Jefferson Water and Sewer District

Franklin County

Regular Audit for the Fiscal Year Ended December 31, 2004

And

Single Audit for the Fiscal Year Ended December 31, 2005

Fiscal Years Audited Under GAGAS: 2004 & 2005

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639, www.bhscpas.com

Auditor of State
Betty Montgomery

Board of Trustees
Jefferson Water and Sewer District
6455 Taylor Road
P.O. Box 116
Blacklick, Ohio 43004

We have reviewed the *Independent Auditor's Report* of the Jefferson Water and Sewer District, Franklin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2004 through December 31, 2005. 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 Jefferson Water and Sewer District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 15, 2006

This Page is Intentionally Left Blank.

Jefferson Water and Sewer District

TABLE OF CONTENTS

BALESTRA, HARR & SCHERER CPAs, INC.
CERTIFIED PUBLIC ACCOUNTANTS
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants   Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Jefferson Water and Sewer District
6455 Taylor Rd
Blacklick, Ohio 43004

We have audited the accompanying financial statements of the Jefferson Water & Sewer District, Franklin County, Ohio, (the "District"), as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Jefferson Water and Sewer District, Ohio, as of December 31, 2005 and December 31, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2006, 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, 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 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 15 to the basic financial statements, effective January 1, 2004, the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus,* GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures.*

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures for the fiscal year ended December 31, 2005 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Balestra, Harr & Scherer

Balestra, Harr & Scherer CPAs, Inc.

June 30, 2006

This discussion and analysis, along with the accompanying financial reports, of Jefferson Water & Sewer District (JWSD or "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 JWSD exceeded total liabilities on December 31, 2005 and 2004 by $8.2 million and $7.5 million respectively. The District's net assets increased by $4.233 million (130.69%) in 2004 and by $.683 (9.14%) in 2005.

The District's Operating Revenues decreased in 2005 by $13,662 (-0.34%). Operating and Maintenance Expenses (excluding depreciation expense) decreased $13,487 (-0.64%) in 2005. Depreciation expense increased $33,964 (6.17%) in 2005.

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, 2005 and 2004. The District's net assets 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 its costs through user fees, charges, assessments, 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. They summarize the net changes in cash resulting from operating, investing and financing activities.

STATEMENTS OF NET ASSETS

Table 1 summarizes the Statements of Net Assets of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", are Capital Assets less outstanding debt that was used to acquire those assets. Since this is the first year the District has prepared financial statements following GASB Statement 34, comparisons to the six month period ended December 31, 2003 are not made. In future years, a comparative analysis of this data will be presented.

Table 1

	2005	2004	Change
Current and Other Assets	$ 8,273,909	$ 9,085,195	$ (811,286)
Capital Assets	19,820,393	16,654,080	3,166,313
Total Assets	**28,094,302**	**25,739,275**	**2,355,027**
Long Term Liabilities	18,458,648	16,921,754	1,536,894
Other Liabilities	1,479,781	1,344,355	135,426
Total Liabilities	**19,938,429**	**18,266,109**	**1,672,320**
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,840,008	4,370,260	469,748
Unrestricted	3,315,865	3,102,906	212,959
Total Net Assets	**$ 8,155,873**	**$ 7,473,166**	**$ 682,707**

The District's Net Assets increased by $682,707 in 2005. The 2005 increase is primarily a result of revenues being higher than expenses.

Unrestricted net assets increased by $.2 million in 2005. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Invested in capital assets, net of related debt increased by $.5 million from 2004 to 2005 primarily due to additions of $3.8 million which were partially offset by net increases of debt of $2.7 million and depreciation expense of $.6 million.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 below summarizes the changes in Revenues, Expenses and Net Assets. Since this is the first year the District has prepared financial statements following GASB Statement 34, comparisons to the six month period ended December 31, 2003 are not made. In future years, a comparative analysis of this data will be presented.

Table 2

	2005	2004	Difference
Operating Revenues	$ 4,015,895	$ 4,029,557	$ (13,662)
Total Operating Revenues	**4,015,895**	**4,029,557**	**(13,662)**
Operating Expenses (Excluding Depreciation)	2,094,576	2,108,063	(13,487)
Depreciation Expense	584,325	550,361	33,964
Total Operating Expenses	**2,678,901**	**2,658,424**	**20,477**
Operating Income	1,336,994	1,371,133	(34,139)
Non-Operating Revenues	113,558	71,433	42,125
Non-Operating Expenses	767,845	748,113	19,732
Capital Contributions	-	3,539,170	(3,539,170)
Changes in Net Assets	**682,707**	**4,233,623**	**(3,550,916)**
Net Assets at Beginning of Year	**7,473,166**	**3,239,543**	**4,233,623**
Net Assets at End of Year	**$ 8,155,873**	**$ 7,473,166**	**$ 682,707**

Operating revenues decreased by $13,662 which is due to decreases in water and sewer tap fees which were offset by higher revenues from the District's regular water and sewer fees.

Operating expenses increased about $20 thousand from 2004 to 2005 primarily due to increases in general and administration and depreciation expenses which were offset by decreases in plant operations expenses.

The District received capital contributions during 2004 equivalent to $3,539,170. The capital contribution represents sewer and water lines received from developers.

CAPITAL ASSETS

The District had $18.884 million and $19.184 million invested in Capital Assets (before depreciation) at the end of 2004 and 2005 respectively. This amount is an increase of $299,771 (1.5%) from the previous year. This increase is due to an ongoing Water Plant Expansion project. This project is being funded through a USDA loan. For additional information regarding capital assets, please see note 4 to the basic financial statements.

Table 3

	2005	2004	Change Amount
Non-depreciable Capital Assets			
Land and land easements	$ 596,426	$ 596,426	$ -
Construction in progress	4,667,392	1,216,525	3,450,867
Total Non-depreciable Capital Assets	5,263,818	1,812,951	3,450,867
Depreciable Capital Assets			
Buildings and improvements	1,229,298	1,229,098	200
Completed construction	11,498,042	11,296,965	201,077
Furniture and general equipment	420,928	323,572	97,356
Vehicles and accessories	111,997	110,859	1,138
Donated assets	5,923,772	5,923,772	-
Totals Before Accumulated Depreciation	**19,184,037**	**18,884,266**	**299,771**
Accumulated Depreciation	(4,627,462)	(4,043,137)	(584,325)
Net Depreciable Capital Assets	14,556,575	14,841,129	(284,554)
Total Capital Assets	**$ 19,820,393**	**$ 16,654,080**	**$ 3,166,313**

DEBT

The District issues long term debt to finance much of its construction. With the exception of the USDA loan, the Ohio Water Development Authority (OWDA) loans were used to finance most general improvement projects.

	2005	2004	Change Amount
Ohio Water Development Authority (OWDA)	$ 14,964,373	$ 12,259,782	$ 2,704,591
Total Long Term Debt	**14,964,373**	**12,259,782**	**2,704,591**
Less: Current Maturities	481,764	419,120	62,644
Net Total Long Term Debt	**$ 14,482,609**	**$ 11,840,662**	**$ 2,641,947**

The District's debt is paid from operating revenues generated by the District. For additional information regarding debt, please see note 6 to the basic financial statements.

CASH

Cash and cash equivalents were $4,180,896 on December 31, 2005 and $2,505,862 on December 31, 2004.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Mark Williams, Jefferson Water & Sewer District, 6455 Taylor Rd. Blacklick, Ohio 43004 or (614) 864-0740.

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004

	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	$ 4,180,896	$ 2,505,862
Accounts receivable	442,847	244,883
Inventory	37,977	13,900
Prepaid expense	27,141	18,585
Current portion of notes receivable	1,409	2,584
Current portion of notes receivable - tap fees	736,118	1,022,910
Current portion of deferred expense	258,236	268,828
Total Current Assets	5,684,624	4,077,552
RESTRICTED ASSETS		
Water assessments receivable	384,933	416,293
Sewer assessments receivable	51,420	58,586
Total Restricted Assets	436,353	474,879
CAPITAL ASSETS		
Capital Assets, not being depreciated	5,263,818	1,812,951
Capital Assets, net of accumulated depreciation	14,556,575	14,841,129
OTHER ASSETS		
Notes receivable less current portion	869	869
Notes receivable less current portion - tap fees	1,730,246	3,848,388
Deferred expense less current portion	416,995	673,195
Loan fees - net of amortization	4,822	10,312
Total Other Assets	2,152,932	4,532,764
Total Assets	28,094,302	25,739,275
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	555,711	249,641
Accrued and withholding payroll expenses	71,906	64,965
Current portion of capital lease	8,838	8,026
Current portion of long term debt	481,764	419,120
Current portion of deferred revenue - tap fees	361,562	602,603
Total Current Liabilities	1,479,781	1,344,355
LONG TERM LIABILITIES		
Capital lease less current portion	7,174	16,012
Long term debt less current portion	14,482,609	11,840,662
Deferred revenue - tap fees	3,968,865	5,065,080
Total Long Term Liabilities	18,458,648	16,921,754
NET ASSETS		
Invested in Capital Assets, net of related Debt	4,840,008	4,370,260
Unrestricted	3,315,865	3,102,906
Total Net Assets	8,155,873	7,473,166
Total Liabilities and Net Assets	$ 28,094,302	$ 25,739,275

The Notes to the Basic Financial Statements are an integral part of this statement.

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Charges for services	$ 2,471,589	$ 2,284,330
Water tap fees	1,534,540	1,744,360
Miscellaneous income	9,766	867
Total Operating Revenues	4,015,895	4,029,557
OPERATING EXPENSES:		
Plant operations	1,316,884	1,374,184
Salaries and payroll related expenses	544,123	548,555
General and administration expenses	233,569	185,324
Depreciation	584,325	550,361
Total Operating Expenses	2,678,901	2,658,424
Operating Income	1,336,994	1,371,133
OTHER INCOME AND (EXPENSES):		
Interest income	113,558	71,433
Interest expense	(767,845)	(748,113)
Total Income (Expenses)	(654,287)	(676,680)
Increase (Decrease) In Net Assets before Capital Contributions	682,707	694,453
Capital Contributions - Donated Lines	-	3,539,170
Increase (Decrease) In Net Assets	682,707	4,233,623
Net Assets, Beginning of Year	7,473,166	3,239,543
Net Assets, End of Year	$ 8,155,873	$ 7,473,166

The Notes to the Basic Financial Statements are an integral part of this statement.

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 4,930,800	$ 3,933,274
Cash payments to suppliers for goods and services	(1,010,224)	(1,248,576)
Cash payments for employee services and benefits	(537,182)	(524,033)
Net Cash Provided From Operating Activities	3,383,394	2,160,665
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Interest received on tap agreements	12	2,739
Interest received on bank accounts	113,546	68,694
Net Cash From Non-Capital Financing Activities	113,558	71,433
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction of water and sewer projects	(3,750,638)	(1,126,676)
Principal payments on construction loans	(772,011)	(412,337)
Interest payments on construction loans	(766,523)	(745,925)
Proceeds from construction loans	3,476,602	701,095
Principal payments on capital lease	(8,026)	(7,160)
Interest payments on capital lease	(1,322)	(2,188)
Net Cash From Capital and Related Financing Activities	(1,821,918)	(1,593,191)
Net Increase (Decrease) In Cash and Cash Equivalents	1,675,034	638,907
Cash and Cash Equivalents, Beginning of the Year	2,505,862	1,866,955
Cash and Cash Equivalents, End of the Year	$ 4,180,896	$ 2,505,862

Non-cash transaction: The District received donated capital assets in the amount of $3,539,170 during fiscal year 2004.

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	$ 1,336,994	$ 1,371,133
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	584,325	550,361
CHANGES IN NET ASSETS AND LIABILITIES:		
(Increase) Decrease in Accounts Receivable	(197,964)	(95,467)
(Increase) Decrease in Prepaid Insurance	(8,556)	(4,936)
(Increase) Decrease in Meter Inventory	(24,077)	(13,900)
(Increase) Decrease in Deferred Expense	266,792	273,764
Increase (Decrease) in Accounts Payable (Operating)	306,070	56,004
Incraease (Decrease) in Accrued Wages, Benefits and Payroll Taxes	6,941	24,522
Increase (Decrease) in Deferred Income - Tap Fees	1,112,869	(816)
Total Adjustments	2,046,400	789,532
Net Cash Provided by Operating Activities	$ 3,383,394	$ 2,160,665

The Notes to the Basic Financial Statements are an integral part of this statement.

1. NATURE OF ORGANIZATION

Jefferson Water and Sewer District (the "District") was created by the Court of Common Pleas of Franklin County to provide water and sewer services to the residents of Jefferson Township in accordance with the provisions of section 6119.et.seq. of the Ohio Revised Code. The District is managed by a Board comprised of five appointed trustees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements conform to accounting principles generally accepted in the United States of America for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. Under the guidelines of GASB 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its enterprise fund activities. The adoption of this approach to accounting for enterprise fund activities by the District required no change from prior years. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

Basis of Presentation – Fund Accounting
The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which the District uses, is described below:

Proprietary Fund Type – This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

Enterprise Fund – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting
The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

Budgetary Process
The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the year ended December 31, 2004 and 2005, and passed annual appropriations and resolutions.

Appropriations – Budgetary expenditures (i.e., disbursements and encumbrances) may not exceed appropriations at the fund, function or object 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.

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

Encumbrances – The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

Revenues for the service fees are recorded in the period the service is provided. Revenue for tap fees from developers is recorded when construction of the main water and sewer lines to a development is complete and the District and the developer have satisfied the terms of the tap agreement. The principal portion of tap fee revenues from customer five-year notes receivable is recognized in the year the note is executed; interest from the notes receivable is recognized in the year earned. All other revenue is recognized when earned.

Accounts Receivable

Accounts receivable are shown at their net realizable value. The direct write-off method is used to record bad debts. Uncollectible accounts receivable are charged to operations during the period in which they are determined to be uncollectible. The results of using the direct write-off method closely approximate the reserve method of accounting for receivables. Bad debts are only recorded after all efforts for collection are exhausted, including certifying delinquent accounts to the county auditor, which are attached to real estate tax billings.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid expenses using the consumption method. An asset for prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which services are consumed.

Capital Assets

Capital Assets are stated at cost (except as noted in the next paragraph with respect to donated developer lines) and are depreciated over the estimated useful lives of the assets from 5 years to 50 years depending upon the type of asset. Accumulated depreciation was corrected for the period beginning July 1, 2003, due to an error in recognizing accumulated depreciation from prior period.

Donated developer lines are stated at fair value based on developer documentation, and are depreciated over 50 years, which represents the estimated useful lives of the assets. Refer also to Note 1 – Contributed Capital from Donated Developer Lines.

Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions are capitalized.

Amortization

Loan fees are being amortized over sixty months beginning with the date of the first payment of each loan. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan fees amortization expense charged to operations for the years ended December 31, 2005 and 2004 were $5,490 and $6,064, respectively.

Income Tax

The District operates as a public water/sewer system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Interest Expense

Interest expense for the years ended December 31, 2005 and 2004 represents the interest portion of construction loan payments to the Ohio Water Development Authority in the amount of $766,523 and $745,925 and the vehicle/equipment lease payments are $1,322 and $2,188, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimates
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Board Designated Cash Fund
The Board of Trustees allocates $1,500 each year, via resolution, for expenditures to be designated by the Trustee. This procedure is in accordance with the Ohio Revised Code. Board discretionary expenditures for the fiscal year ended December 31, 2004 and 2005 were $276 and $221 and were approved as bills and paid individually.

Vacation, Sick Leave and Other Compensated Absences
The District's employees are entitled to certain compensated absences based on their length of employment. Accrued employee benefits include cumulative vested vacation, sick leave, and compensatory hours multiplied by current hourly rates.

Operating Revenues and Expenses
Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, theses revenues are service revenues and late charges for water and sewer services provided. Operating expenses are necessary costs incurred to provide the goods and/or service that is the primary activity of the fund.

Net Assets
Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvements of those assets. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. RECEIVABLES

Accounts receivable are presented at their net realizable value of $442,847 and $244,883 as of December 31, 2005 and 2004.

Notes receivables consist of five-year notes at an annual interest rate of 7% for voluntary water and sewer tap agreements.

Assessment receivables represent the principal portion of assessments for water and sewer line construction costs to local service users. These amounts will generally be paid over the life of the related debt (See Note 6) including interest rates ranging from 6.16% to 7.14% and are reported as restricted assets.

4. CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2005 was as follows:

	Ending Balance at 12/31/2004	Additions	Deletions	Ending Balance at 12/31/2005
Capital Assets and Land Easements, Not being Depreciated				
Land and Land Easements	$596,426	$0	$0	$596,426
Construction in Progress	1,216,525	3,450,867	0	4,667,392
Total Capital Assets, Not Being Depreciated	1,812,951	3,450,867	0	5,263,818
Capital Assets Being Depreciated				
Buildings and Improvements	1,229,098	200	0	1,229,298
Completed Construction	11,296,965	201,077	0	11,498,042
Vehicles and Accessories	110,859	1,138	0	111,997
Furniture and General Equipment	323,572	97,356	0	420,928
Donated Assets	5,923,772	0	0	5,923,772
Total Capital Assets, Being Depreciated	18,884,266	299,771	0	19,184,037
Less Accumulated Depreciation:				
Buildings and Improvements	(538,025)	(41,151)	0	(579,176)
Completed Construction	(2,675,916)	(364,880)	0	(3,040,796)
Vehicles and Accessories	(58,283)	(20,244)	0	(78,527)
Furniture and General Equipment	(165,539)	(39,336)	0	(204,875)
Donated Assets	(605,374)	(118,714)	0	(724,088)
Total Accumulated Depreciation	(4,043,137)	(584,325)	0	(4,627,462)
Total Capital Assets Being Depreciated, Net	14,841,129	(284,554)	0	14,556,575
Total Capital Assets	$16,654,080	$3,166,313	$0	$19,820,393

4. CAPITAL ASSETS (Continued)

Capital assets activity for the fiscal year ended December 31, 2004 was as follows:

	Ending Balance at 12/31/2003	Additions	Deletions	Ending Balance at 12/31/2004
Capital Assets and Land Easements, Not being Depreciated				
Land and Land Easements	$596,426	$0	$0	$596,426
Construction in Progress	253,407	969,171	(6,053)	1,216,525
Total Capital Assets, Not Being Depreciated	849,833	969,171	(6,053)	1,812,951
Capital Assets Being Depreciated				
Buildings and Improvements	1,229,873	3,400	(4,175)	1,229,098
Completed Construction	11,208,266	89,002	(303)	11,296,965
Vehicles and Accessories	81,789	29,070	0	110,859
Furniture and General Equipment	283,679	42,086	(2,193)	323,572
Donated Assets	2,384,602	3,539,170	0	5,923,772
Total Capital Assets, Being Depreciated	15,188,209	3,702,728	(6,671)	18,884,266
Less Accumulated Depreciation:				
Buildings and Improvements	(497,248)	(41,079)	302	(538,025)
Completed Construction	(2,312,930)	(362,986)	0	(2,675,916)
Vehicles and Accessories	(40,825)	(17,458)	0	(58,283)
Furniture and General Equipment	(138,597)	(27,819)	877	(165,539)
Donated Assets	(504,355)	(101,019)	0	(605,374)
Total Accumulated Depreciation	(3,493,955)	(550,361)	1,179	(4,043,137)
Total Capital Assets Being Depreciated, Net	11,694,254	3,152,367	(5,492)	14,841,129
Total Capital Assets	$12,544,087	$4,121,538	$(11,545)	$16,654,080

5. NOTE RECEIVABLE - TAP FEES

The District has signed tap agreements under which developers have agreed to purchase water and sewer taps over the next several years. The developers have secured their obligation to purchase these taps by signing irrevocable, unconditional letters-of-credit. The following is the schedule of future tap payments to be made to the District for the fiscal years subsequent to December 2004 and 2005:

	2005	2004
2005	$ -	$ 1,022,910
2006	736,118	1,157,072
2007	435,242	964,872
2008	376,042	750,272
2009	516,267	544,872
2010	101,867	130,472
Thereafter	300,828	300,828
	2,466,364	4,871,298
Current Portion of Notes Receivable	(736,118)	(1,022,910)
	$ 1,730,246	$ 3,848,388

6. NOTES PAYABLE

Notes payable related to construction of the District's infrastructure consist of the following notes payable to the Ohio Water Development Authority for December 31, 2005 and 2004:

	2005	**2004**
8.05% due in semi-annual payments of $71,302, including interest through July, 2015.	$ 921,861	$ 985,159
8.07% due in semi-annual payments of $134,051, including interest through July, 2015.	1,731,580	1,850,358
7.50% due in semi-annual payments of $12,431, including interest through July, 2015.	164,623	176,264
7.50% due in semi-annual payments of $15,361, including interest through July, 2015.	203,427	217,813
7.21% due in semi-annual payments of $12,396, including interest through July, 2018.	199,743	209,434
7.14% due in semi-annual payments of $7,170, including interest through July, 2018.	115,975	121,631
6.51% due in semi-annual payments of $19,856, including interest through January, 2022.	195,789	202,329
6.18% due in semi-annual payments of $2,367, including interest through July, 2022.	48,109	49,767
5.88% due in semi-annual payments of $9,785, including interest through January, 2023.	206,814	213,811
5.66% due in semi-annual payments of $16,119, including interest through January, 2025.	369,467	380,186
5.56% due in semi-annual payments of $22,440, including interest through January, 2025.	522,451	537,646

6. NOTES PAYABLE – CONTINUED

5.77% due in semi-annual payments of $9,067, including interest through January, 2025.	207,637	213,534
5.85% due in semi-annual payments of $7,797, including interest through January, 2021.	152,946	159,225
6.72% due in semi-annual payments of $25,478, including interest through January, 2021.	472,425	490,424
6.16% due in semi-annual payments of $18,861, including interest through January, 2020.	347,186	362,574
6.41% due in semi-annual payments of $4,667, including interest through January, 2027.	106,921	109,288
6.39% due in semi-annual payments of $12,930, including interest through January, 2027.	296,694	303,279
6.39% due in semi-annual payments of $3,383, including interest through July, 2027.	78,503	80,173
6.39% due in semi-annual payments of $12,877, including interest through January, 2027.	295,471	302,028
6.03% due in semi-annual payments of $64,884, including interest through January, 2027.	1,533,983	1,569,632
6.03% due in semi-annual payments of $15,454, including interest through January, 2027.	365,362	373,853
6.03% due in semi-annual payments of $10,084, including interest through January, 2027.	238,410	243,951
6.03% due in semi-annual payments of $17,014, including interest through January, 2027.	402,236	411,584
5.15% due in semi-annual payments of $3,230, including interest through July, 2028	85,478	87,459
5.40% due in estimated equal payments of $34,634 beginning 7/1/08 through 1/1/2013 was assumed by OWDA 2.88% loan noted below.	-	319,126
4.40% due in semi-annual payments of $56,999, including interest through July, 2028.	1,617,779	1,659,223
4.66% due in semi-annual payments of $32,573, including interest through July, 2029.	913,641	630,031
2.88% due in lump sum on July 1, 2008.	3,169,862	-
	14,964,373	12,259,782
Less: current maturities	(481,764)	(419,120)
TOTAL NOTES PAYABLE	$ 14,482,609	$ 11,840,662

6. NOTES PAYABLE – CONTINUED

	Balance 12/31/2003	Additions	Reductions	Balance 12/31/2004
O.W.D.A	$ 11,971,024	$ 701,095	$ 412,337	$ 12,259,782

	Balance 12/31/2004	Additions	Reductions	Balance 12/31/2005
O.W.D.A	$ 12,259,782	$ 3,476,602	$ 772,011	$ 14,964,373

Maturities of the Ohio Water Development Authority notes payable for the years subsequent to December 31, 2005 are as follows:

	Principal	Interest*	Total
2006	$ 481,764	$ 719,349	$ 1,201,113
2007	497,750	719,401	1,217,151
2008	531,324	685,427	1,216,751
2009	568,096	649,056	1,217,152
2010	607,059	610,050	1,217,109
2011-2015	3,722,541	2,362,599	6,085,140
2016-2020	2,361,802	1,281,503	3,643,305
2021-2025	2,288,223	617,940	2,906,163
2026-2030	735,952	76,888	812,840
	$ 11,794,511	$ 7,722,213	$ 19,516,724

Maturities in the years vary from year to year as new disbursements are added to the existing loans resulting in a change in balance, payments and interest. Additionally, the $3,169,862 OWDA loan balance for the water plant expansion is not included in the above amortization schedule as the loan had not been finalized as of December 31, 2005.

*The District will receive an interest rate subsidy for some of its loans over the remaining life of the Ohio Water Development Authority loans. This reduction in interest is reflected in the interest column of this schedule. The total interest rate subsidy granted to the District was $264,861.

7. CAPITAL LEASE OBLIGATIONS

The District entered into agreements to lease trucks and computer equipment during the fiscal year 2002. The terms of each agreement provide for ownership at the end of the lease term. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases".

Property and equipment acquired by lease have been capitalized as equipment in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded as obligations under capital leases on the balance sheet. Principal payments totaled $8,026 and $7,160 and interest payments totaled $1,322 and $2,188 during 2005 and 2004, respectively. The District's future minimum lease payments under capital lease obligations for the next two years are as follows:

	2005
2006	$ 9,348
2007	8,093
Total Minimum Lease Payments	17,441
Less: amount representing interest	(1,429)
Present Value of Minimum Lease Payments	$ 16,012

8. CAPITAL CONTRIBUTIONS

Donated Developer Lines
The District received capital contributions in 2004 in the amount of $3,539,170. The capital contributions represent donated developer sewer and water lines. Once construction and inspection are final for developer water and sewer lines, lines are given/donated to the District and recorded at fair value, and the lines become operational.

The donated developer sewer and water lines are shown in the face of the financial statements as capital contributions – donated lines.

Grants
Grants have been issued in prior years to assist the District with construction and start-up costs. With the implementation of GASB 34, the District transferred grants to net assets.

Assessments
These represent cumulative final assessments for project costs and voluntary assessments paid to the District through lump-sum payments, or real-estate semi-annual tax collections. With the implementation of GASB 34, the District transferred the assessments received to net assets.

9. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

   1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.

   2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

9. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) - CONTINUED

3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension 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, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. 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. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2005 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. Public safety division members contributed at 9%.

The 2005 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units, the rate was 13.55% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2005 was 16.7%.

The District's required contributions to OPERS for the years ended December 31, 2005 and 2004 were $52,985, and $51,819, respectively. The District's required contribution to OPERS for the six month period ended December 31, 2003 was $23,169.

10. POSTEMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

A. Ohio Public Employees Retirement System (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, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Posteremployment Benefit (OPEB) as described in GASB Statement No. 12.

10. POSTEMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

A portion of each employer's contribution to OPERS is set aside for the findings of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.55% of covered payroll for both fiscal years 2005 and 2004; 4.0% was used to fund health care for the years 2005 and 2004.

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

C. Summary of Assumptions:

<u>Actuarial Review</u> – The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2004.

<u>Funding Method</u> – An entry age normal 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.

<u>Assets Valuation Method</u> – 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 deprecation on investment assets annually.

<u>Investment Return</u> – The investment assumption rate for 2004 was 8.00%.

<u>Active Employee Total Payroll</u> – 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. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from .50% to 6.30%.

<u>Health Care</u> – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% 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. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109 for 2005 and 355,287 for 2004.

2. The employer contributions that were used to fund postemployment benefits were $38,524 for 2005 and $36,652 for 2004.

3. $10.8 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2003.

4. The Actuarial Valuation as of December 31, 2004 reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at $29.5 billion and $18.7 billion, respectively.

E. OPERS Retirement Board adopts a Health Care Preservation Plan

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by crating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS

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 be evidenced either 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 or deposit accounts including passbook accounts.

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 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. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAR Ohio);

8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;

9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

11. DEPOSITS WITH FINANCIAL INSTITUTION – LEGAL REQUIREMENTS – CONTINUED

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits - The carrying amount of the District's deposits as of December 31, 2005 and 2004 was $1,493,968 and $1,344,768, and the bank balance was $1,433,715 and $1,397,445. Of the bank balance:

1. For December 31, 2005 and 2004, $200,000 and $200,000, respectively was covered by federal depository insurance; and

2. $1,233,715 and $1,197,455 for 2005 and 2004, respectively was uninsured and uncollateralized and exposed to custodial credit risk. Although all Ohio statutory requirements for the collateralization of deposits had been followed, non-compliance with federal requirements could potentially prevent the District from exercising a successful claim as a secured creditor against the FDIC and render them a general creditor for the uncollateralized amount.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments – The District's investments are reported below.

	2005		2004	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreements	$ 2,686,928	0	$ 1,161,094	0
Total Fair Value	$ 2,686,928		$ 1,161,094	

Interest rate risk – In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit risk – The District limits their investments to repurchase agreements.

Concentration of credit risk – The District's investment policy allows investments in Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% in repurchase agreements.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name.

12. RISK MANAGEMENT

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty ris ks up to $250,000 per claim, including loss adjustment expense. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding $250,000, up to $1,750,000 per claim and $5,000,000 in the aggregate per year. Governments can elect additional coverage, from $2,000,000 to $10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to $5,000,000 per year, subject to a per-claim limit of $2,000,000.

Property Coverage

PEP retains property risks including automobile physical damage. As of 2003, PEP retains property risks, including automobile physical damage, up to $100,000 on a specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding $100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operation contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

Financial Position

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003 (the latest information available).

	2004	2003
Casualty Coverage:		
Assets	$30,547,049	$25,288,098
Liabilities	(16,989,918)	(12,872,985)
Retained Earnings	$13,557,131	$12,415,113
Property Coverage:		
Assets	$3,652,970	$3,158,813
Liabilities	(544,771)	(792,061)
Retained Earnings	$3,108,199	$2,366,752

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

13. DEFERRED EXPENSE

The District is undergoing various sewer line projects in Columbus, Ohio. Before they could tap into the sewer lines, they were required to pay for this in advance. The amount of the payment charged to Jefferson Water and Sewer District was $1,375,250. The District's management estimates that it will take approximately five years to complete these projects. Therefore, rather than absorb the entire cost in June of 2003, the District elected to amortize the cost over the sixty-month period, expensing monthly an amount of $22,921. The total amounts expensed for 2005 and 2004 were $275,052 and $275,052, respectively.

14. SUBSEQUENT EVENTS

The District was served notice June 7, 2006, that one of the Developers under contract with the District has gone bankrupt. The total outstanding amount of water and sewer taps scheduled for payment is $807,744. The Jefferson Township remains a desired bedroom community and the District anticipates the area will be developed and the taps will be recovered by other developers.

The USDA loan of $4,840,000 is scheduled for closing in June 2006. Any further water plant expansion projects or major construction requiring debt or bond issuance consideration requires the USDA's knowledge. Other considerations, restrictions, and compliances are covered under the Bond Covenant.

15. NEW ACCOUNTING PRONOUNCEMENT

For Fiscal years 2004 and 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the District's financial statements for fiscal years 2004 and 2005.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Ominibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosure* were adopted by the District effective January 1, 2004. GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows all prepared on the accrual basis of accounting. The above changes had no effect on net assets as of January 1, 2004.

Jefferson Water and Sewer District
Franklin County
Schedule of Federal Awards Expenditures
For the Year Ended 12/31/2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Expenditures
United States Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities			
Rural Development Loan	N/A	10.760	$ 2,849,959
Total Federal Awards Expenditures			$ 2,849,959

See accompanying notes to the schedule of federal awards expenditures

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

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*

Jefferson Water and Sewer District
6455 Taylor Road
Blacklick, Ohio 43004

We have audited the financial statements of the Jefferson Water and Sewer District, Franklin County, Ohio, ("the District"), as of and for the years ended December 31, 2005 and 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 30, 2006, wherein we noted the District adopted Governmental Accounting Standards Board Statements 34, 37, 38, and 40. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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.

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*.

We noted certain additional matters that we reported to the management of the District in a separate letter dated June 30, 2006.

This report is intended solely for the information and use of management, the Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

June 30, 2006

BALESTRA, HARR & SCHERER CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Jefferson Water and Sewer District
6455 Taylor Rd
Blacklick, Ohio 43004

Compliance

We have audited the compliance of Jefferson Water and Sewer District, Franklin County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit we considered the internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
June 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Water and Waste Disposal Direct Loan CFDA # 10.760
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $300,000
(d)(1)(ix)	Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

Auditor of State
Betty Montgomery

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

JEFFERSON WATER AND SEWER DISTRICT

FRANKLIN 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 28, 2006