BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY
Regular Audit
December 31, 2005

Auditor of State
Betty Montgomery

Board of Trustees
Burr Oak Regional Water District
23554 Jenkins Dam Road
Glouster, Ohio 45732

We have reviewed the *Independent Accountants' Report* of the Burr Oak Regional Water District, Athens County, prepared by Perry & Associates, Certified Public Accountants, A.C., 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 Burr Oak Regional Water District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 22, 2006

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BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

October 13, 2006

Board of Directors
Burr Oak Regional Water District
Athens County
23554 Jenkins Dam Road
Glouster, Ohio 43732

To the Members of the Board:

We have audited the accompanying basic financial statements of the Burr Oak Regional Water District (the District) as of and for the years ended December 31, 2005 and 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 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Burr Oak Regional Water District, as of December 31, 2005 and 2004 and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

For the year ended December 31, 2004, the District revised its financial statement presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments.*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 read in conjunction with this report in considering 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 accounting principles generally accepted in the United States of America. 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.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

The following discussion provides a summary overview of the financial activities of the Burr Oak Regional Water District ("the District") for the year ended December 31, 2005 and 2004. The information should be read in conjunction with the basic financial statements included in this report.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 issued June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Assets exceeded liabilities by $7,380,529 as of December 31, 2005.
Net assets increased by $611,207 in 2005.
Operating revenues increased by $94,692 or (6.60%) and operating expenses increased by $76,151 or (7.63%) in 2005.

Using the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Assets presents the District's financial position and reports the resources owned by the District (assets), obligations owed by the District (liabilities) and the District's net assets (the difference between assets and liabilities). It provides a way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses and Changes in Net Assets presents a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees.

The Statement of Cash Flows provides information about the District's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities.

The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004**

The tables below provide a summary of the District's financial position and operations for 2005 and 2004, respectively.

Table 1
Condensed Statement of Net Assets

	2005	2004	Change	%
Assets				
Current & Other Assets	4,063,780	3,817,553	246,227	6.45%
Capital Assets, Net	3,975,021	3,583,263	391,758	10.93%
Total Assets	8,038,801	7,400,816	637,985	8.62%
Liabilities				
Current Liabilities	575,511	61,945	513,566	829.07%
Long Term Liabilities	82,761	569,549	(486,788)	-85.47%
Total Liabilities	658,272	631,494	26,778	4.24%
Net Assets				
Invested in Capital net of Assets	3,975,021	3,583,263	391,758	10.93%
Unrestricted Net Assets	3,405,508	3,186,059	219,449	6.89%
Total Net Assets	7,380,529	6,769,322	611,207	9.02%

As noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by $7,380,529 and $6,769,322, for December 31,2005 and 2004.

The largest portion of the District's net assets is reflected in its cash and its capital assets, less accumulated depreciation. The District strives to keep adequate cash reserves on hand in order to maintain or expand its facilities to meet the needs of its customers and to comply with regulatory requirements.

For the year ended December 31,2005, total assets of the District increased by $637,985 due to increase in cash balance and construction in progress. The Liabilities of the District increased by $ 26,778.

BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)

The following table summarizes the changes in revenues and expenses for the District for 2005 and 2004:

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31,

	2005	2004	Change Amount	%
Revenues				
Operating Revenues	$ 1,531,418	$ 1,436,726	$ 94,692	6.60%
Nonoperating Revenues	97,953	74,559	23,394	31.37%
Total Revenues	1,629,371	1,511,285	118,086	7.81%
Expenses				
Operating Expenses	998,330	922,179	76,151	8.26%
Nonoperating Expenses	19,834	16,587	3,247	19.58%
Total Expenses	1,018,164	938,766	79,398	8.46%
Contributed Capital (Extraordinary Item)		570,698	(570,698)	(100.0%)
Income/(Loss)	611,207	572,519	38,688	6.76%
Change in Net Assets	$ 611,207	$ 1,143,217	$ 38,688	6.76%

Capital Assets

As of December 31,2005, the District had $3,975,021 invested in net capital assets. This amount represents a net increase of $391,758 (10.93%) over 2004.

Table 3
Capital Assets
For the Years Ended December 31, 2005 and 2004

	2005	2004	Change	%
Land	203,749	169,929	33,820	19.90%
Building	10,071,725	10,071,725	0	0.00%
Furn., Mach., Tools, Lab E.	688,769	666,402	22,367	3.36%
Park System	261,367	243,423	17,944	7.37%
Water Distribution System	7,192,641	7,148,877	43,764	0.61%
Less: Accum. Deprec.	(15,742,209)	(15,541,370)	(200,839)	1.29%
Construction in Progress	1,298,979	824,277	474,702	57.59%
Totals	3,975,021	3,583,263	391,758	10.93%

Debt Administration

The District had a notes payable of $500,000 as of December 31, 2005. This note was paid in full January 10, 2006. The District has no other debt.

Additional information on the District's long-term debt can be found in Note 6 to the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Water District's finances and to reflect the Water District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Wendy Aichele, Administrative Assistant, Burr Oak Regional Water District, 23554 Jenkins Dam Road, Glouster, Ohio 45732.

BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY

STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 3,906,498	$ 3,634,139
Accounts Receivable	148,173	133,801
Prepaid Expenses	9,109	49,613
Total Current Assets	4,063,780	3,817,553
Capital Assets:		
Water System	7,454,008	7,392,299
Buildings	10,071,725	10,071,725
Transportation Equipment	126,189	103,822
Machinery, Equipment, and Tools	548,994	548,995
Furniture and Fixtures	13,586	13,586
Total Depreciable Capital Assets	18,214,502	18,130,427
Less: Accumulated Depreciation	(15,742,209)	(15,541,370)
Net Depreciable Capital Assets	2,472,293	2,589,057
Land	203,749	169,929
Construction in Progress	1,298,979	824,277
Net Capital Assets	3,975,021	3,583,263
TOTAL ASSETS	**$ 8,038,801**	**$ 7,400,816**
LIABILITIES AND EQUITY:		
Current Liabilities:		
Accounts Payable	$ 60,654	$ 48,037
Payroll Related Liabilities	7,220	7,586
Accrued Interest Payable	1,241	1,444
Accrued Wages	6,396	4,878
Notes Payable - Water Resource Revenue Bond	500,000	
Total Current Liabilities	575,511	61,945
Long-Term Liabilities:		
Notes Payable - Water Resource Revenue Bond		500,000
Compensated Absences	82,761	69,549
Total Long-Term Liabilities	82,761	569,549
TOTAL LIABILITIES	**$ 658,272**	**$ 631,494**
Net Assets:		
Invested in Capital Assets, Net of Related Debt	3,975,021	3,583,263
Unrestricted	3,405,508	3,186,059
Total Net Assets	7,380,529	6,769,322
TOTAL LIABILITIES AND NET ASSETS	**$ 8,038,801**	**$ 7,400,816**

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

BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Operating Revenues:		
Water Sales	$ 1,524,895	$ 1,431,455
Application, Reconnect, and Tap Fees	3,345	2,325
Late Penalty Charges	3,178	1,079
Miscellaneous		1,867
Total Operating Revenues	1,531,418	1,436,726
Operating Expenses:		
Personnel Expenses	456,242	429,798
Utilities and telecommunications expense	104,265	99,809
Maintenance and Operations	207,734	169,555
Office Expenses and Operations	5,554	4,449
Professional Fees	23,696	32,598
Depreciation Expense	200,839	185,970
Total Operating Expenses	998,330	922,179
Operating Income	533,088	514,547
Nonoperating Revenues/(Expenses):		
Interest Revenue	97,953	73,057
Interest Expense	(19,834)	(14,849)
Sale of Fixed Assets		1,502
Sale of Fixed Assets		(1,738)
Total Nonoperating Revenues/(Expenses)	78,119	57,972
Contributed Capital		570,698
Change in Net Assets	611,207	1,143,217
Net Assets - January 1	6,769,322	5,626,105
Net Assets - December 31	**$ 7,380,529**	**$ 6,769,322**

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

BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Cash Flows from Operating Activities:		
Cash Received from Customers	$ 1,517,046	$ 1,438,008
Cash Payments to Suppliers for Goods and Services	(395,578)	(441,736)
Cash Payments to Employees for Services	(334,631)	(343,061)
Net Cash Provided by (Used by) Operations	786,837	653,211
Cash Flows from Capital and Related Financing Activities:		
Proceeds From Contributed Capital		570,698
Acquisition and Construction of Fixed Assets	(592,597)	(1,078,268)
Nonoperating Project Expenses		(1,738)
Proceeds From Disposal of Fixed Assets		1,501
Interest Paid	(19,834)	(14,849)
Net Cash Provided by (Used by) Capital and Related Financing Activities	(612,431)	(522,656)
Cash Flows from Investing Activities:		
Interest Received	97,953	73,057
Net Cash Provided by (Used by) Investing Activities	97,953	73,057
Net Increase/(Decrease) in Cash and Cash Equivalents	272,359	203,612
Cash and Cash Equivalents - January 1	3,634,139	3,430,527
Cash and Cash Equivalents - December 31	**$ 3,906,498**	**$ 3,634,139**
Cash Flows from Operating Activities:		
Operating Income	533,089	514,547
Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities		
Depreciation	200,839	185,970
(Increase) Decrease in Accounts Receivable	(14,372)	1,281
(Increase) Decrease in Interest Receivable		998
(Increase) Decrease in Prepaid Assets	40,505	(42,261)
Increase (Decrease) in Accounts Payable	12,614	(5,223)
Increase (Decrease) in Interest Payable	(203)	361
Increase (Decrease) in Compensated Absences Payable	13,211	(8,128)
Increase (Decrease) in Accrued Payroll and Benefits	1,154	5,666
Total Adjustments	253,748	138,664
Net Cash Provided by (Used by) Operating Activities	**$ 786,837**	**$ 653,211**

Noncash investing and financing activity in 2004 consists of renewing a note payable of $500,000.

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 1 – Reporting Entity

The Burr Oak Regional Water District, Athens County (the District), is a regional water district organized under the provisions of Ohio Rev. Code Chapter 6119 by the Common Pleas Court of Athens County on September 27, 1999, after the Ohio Department of Natural Resources no longer wanted to operate the Burr Oak Water System. The State of Ohio formally transferred ownership, as well as all assets, of the Burr Oak Water system on October 21, 2000. The District operates under the direction of an eight-member Board of Trustees, from Athens, Hocking, Perry and Morgan Counties. The staff consists of an appointed Board Treasurer and an Administrative Assistant, who are responsible for the 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 District's users. The District sells water to sixteen satellite water systems, consisting of six area villages, four water districts, five private associations, and the Ohio Department of Natural Resources Division of Parks and Recreation. The District also has approximately one hundred private tap customers.

The District's management believes the basic financial statements included in this report represent all activities over which the District has the ability to exercise direct operating control.

Note 2 – Summary of Significant Accounting Policies

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Basis of Presentation

The District's operations are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Basis of Accounting

The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the balance sheet. The operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

Note 2 – Summary of Significant Accounting Policies (continued)

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 at the function level of control, and appropriations may not exceed estimated resources. Appropriation authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

Estimated Resources

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

Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 4.

D. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the District's certificates of deposit are valued at cost and reported as a cash equivalent on the Balance Sheet. Both cash and certificates of deposit are considered cash for the purposes of the Statement of Cash Flows.

E. Fixed Assets and Depreciation

Fixed assets acquired or constructed for the general use of the District in providing services are recorded at cost. Construction costs of the water system are capitalized on construction projects until they are substantially completed. Interest incurred on debt as a result of obtaining capital assets is not capitalized. Donated assets are recorded at their fair market value at the time recorded. 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:

BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

Note 2 – Summary of Significant Accounting Policies (Continued)

E. Fixed Assets and Depreciation (Continued)

Buildings and Water System	40 Years
Furniture and Fixtures	10 Years
Office Equipment	5 Years
Laboratory Equipment	10 Years
Machinery and Equipment	6 Years
Park System, Tanks and Booster Stations	20 Years
Tools and Equipment	10 Years
Transportation Equipment	5 Years

F. 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.

G. Contributed Capital

Contributed capital was recorded by the District to account for grants received for the acquisitions of fixed assets.

E. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. The District had no such reserves as of December 31, 2005 and 2004.

F. Prepaid Expenses

Prepaid Expenses are those payments made to venders for services that will benefit periods beyond the balance sheet date. These items are reported using the consumption method. A current asset is recorded at the time of payment, and an expense is recorded at the time the services are consumed.

Estimates

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

Note 3 – 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 that the District 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 moneys. Interim moneys are those moneys 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 or 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;

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; and

6. The State Treasurer's investment pool (STAROhio).

Note 3 – Cash and Cash Equivalents (Continued)

Deposits

Custodial Credit Risk Custodial credit risk is the risk that in the event of bank failure the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At the fiscal year end December 31, 2005, the carrying amount of the District's deposits was $ 3,906,498, and the bank balance was $3,950,072. Of the bank balance, $100,000 was covered by the Federal Deposit Insurance Corporation and 3,850,072 was covered by a bank deposit guaranty bond. At the fiscal year end December 31, 2004, the carrying amount of the District's deposits was $3,123,497 and the bank balance was $3,188,095. Of the bank balance $100,000 was covered by the Federal Deposit Insurance Corporation and $3,088,095 was covered by a bank deposit guaranty bond. Although the securities were held by the pledging institution's trust department and all statutory requirements for he investment of the money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

The District has no deposit policy for custodial risk beyond the requirements of the State Statute. Ohio law requires the deposits to be either insured or be protected by the eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by collateral pool of eligible securities deposited with a qualified trustee and pledged to secure 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 all deposits being secured.

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 investment 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 but not in the District's name.

In these financial statements, the District holds no investments, as all of the District's deposits are considered cash and cash equivalents.

BURR OAK REGIONAL WATER DISTRICT
ATHENS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

Note 4 – Budgetary Activities

Budgetary activity for the years ended December 31, 2005 and 2004, follows:

2005 and 2004 Budgeted vs. Actual Receipts

Year	Budgeted Receipts	Actual Receipts	Variance
2005	$1,465,600	$1,629,371	$163,771
2004	$1,465,600	$2,081,983	$616,383

2005 and 2004 Budgeted vs. Actual Budgetary Basis Expenditures

Year	Appropriation Authority	Budgetary Expenditures	Variance
2005	$1,820,294	$1,018,164	$802,130
2004	$1,810,562	$938,766	$871,796

Note 5 – Capital Assets

A summary of the capital assets as of December 31, 2005 is as follows:

Capital Assets as of 12/31/2005

	Fixed Assets	Less: Accumulated Depreciation	Net Fixed Assets
Land	$ 203,749	$ -	$ 203,749
Buildings	10,071,725	(10,031,474)	40,251
Furniture and Fixtures	13,586	(11,796)	1,790
Machinery and Equipment	337,491	(211,163)	126,328
Laboratory Equipment	43,372	(31,727)	11,645
Park System	261,367	(7,519)	253,848
Tools and Equipment	168,131	(83,210)	84,921
Transportation Equipment	126,189	(97,292)	28,897
Water System - Gate Valves	20,000	(20,000)	-
Water System - Meter Pits	248,470	(153,246)	95,224
Water System - Water Lines	5,065,874	(4,270,108)	795,766
Water System Tanks and Boosters	1,858,297	(824,674)	1,033,623
Construction in Progress	1,298,979	-	1,298,979
Total	$ 19,717,230	$ (15,742,209)	$ 3,975,021

Note 5 – Capital Assets (Continued)

A summary of the capital assets as of December 31, 2004 is as follows:

Capital Assets as of 12/31/2004

	Fixed Assets	Less: Accumulated Depreciation	Net Fixed Assets
Land	$ 169,929	$ -	$ 169,929
Buildings	10,071,725	(10,029,680)	42,045
Furniture and Fixtures	13,586	(10,469)	3,117
Machinery and Equipment	337,491	(163,560)	173,931
Laboratory Equipment	43,372	(29,737)	13,635
Park System	243,423	(552)	242,871
Tools and Equipment	168,131	(75,379)	92,752
Transportation Equipment	103,822	(90,073)	13,749
Water System - Gate Valves	20,000	(20,000)	-
Water System - Meter Pits	248,470	(148,134)	100,336
Water System - Water Lines	5,022,109	(4,213,540)	808,569
Water System Tanks and Boosters	1,858,298	(760,246)	1,098,052
Construction in Progress	824,277	-	824,277
Total	$ 19,124,633	$ (15,541,370)	$ 3,583,263

Note 6 – Notes Payable – Water Resource Revenue Bond

In June of 2002 the District was approved to obtain Water Resource Revenue Bond Anticipation Notes not to exceed $3,100,000 for the purpose of paying part of the costs of constructing a water resource project. The notes mature no more than two years from the date of the initial issuance. The notes shall bear interest on the unpaid principal amount thereof at a variable rate per annum equal to sixty-five percent of the rate per annum announced by FirstStar Bank, N.A. as its “Prime Rate” and shall be paid semi-annually. During 2002, only $500,000 of these notes were issued. The remaining balance has not been issued as of December 31, 2005 and 2004.

During 2004, the note was renewed, and the new note is also not to exceed $3,100,000. The $500,000 of these notes that have been issued mature on June 9, 2006, and bear interest at a variable rate equal to sixty-five percent of the rate per annum announced by U.S. Bank National Association, or its successors, as its “Prime Rate”, and shall be paid semiannually.

Note 7 – Contributed Capital

The District received $570,698 from the Ohio Department of Natural Resources during 2004 for work performed on the park system project.

Note 8 – Defined Benefit Pension Plan

A. Ohio Public Employees Retirement System

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District participates in the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer public employee retirement system. The District's required contributions for pension obligation for the years ended December 31, 2005 and 2004, were $47,901 and $44,666, respectively.

Note 9 - Post employment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Note 9 - Post employment Benefits (Continued)

A. Ohio Public Employees Retirement System (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual District contributions for 2005 which were used to fund postemployment benefits were $20,989. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $29.5 billion and $18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Note 10 – Risk Management

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicles 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.

The District pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. The rate is calculated based on accident history and administrative costs.

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

Note 11 – Subsequent Event

On January 10, 2006, the District paid the $500,000 note payable off in its entirety.

Note 12 – Changes in Accounting Principles

During 2005, the District has implemented GASB Statement No. 40, *"Deposit and Investment Risk Disclosures"*. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentration of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however, additional note disclosure can be found in Note 3.

During 2004, the District implemented the provisions of GASB Statement No. 34, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Government"*. This statement revises accounting and reporting standards for government units, and changes the District's presentation of net assets and requires the inclusion of management's discussion and analysis. The implementation of this statement had no impact on the District's net assets.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

October 13, 2006

Burr Oak Regional Water District
Athens County
23554 Jenkins Dam Road
Glouster, Ohio 43732

To the Members of the Board:

We have audited the financial statements of the Burr Oak Regional Water District (the District), as of and for the year ended December 31, 2005 and 2004, and have issued our report thereon dated October 13, 2006, wherein we noted the District revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34. 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 Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 material to the financial statements we audited may occur and not be timely detected by employees when 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. In a separate letter to the District's management dated October 13, 2006, we reported matters involving internal control over financial reporting we did not deem a reportable condition.

As part of reasonably assuring whether the District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated October 13, 2006, we reported one matter related to noncompliance we deemed immaterial.

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

Perry and Associates
Certified Public Accountants, A.C.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
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BURR OAK REGIONAL WATER DISTRICT

ATHENS 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
JANUARY 4, 2007