public Works Commission Issue II Loan	243,009	260,761	(17,752)	278,162	(17,401)
Ohio Water Development Authority Loans	540,810	506,665	34,145	367,159	139,506
Total long term debt	1,946,231	1,958,977	(12,746)	1,864,150	94,827
Less current maturities	(44,766)	(42,211)	(2,555)	(53,788)	11,577
Net total long term debt	\$1,901,465	\$1,916,765	\$(15,300)	\$1,810,362	\$106,403

For additional information regarding debt, please see Note 5 to the Basic Financial Statements.

SOUTHERN PERRY COUNTY WATER DISTRICT
Management's Discussion and Analysis
For the Years Ended December 31, 2007, 2006 and 2005

CASH

Cash and cash equivalents on December 31, 2007, 2006, and 2005 were \$313 thousand, \$273 thousand, and \$288 thousand, respectively. Not included in these totals are an additional \$174 thousand, \$165 thousand, and \$158 thousand as of December 31, 2007, 2006, and 2005, respectively, of cash and cash equivalents that are restricted as debt service reserves.

ECONOMIC FACTORS AND 2008 BUDGET

The District has adopted a budget for 2008 that has less than a 1% increase from 2007. The District is anticipating new water line projects that are included in this budget. The anticipated project will be funded through loans through the Ohio Water Development authority.

The region in which the district operates has been experiencing economic downturns, and the District is committed to supplying water to the region at the most affordable rates, while maintaining and improving the District as needed.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to James Palmer, President of the Board of Trustees, Southern Perry Water District, Inc., PO Box 335, Corning, Ohio 43170, or 740-347-9030.

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Net Assets
as of December 31, 2007 and 2006

	2007	2006
Current assets		
Cash and cash equivalents	\$ 313,277	\$ 272,835
Accounts receivable - customers	21,485	27,141
Inventories	6,814	6,814
Total current assets	341,576	306,790
Noncurrent assets		
Reserve account for debt payment	173,683	164,981
Total noncurrent assets	173,683	164,981
Capital assets		
Land	19,968	19,968
Water system	5,137,890	4,916,671
Transportation, equipment, and tools	121,005	122,005
Water system construction in progress	-	150,489
Total capital assets	5,278,863	5,209,133
Less: Accumulated depreciation	1,847,047	1,731,621
Net capital assets	3,431,816	3,477,512
Total assets	3,947,075	3,949,283
Current liabilities		
Accounts payable	27,690	29,115
Current portion of USDA-RD bonds	30,119	29,139
Current portion other loans and capital leases	31,936	28,899
Payroll taxes and OPERS payable	4,267	5,875
Interest payable USDA-RD	20,986	21,532
Deferred revenue - tap fees	18,925	-
Total current liabilities	133,923	114,560
Noncurrent liabilities		
Bonds payable USDA-RD	1,162,412	1,191,551
Other loans payable	783,819	767,425
Less current portion shown above	(62,055)	(58,038)
Total noncurrent liabilities	1,884,176	1,900,938
Total liabilities	2,018,099	2,015,498
Net assets		
Invested in capital assets, net of related debt	1,485,585	1,518,536
Restricted	173,683	164,981
Unrestricted	269,708	250,268
Total net assets	1,928,976	1,933,785
Total liabilities and net assets	\$ 3,947,075	\$ 3,949,283

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

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues		
Water sales	\$ 723,685	\$ 710,193
Tap fees	14,625	36,900
Turn on fees	1,525	1,500
Late penalty charges	22,145	22,974
Miscellaneous income	2,390	-
Total operating revenues	<u>764,370</u>	<u>771,567</u>
Operating expenses		
Purchased water	305,759	311,369
Salaries, payroll taxes, & employers share OPERS	130,794	131,614
Directors fees	8,475	6,750
Employee health and life insurance	24,244	28,010
Workers compensation	1,759	1,517
Utilities	26,343	25,323
Maintenance and operations	61,532	56,855
Office expenses and operation	16,106	11,771
Professional fees	33,909	46,494
Depreciation	116,426	119,971
Total operating expenses	<u>725,347</u>	<u>739,674</u>
Operating income	<u>39,023</u>	<u>31,893</u>
Nonoperating revenues (expenses)		
Interest revenue	23,205	19,302
Interest expense USDA-RD	(56,609)	(57,969)
Interest expense other	(10,428)	(10,943)
Total nonoperating revenues (expenses)	<u>(43,832)</u>	<u>(49,610)</u>
Increase (decrease) in net assets	(4,809)	(17,717)
Net assets - beginning of period	<u>1,933,785</u>	<u>1,951,502</u>
Net assets - end of period	<u>\$ 1,928,976</u>	<u>\$ 1,933,785</u>

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

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flow from Operating Activities:		
Receipts from customers	\$ 788,951	\$ 769,286
Payments to suppliers	(445,074)	(457,138)
Payments to employees	(166,880)	(168,194)
	176,997	143,954
Net cash provided by operating activities:		
Cash flows from capital and related financing activities		
Proceeds from issuance of debt	45,293	150,490
Acquisitions of capital assets	(70,730)	(197,655)
Principal paid on capital debt	(58,038)	(55,664)
Interest paid on debt	(67,583)	(69,420)
	(151,058)	(172,249)
Net cash used by capital and related financing activities		
Cash flows from investing activities		
Interest	23,205	19,302
	23,205	19,302
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	49,144	(8,993)
Balances - beginning of year	437,816	446,809
Balances - end of year	\$ 486,960	\$ 437,816
Reconciliation of operating income to net cash Provided by operating activities		
Operating income	\$ 39,023	\$ 31,893
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	116,426	119,971
Changes in net assets and liabilities:		
(Increase) Decrease in Accounts Receivables, net	5,656	(2,281)
Increase (Decrease) in Accounts payable	(1,425)	(5,326)
Increase (Decrease) in Deferred revenue	18,925	-
Increase (Decrease) in Taxes payable	(1,608)	(303)
	176,997	143,954
Net cash provided by operating activities	176,997	143,954
Reconciliation of cash to the balance sheet:		
Cash and cash equivalents	313,277	272,835
Cash equivalents - restricted	173,683	164,981
Total cash and cash equivalents	\$ 486,960	\$ 437,816

The accompanying notes to the basic 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, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Southern Perry County Water District (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, is 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 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 District has elected not to apply Financial Accounting Standards Board (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.

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 2007 and 2006 budgetary activity appears in Note 3.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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. All of the District's restricted investments are invested in certificates of deposit at December 31, 2007 and 2006, and are listed in the noncurrent assets section of the balance sheet.

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.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. PENSIONS

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

J. 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.

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, 2007 AND 2006

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

Deposits At December 31, 2007, the carrying amount of the District's deposits was \$226,936 and the bank balance was \$241,001. Of the bank balance: \$100,000 was covered by the Federal Deposit Insurance Corporation, and \$141,001 was covered by a surety company bond deposited with the District by the financial institution.

Deposits At December 31, 2006, the carrying amount of the District's deposits was \$202,395 and the bank balance was \$212,876. Of the bank balance: \$100,000 was covered by the Federal Deposit Insurance Corporation, and \$112,876 was covered by a surety company bond deposited with the District 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

In these financial statements, STAROhio is considered a cash equivalent. At December 31, 2007 and 2006, the carrying amount and fair value of the STAROhio account was \$260,024 and \$235,421, respectively. STAROhio carries a rating of AAAM by Standard & Poor's.

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity, which is accounted for on the cash basis of accounting, is as following for the year ended December 31, 2007 and 2006:

Budgeted vs. Actual Receipts		
	2007	2006
Budgeted Receipts	\$ 1,197,500	\$ 1,181,500
Actual Receipts	787,573	790,869
Variance	\$ 409,927	\$ 390,631

Budgeted vs. Actual Budgetary Basis Expenditures		
	2007	2006
Appropriation Authority	\$ 1,196,500	\$ 1,181,350
Budgetary Expenditures	792,383	808,587
Variance	\$ 404,117	\$ 372,763

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 4 - CAPITAL ASSETS

Capital Assets activity for the fiscal year ended December 31, 2007 is as follows:

	Beginning Balance 1/1/2007	Additions	Deletions	Ending Balance 12/31/2007
Capital Assets, Not Being Depreciated				
Land	\$ 19,968	\$ -	\$ -	\$ 19,968
Construction in Progress	150,489	-	150,489	-
Total Capital Assets, Not Being Depreciated	<u>170,457</u>	<u>-</u>	<u>150,489</u>	<u>19,968</u>
Capital Assets Being Depreciated				
Water Lines and Buildings	4,385,574	221,219	-	4,606,793
DNR Tap Fees	503,516	-	-	503,516
Transportation Equipment	88,857	-	1,000	87,857
Furniture and Equipment	60,729	-	-	60,729
Total Capital Assets, Being Depreciated	<u>5,038,676</u>	<u>221,219</u>	<u>1,000</u>	<u>5,258,895</u>
Less Accumulated Depreciation:				
Water Lines and Buildings	(1,255,891)	(94,296)	-	(1,350,187)
DNR Tap Fees	(349,493)	(12,588)	-	(362,081)
Transportation and Equipment	(67,730)	(8,878)	(1,000)	(75,608)
Furniture and Equipment	(58,507)	(664)	-	(59,171)
Total Accumulated Depreciation	<u>(1,731,621)</u>	<u>(116,426)</u>	<u>(1,000)</u>	<u>(1,847,047)</u>
Total Capital Assets Being Depreciated, Net	<u>3,307,055</u>	<u>104,793</u>	<u>-</u>	<u>3,411,848</u>
Total Capital Assets, Net	<u>\$ 3,477,512</u>	<u>\$ 104,793</u>	<u>\$ 150,489</u>	<u>\$ 3,431,816</u>

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 4 - CAPITAL ASSETS (Continued)

Capital Assets activity for the fiscal year ended December 31, 2006 is as follows:

	Beginning Balance 1/1/2006	Additions	Deletions	Ending Balance 12/31/2006
Capital Assets, Not Being Depreciated				
Land	\$ 19,968	\$ -	\$ -	\$ 19,968
Construction in Progress	-	150,489	-	150,489
Total Capital Assets, Not Being Depreciated	19,968	150,489	-	170,457
Capital Assets Being Depreciated				
Water Lines and Buildings	4,349,305	36,269	-	4,385,574
DNR Tap Fees	503,516	-	-	503,516
Transportation Equipment	77,960	10,897	-	88,857
Furniture and Equipment	60,729	-	-	60,729
Total Capital Assets, Being Depreciated	4,991,510	47,166	-	5,038,676
Less Accumulated Depreciation:				
Water Lines and Buildings	(1,183,633)	(72,258)	-	(1,255,891)
DNR Tap Fees	(336,905)	(12,588)	-	(349,493)
Transportation and Equipment	(55,953)	(11,777)	-	(67,730)
Furniture and Equipment	(35,159)	(23,348)	-	(58,507)
Total Accumulated Depreciation	(1,611,650)	(119,971)	-	(1,731,621)
Total Capital Assets Being Depreciated, Net	3,379,860	(72,805)	-	3,307,055
Total Capital Assets, Net	\$ 3,399,828	\$ 77,684	\$ -	\$ 3,477,512

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006

NOTE 5 – CURRENT AND LONG-TERM DEBT

Long-Term debt obligations and the related transactions for the years ending December 31, 2006 and 2007 are summarized below:

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/2006	Due Within One Year
O.W.D.A.	\$ 367,159	\$ 150,490	\$ 10,984	\$ 506,665	\$ 11,147
O.P.W.C.	278,162	-	17,402	260,760	17,752
USDA Revenue Bonds	1,218,829	-	27,278	1,191,551	29,139
	<u>\$ 1,864,150</u>	<u>\$ 150,490</u>	<u>\$ 55,664</u>	<u>\$ 1,958,976</u>	<u>\$ 58,038</u>

	Balance 1/1/2007	Additions	Reductions	Balance 12/31/2007	Due Within One Year
O.W.D.A.	\$ 506,665	\$ 45,293	\$ 11,147	\$ 540,811	\$ 13,828
O.P.W.C.	\$ 260,760	-	17,752	243,008	18,108
USDA Revenue Bonds	\$ 1,191,551	-	29,139	1,162,412	30,119
	<u>\$ 1,958,976</u>	<u>\$ 45,293</u>	<u>\$ 58,038</u>	<u>\$ 1,946,231</u>	<u>\$ 62,055</u>

A. USDA revenue bonds

The USDA 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.

Future principal and interest payments on all USDA Revenue Bonds are as follows:

Year Ending December 31,	USDA Revenue Bonds		
	Principal	Interest	Total
2008	30,119	\$ 55,680	85,799
2009	32,016	54,278	86,294
2010	33,031	52,723	85,754
2011	35,064	51,040	86,104
2012	37,217	49,417	86,634
2013-2017	214,526	218,514	433,040
2018-2022	193,128	166,467	359,595
2023-2027	222,674	119,366	342,040
2028-2032	283,461	60,389	343,850
2033-2035	81,176	7,596	88,772
	<u>\$ 1,162,412</u>	<u>\$ 835,470</u>	<u>\$ 1,997,882</u>

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$1,487,000 in water revenue bonds issued in 1978, 1992, and 1996. Proceeds from the bonds provided financing for the construction of the Water Resource Extension Plant. The bonds are payable solely from water customer net revenues and are payable through 2035. Annual principal and interest payments remaining on the bonds are expected to require approximately 55 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,997,882. Principal and interest paid for the current year and total customer net revenues were \$85,748 and \$155,449, respectively.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006

NOTE 5 – CURRENT AND LONG-TERM DEBT (continued)

B. Ohio Public Works Commission 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.

Future principal and interest payments on all OPWC loans are as follows:

Year Ending December 31,	OPWC Loans		
	Principal	Interest	Total
2008	\$ 18,108	\$ 4,770	\$ 22,878
2009	18,472	4,406	22,878
2010	18,844	4,034	22,878
2011	19,222	3,656	22,878
2012	19,609	3,269	22,878
2013-2017	104,117	10,275	114,392
2018-2019	44,636	1,121	45,757
	<u>\$ 243,008</u>	<u>\$ 31,531</u>	<u>\$ 274,539</u>

C. Ohio Water Development Authority (OWDA) loans

The OWDA loans were used for a water booster station and an elevated storage tank.

Future principal and interest payments on all O.W.D.A. loans are as follows:

Year Ending December 31,	OWDA Loans		
	Principal	Interest	Total
2008	\$ 13,828	\$ 6,686	\$ 20,514
2009	16,651	7,927	24,578
2010	16,902	7,676	24,578
2011	17,157	7,421	24,578
2012	17,415	7,163	24,578
2013-2017	91,088	31,801	122,889
2018-2022	98,154	24,735	122,889
2023-2027	105,769	17,120	122,889
2028-2032	113,975	8,914	122,889
2033-2035	49,872	2,136	52,008
	<u>\$ 540,811</u>	<u>\$ 121,579</u>	<u>\$ 662,390</u>

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$592,000 in water revenue bonds issued in 2002, 2004 and 2007. Proceeds from the bonds provided financing for the construction of the Water Booster Station and Elevated Storage Tank. The bonds are payable solely from water customer net revenues and are payable through 2035. Annual principal and interest payments remaining on the bonds are expected to require approximately 11 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$662,390. Principal and interest paid for the current year and total customer net revenues were \$16,450 and \$155,449, respectively.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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.

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 – DEFINED BENEFIT RETIREMENT PLAN

- A. Ohio Public Employees Retirement Systems of Ohio (PERS) 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.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interest parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan.

The 2007 member contribution rates were 9.5% for members of state and local classifications.

The 2007 employer contribution rate for state employers was 13.77% of covered payroll. For local government employer units, the rate was 13.85% of covered payroll. For both the law enforcement and public safety divisions, the employer rate for 2007 was 17.17%

The District's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005, were \$16,729, \$16,022 and \$15,396 respectively.

NOTE 8 – POSTEMPLOYMENT BENEFITS

- A. Public Employees Retirement of Ohio (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 8 – POSTEMPLOYMENT BENEFITS (Continued)

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 the retirement system 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. For local government employer units the rate was 13.85% of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 5.0% from January 1 through June 30, 2007 and 6.0% from July 1 through December 31, 2007.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

C. Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on the System's latest Actuarial Reviews performed as of December 31, 2006.

Funding Method – The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, not to exceed a 12% corridor.

Investment Return – The investment assumption rate for 2006 was 6.50%.

Active Employee Total Payroll – An annual increase of 4.0%, compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In additionally, annual pay increases, over and above the 4.0% base increases, were assumed to range from .50% to 6.30%.

Health Care – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 5% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEB is advance-funded on an actuarially determined basis. The following disclosures are required:

1. The Traditional Pension and Combined Plans had 374,979 active participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130.
2. The amount of \$12.0 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2006.
3. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2006, reported the actuarially accrued liability and the unfunded actuarially accrued liability of OPEB at \$30.7 billion and \$18.7 billion, respectively.

E. OPERS Retirement Board implements its Healthcare Preservation Plan:

The Healthcare Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will become effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 9 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended 2007, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”. GASB No. 48 addresses disclosures pertaining to future revenues that have been pledged or sold to provide financial statement users with information about which revenues will be available for other purposes and how long they will continue to be so. The implementation of this statement did not result in any prior year restatements or current year effect in the basic financial statements. For additional information please see Note 5.

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Ohio Society of Certified Public Accountants

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

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

We have audited the accompanying financial statements of the business-type activities of the Southern Perry County Water District, (the District), as of and for the years ended December 31, 2007 and 2006, in which we indicated the District implemented Governmental Accounting Standards Board Statement No. 48, and have issued our report thereon dated May 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting basis described in Note 1 such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the District's internal control.

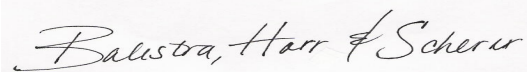
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of the Board
Southern Perry County Water District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Balestra, Harr & Scherer, CPAs, Inc.
May 2, 2008



Mary Taylor, CPA
Auditor of State

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
AUGUST 12, 2008**