Jefferson Water and Sewer District

Franklin County

Single Audit

For the Years Ended December 31, 2006 and 2005

Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, INC.
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Mary Taylor, CPA
Auditor of State

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, 2006 through December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 24, 2007

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Jefferson Water & Sewer District

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jefferson Water & Sewer District
6455 Taylor Rd
Blacklick , OHIO 43004

We have audited the accompanying financial statements of the business-type activities of the Jefferson Water & Sewer District (the District), Franklin County, as of and for the years ended December 31, 2006 and December 31, 2005, 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 business-type activities of the District as of December 31, 2006 and December 31, 2005, and the changes in net assets and its cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 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 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 14 to the basic financial statements, the District implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation,* and GASB Statement No. 47, *Accounting for Termination Benefits*.

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 year ended December 31, 2006 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.

July 31, 2007

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, 2006 and 2005 by $10.8 million and $8.2 million, respectively. The District's net assets increased by $2.606 million (32.0%) in 2006 and by $0.683 million (9.14%) in 2005.

The District's Operating Revenues decreased in 2006 by $444,549 (-11.07%) and in 2005 by $13,662 (-0.34%). Operating and Maintenance Expenses (excluding depreciation expense) increased $549,366 (26.23%) in 2006 and decreased $13,487 (-0.64%) in 2005. Depreciation expense increased $189,675 (32.46%) in 2006 and $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, 2006 and 2005. 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.

Table 1

	2006	2005	Change	2004	Change
Current and Other Assets	$ 6,944,259	$ 8,273,909	$ (1,329,650)	$ 9,085,195	$ (811,286)
Capital Assets	23,955,816	19,820,393	4,135,423	16,654,080	3,166,313
Total Assets	**30,900,075**	**28,094,302**	**2,805,773**	**25,739,275**	**2,355,027**
Long Term Liabilities	18,751,339	18,458,648	292,691	16,921,754	1,536,894
Other Liabilities	1,386,970	1,479,781	(92,811)	1,344,355	135,426
Total Liabilities	**20,138,309**	**19,938,429**	**199,880**	**18,266,109**	**1,672,320**
Invested in Capital Assets, Net of Related Debt	7,535,212	4,840,008	2,695,204	4,370,260	469,748
Unrestricted	3,226,554	3,315,865	(89,311)	3,102,906	212,959
Total Net Assets	**$ 10,761,766**	**$ 8,155,873**	**$ 2,605,893**	**$ 7,473,166**	**$ 682,707**

The District's Net Assets increased by $2,605,893 in 2006. The 2006 increase is primarily a result of capital contributions of $3 million which was offset by increases in expenses.

Unrestricted net assets decreased by $89,311 in 2006. 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 $2.7 million from 2005 to 2006 primarily due to additions of capital assets of $5.0 million which were partially offset by net increases of debt of $1.4 million and depreciation expense of $.8 million.

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 of capital assets 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.

Table 2

	2006	2005	Change	2004	Change
Operating Revenues	$ 3,571,346	$ 4,015,895	$ (444,549)	$ 4,029,557	$ (13,662)
Total Operating Revenues	**3,571,346**	**4,015,895**	**(444,549)**	**4,029,557**	**(13,662)**
Operating Expenses (Excluding Depreciation)	2,643,942	2,094,576	549,366	2,108,063	(13,487)
Depreciation Expense	774,000	584,325	189,675	550,361	33,964
Total Operating Expenses	**3,417,942**	**2,678,901**	**739,041**	**2,658,424**	**20,477**
Operating Income	153,404	1,336,994	(1,183,590)	1,371,133	(34,139)
Non-Operating Revenues	158,042	113,558	44,484	71,433	42,125
Non-Operating Expenses	(720,708)	(767,845)	47,137	(748,113)	(19,732)
Capital Contributions	3,015,155	-	3,015,155	3,539,170	(3,539,170)
Changes in Net Assets	**2,605,893**	**682,707**	**1,923,186**	**4,233,623**	**(3,550,916)**
Net Assets at Beginning of Year	**8,155,873**	**7,473,166**	**682,707**	**3,239,543**	**4,233,623**
Net Assets at End of Year	**$ 10,761,766**	**$ 8,155,873**	**$ 2,605,893**	**$ 7,473,166**	**$ 682,707**

Operating revenues decreased by $444,549 from 2005 to 2006 which is due to decreases in water and sewer tap fees which were partially offset by higher revenues from the District's regular water and sewer fees.

Operating expenses increased $739,041 from 2005 to 2006 primarily due to increases in plant operation, general and administration and depreciation expenses.

The District received capital contributions during 2006 equivalent to $3,015,155. The capital contribution represents sewer and water lines received from developers.

Operating revenues decreased by $13,662 from 2004 to 2005 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 by $20,477 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.

CAPITAL ASSETS

The District had $19.184 million and $28.508 million invested in depreciable Capital Assets (before depreciation) at the end of 2005 and 2006 respectively. This amount is an increase of $9,323,950 (48.6%) from 2005 and $299,771 (1.5%) from 2004. 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

	2006	2005	Change	2004	Change
Non-depreciable Capital Assets					
Land and land easements	$ 623,724	$ 596,426	$ 27,298	$ 596,426	$ -
Construction in progress	218,761	4,667,392	(4,448,631)	1,216,525	3,450,867
Total Non-depreciable Capital Assets	842,485	5,263,818	(4,421,333)	1,812,951	3,450,867
Depreciable Capital Assets					
Buildings and improvements	5,133,414	1,229,298	3,904,116	1,229,098	200
Completed construction	12,467,474	11,498,042	969,432	11,296,965	201,077
Furniture and general equipment	108,264	420,928	(312,664)	323,572	97,356
Vehicles and accessories	1,859,908	111,997	1,747,911	110,859	1,138
Donated assets	8,938,927	5,923,772	3,015,155	5,923,772	-
Totals Before Accumulated Depreciation	**28,507,987**	**19,184,037**	**9,323,950**	**18,884,266**	**299,771**
Accumulated Depreciation	(5,394,656)	(4,627,462)	(767,194)	(4,043,137)	(584,325)
Net Depreciable Capital Assets	23,113,331	14,556,575	8,556,756	14,841,129	(284,554)
Total Capital Assets	**$ 23,955,816**	**$ 19,820,393**	**$ 4,135,423**	**$ 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.

	2006	2005	Change	2004	Change
Ohio Water Development Authority (OWDA)	$ 11,570,294	$ 14,964,373	$ (3,394,079)	$ 12,259,782	$ 2,704,591
Rural Development	4,840,000	-	4,840,000	-	-
Total Long Term Debt	**16,410,294**	**14,964,373**	**1,445,921**	**12,259,782**	**2,704,591**
Less: Current Maturities	544,350	481,764	62,586	419,120	62,644
Net Total Long Term Debt	**$ 15,865,944**	**$ 14,482,609**	**$ 1,383,335**	**$ 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 $3,681,761 on December 31, 2006 and $4,180,896 on December 31, 2005. In 2006, the District also had restricted cash and cash equivalents of $152,979. There was no restricted held in 2005.

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, 2006 AND 2005

	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	$ 3,681,761	$ 4,180,896
Accounts receivable	417,389	442,847
Inventory	70,384	37,977
Prepaid expense	33,091	27,141
Current portion of notes receivable	811	1,409
Current portion of notes receivable - tap fees	699,560	736,118
Current portion of deferred expense	399,974	258,236
Total Current Assets	5,302,970	5,684,624
RESTRICTED ASSETS		
Restricted cash and cash equivalents	152,979	-
Water assessments receivable	362,018	384,933
Sewer assessments receivable	49,561	51,420
Total Restricted Assets	564,558	436,353
CAPITAL ASSETS		
Capital Assets, not being depreciated	842,485	5,263,818
Capital Assets, net of accumulated depreciation	23,113,331	14,556,575
Total Capital Assets	23,955,816	19,820,393
OTHER ASSETS		
Notes receivable less current portion	-	869
Notes receivable less current portion - tap fees	1,057,974	1,730,246
Deferred expense less current portion	-	416,995
Loan fees - net of amortization	18,757	4,822
Total Other Assets	1,076,731	2,152,932
Total Assets	30,900,075	28,094,302
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	290,449	555,711
Accrued and withholding payroll expenses	59,526	71,906
Current portion of capital lease	10,310	8,838
Current portion of long term debt	544,350	481,764
Current portion of deferred revenue - tap fees	120,521	361,562
Accrued interest payable	361,814	-
Total Current Liabilities	1,386,970	1,479,781
LONG TERM LIABILITIES		
Capital lease less current portion	-	7,174
Long term debt less current portion	15,865,944	14,482,609
Deferred revenue - tap fees	2,885,395	3,968,865
Total Long Term Liabilities	18,751,339	18,458,648
Total Liabilities	20,138,309	19,938,429
NET ASSETS		
Invested in Capital Assets, net of related Debt	7,535,212	4,840,008
Unrestricted	3,226,554	3,315,865
Total Net Assets	10,761,766	8,155,873
Total Liabilities and Net Assets	$ 30,900,075	$ 28,094,302

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, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Charges for services	$ 2,743,372	$ 2,471,589
Water tap fees	791,510	1,534,540
Miscellaneous income	36,464	9,766
Total Operating Revenues	3,571,346	4,015,895
OPERATING EXPENSES:		
Plant operations	1,726,255	1,316,884
Salaries and payroll related expenses	574,250	544,123
General and administration expenses	343,437	233,569
Depreciation	774,000	584,325
Total Operating Expenses	3,417,942	2,678,901
Operating Income	153,404	1,336,994
OTHER INCOME AND (EXPENSES):		
Interest income	158,042	113,558
Interest expense	(720,708)	(767,845)
Total Income (Expenses)	(562,666)	(654,287)
Increase (Decrease) In Net Assets before Capital Contributions	(409,262)	682,707
Capital Contributions - Donated Lines	3,015,155	-
Increase In Net Assets	2,605,893	682,707
Net Assets, Beginning of Year	8,155,873	7,473,166
Net Assets, End of Year	$ 10,761,766	$ 8,155,873

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, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 2,982,590	$ 4,930,800
Cash payments to suppliers for goods and services	(1,751,307)	(1,010,224)
Cash payments for employee services and benefits	(586,630)	(537,182)
Net Cash Provided From Operating Activities	644,653	3,383,394
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Interest received on tap agreements	-	12
Interest received on bank accounts	126,186	81,085
Net Cash Provided From Non-Capital Financing Activities	126,186	81,097
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction of water and sewer projects	(2,254,950)	(3,789,164)
Principal payments on construction loans	(4,817,205)	(772,011)
Interest payments on construction loans	(357,716)	(766,523)
Proceeds from construction loans	6,263,126	3,476,602
Special assessment collections - principal	24,774	38,526
Special assessment collections - interest	31,856	32,461
Principal payments on capital lease	(5,702)	(8,026)
Interest payments on capital lease	(1,178)	(1,322)
Net Cash Used By Capital and Related Financing Activities	(1,116,995)	(1,789,457)
Net Increase (Decrease) In Cash and Cash Equivalents	(346,156)	1,675,034
Cash and Cash Equivalents, Beginning of the Year	4,180,896	2,505,862
Cash and Cash Equivalents, End of the Year	$ 3,834,740	$ 4,180,896

Non-cash transaction: The District received donated capital assets in the amount of $3,015,155 during fiscal year 2006.

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:		
Operating Income	$ 153,404	$ 1,336,994
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	774,000	584,325
CHANGES IN NET ASSETS AND LIABILITIES:		
(Increase) Decrease in Accounts Receivable	25,458	(197,964)
(Increase) Decrease in Prepaid Insurance	(5,950)	(8,556)
(Increase) Decrease in Meter Inventory	(32,407)	(24,077)
(Increase) Decrease in Deferred Expense	275,257	266,792
Increase (Decrease) in Accounts Payable (Operating)	81,485	306,070
Incraease (Decrease) in Accrued Wages, Benefits and Payroll Taxes	(12,380)	6,941
Increase (Decrease) in Deferred Income - Tap Fees	(614,214)	1,112,869
Total Adjustments	491,249	2,046,400
Net Cash Provided From Operating Activities	$ 644,653	$ 3,383,394

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. 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 years ended December 31, 2005 and 2006, 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 the fiscal year end 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.

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 8 – Capital Contributions – 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, 2006 and 2005 were $2,945 and $5,490, 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, 2006 and 2005 represents the interest portion of construction loan payments to the Ohio Water Development Authority in the amount of $719,530 and $766,523 and the vehicle/equipment lease payments are $1,178 and $1,322, 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 Trustees. This procedure is in accordance with the Ohio Revised Code. Board discretionary expenditures for the fiscal years ended December 31, 2006 and 2005 were $258 and $221, respectively, 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, these 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 services that are 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.

Restricted Assets

Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset. Restricted assets represent certain resources segregated from other resources of the District to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the District or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

3. RECEIVABLES

Accounts receivable are presented at their net realizable value of $417,389 and $442,847 as of December 31, 2006 and 2005, respectively.

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 2.88% to 8.07% and are reported as restricted assets.

4. CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2006 was as follows:

	Ending Balance at 12/31/2005	Additions	Deletions	Ending Balance at 12/31/2006
Capital Assets and Land Easements, Not being Depreciated				
Land and Land Easements	$596,426	$27,298	$0	$623,724
Construction in Progress	4,667,392	1,594,068	(6,044.699)	218,761
Total Capital Assets, Not Being Depreciated	5,263,818	1,621,366	(6,044,699)	842,485
Capital Assets Being Depreciated				
Buildings and Improvements	1,229,298	3,981,093	(76,977)	5,133,414
Completed Construction	11,498,042	969,432	0	12,467,474
Vehicles and Accessories	111,997	4,453	(8,186)	108,264
Furniture and General Equipment	420,928	1,438,980	0	1,859,908
Donated Assets	5,923,772	3,015,155	0	8,938,927
Total Capital Assets, Being Depreciated	19,184,037	9,409,113	(85,163)	28,507,987
Less Accumulated Depreciation:				
Buildings and Improvements	(579,176)	(92,702)	828	(671,050)
Completed Construction	(3,040,796)	(381,079)	0	(3,421,875)
Vehicles and Accessories	(78,527)	(13,783)	5,978	(86,332)
Furniture and General Equipment	(204,875)	(137,570)	0	(342,445)
Donated Assets	(724,088)	(148,866)	0	(872,954)
Total Accumulated Depreciation	(4,627,462)	(774,000)	6,806	(5,394,656)
Total Capital Assets Being Depreciated, Net	14,556,575	8,635,113	(78,357)	23,113,331
Total Capital Assets	$19,820,393	$10,256,479	$(6,121,056)	$23,955,816

4. CAPITAL ASSETS (Continued)

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

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 obligations 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 2005 and 2006:

	2006	2005
2006	$ -	$ 736,118
2007	699,560	435,242
2008	484,960	376,042
2009	477,560	516,267
2010	63,160	101,867
2011	32,294	98,892
Thereafter	-	201,936
	1,757,534	2,466,364
Current Portion of Notes Receivable	(699,560)	(736,118)
	$ 1,057,974	$ 1,730,246

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, 2006 and 2005:

OWDA Notes Payable	**2006**	**2005**
8.05% due in semi-annual payments of $71,302, including interest through July, 2015.	$ 888,988	$ 921,861
8.07% due in semi-annual payments of $134,051, including interest through July, 2015.	1,669,888	1,731,580
7.50% due in semi-annual payments of $12,431, including interest through July, 2015.	158,591	164,623
7.50% due in semi-annual payments of $15,361, including interest through July, 2015.	195,974	203,427
7.21% due in semi-annual payments of $12,396, including interest through July, 2018.	194,729	199,743
7.14% due in semi-annual payments of $7,170, including interest through July, 2018.	113,050	115,975
6.51% due in semi-annual payments of $19,856, including interest through January, 2022.	192,416	195,789
6.18% due in semi-annual payments of $2,367, including interest through July, 2022.	47,255	48,109
5.88% due in semi-annual payments of $9,785, including interest through January, 2023.	203,110	206,814
5.66% due in semi-annual payments of $16,119, including interest through January, 2025.	363,804	369,467
5.56% due in semi-annual payments of $22,440, including interest through January, 2025.	514,535	522,451

6. NOTES PAYABLE – CONTINUED

OWDA Notes Payable	**2006**	**2005**
5.77% due in semi-annual payments of $9,067, including interest through January, 2025.	204,560	207,637
5.85% due in semi-annual payments of $7,797, including interest through January, 2021.	149,623	152,946
6.72% due in semi-annual payments of $25,478, including interest through January, 2021.	462,820	472,425
6.16% due in semi-annual payments of $18,861, including interest through January, 2020.	339,018	347,186
6.41% due in semi-annual payments of $4,667, including interest through January, 2027.	105,681	106,921
6.39% due in semi-annual payments of $12,930, including interest through January, 2027.	293,243	296,694
6.39% due in semi-annual payments of $3,383, including interest through July, 2027.	77,628	78,503
6.39% due in semi-annual payments of $12,877, including interest through January, 2027.	292,033	295,471
6.03% due in semi-annual payments of $64,884, including interest through January, 2027.	1,515,349	1,533,983
6.03% due in semi-annual payments of $15,454, including interest through January, 2027.	360,924	365,362
6.03% due in semi-annual payments of $10,084, including interest through January, 2027.	235,514	238,410
6.03% due in semi-annual payments of $17,014, including interest through January, 2027.	397,350	402,236
5.15% due in semi-annual payments of $3,230, including interest through July, 2028	84,450	85,478
4.40% due in semi-annual payments of $56,999, including interest through July, 2028.	1,596,371	1,617,779
4.66% due in semi-annual payments of $32,573, including interest through July, 2029.	913,390	913,641
2.88% due in lump sum on July 1, 2008.	0	3,169,862
	11,570,294	14,964,373
Less: current maturities	(497,750)	(481,764)
TOTAL OWDA NOTES PAYABLE	$ 11,072,544	$ 14,482,609

6. NOTES PAYABLE – CONTINUED

	Balance 12/31/2004	Additions	Reductions	Balance 12/31/2005	Amount Due Within One Year
O.W.D.A	$ 12,259,782	$ 3,476,602	$ 772,011	$ 14,964,373	$ 481,764

	Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006	Amount Due Within One Year
O.W.D.A	$ 14,964,373	$ 1,423,126	$ 4,817,205	$ 11,570,294	$ 497,750
Rural Development	-	4,840,000	-	4,840,000	46,600
	$ 14,964,373	$ 6,263,126	$ 4,817,205	$ 16,410,294	$ 544,350

Maturities of the District's debt for the years subsequent to December 31, 2006 are as follows:

	Ohio Water Development Authority Loans			**Rural Development Mortgage Revenue Bonds**		
	Principal	Interest*	Total	Principal	Interest*	Total
2007	$ 497,750	$ 719,401	$ 1,217,151	$ 46,600	$ 198,810	$ 245,410
2008	531,724	685,427	1,217,151	48,600	209,711	258,311
2009	568,096	649,056	1,217,152	50,800	207,585	258,385
2010	607,039	610,050	1,217,089	53,000	205,363	258,363
2011	648,740	568,411	1,217,151	55,300	203,044	258,344
2012-2016	3,514,314	2,105,154	5,619,468	314,900	976,748	1,291,648
2017-2021	2,400,732	1,143,444	3,544,176	390,200	901,543	1,291,743
2022-2026	2,253,066	489,727	2,742,793	483,400	808,395	1,291,795
2027-2031	548,833	32,196	581,029	598,700	692,996	1,291,696
2032-2036	-	-	-	741,700	550,056	1,291,756
2037-2041	-	-	-	918,700	372,986	1,291,686
2042-2046	-	-	-	1,138,100	153,633	1,291,733
	$ 11,570,294	$ 7,002,866	$ 18,573,160	$ 4,840,000	$ 5,480,870	$ 10,320,870

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.

*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.

During fiscal year 2006, the District issued $4,840,000 in Rural Development Water Resource Revenue Bonds to retire an Ohio Water Development Authority loan. The terms of the loan are an interest rate of 4.375% with a maturity date of 2046.

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 $5,702 and $8,026 and interest payments totaled $1,178 and $1,322 during 2006 and 2005, respectively. The District's future minimum lease payments under capital lease obligations for the next two years are as follows:

	2006
2007	$11,144
Total Minimum Lease Payments	11,144
Less: Amount Representing Interest	(834)
Present Value of Minimum Lease Payments	$10,310

8. CAPITAL CONTRIBUTIONS

Donated Developer Lines
The District received capital contributions in 2006 in the amount of $3,015,155. 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 (OPERS)

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 2006, 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 2006 and 2005 member contribution rates were 9.0% and 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% for both 2006 and 2005. Public safety division members contributed at a rate of 9.0% for both 2006 and 2005.

For local government employer units for 2006 and 2005, the rates were 13.70% and 13.55% of covered payroll respectively. For both the law enforcement and public safety divisions, the employer contribution rates for 2006 and 2005 were 16.93% and 16.7%, respectively.

The District's required contributions to OPERS for the years ended December 31, 2006, 2005 and 2004 were $99,001, $83,784, and $86,190, respectively.

10. POST-EMPLOYMENT 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 post-employment 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 Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

10. POST-EMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.7% and 13.55% of covered payroll for fiscal years 2006 and 2005, respectively; 4.5% and 4.0%, respectively were used to fund health care.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement 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 Review performed as of December 31, 2005.

<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 depreciation on investment assets annually, not to exceed a 12% corridor.

<u>Investment Return</u> – The investment assumption rate for 2005 was 6.5%.

<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 costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 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 369,214 for 2006 and 376,109 for 2005.

2. The employer contributions that were used to fund post-employment benefits were $32,522 for 2006 and $38,524 for 2005.

3. $11.1 billion and $10.8 billion represent the actuarial value of OPERS' net assets available for OPEBs at December 31, 2005 and December 31, 2004, respectively.

4. The Actuarial Valuation as of December 31, 2005 reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at $31.3 billion and $20.2 billion, respectively. 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.

10. POST-EMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

E. OPERS Retirement Board Implements its Health Care Preservation Plan

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, 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 five-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;

11. DEPOSITS WITH FINANCIAL INSTITUTION – LEGAL REQUIREMENTS – CONTINUED

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.

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 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.

The District's bank balances as of December 31, 2006 and 2005 were $3,714,379 and $1,433,715, respectively. The District's balances were either covered by federal depository insurance or pooled collateral in the manner specified in the prior paragraph.

Investments – The District's investments are reported below.

	2006		2005	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreements	$ -	0	$ 2,686,928	0
Total Fair Value	$ -		$ 2,686,928	

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 limited their investments to repurchase agreements for 2005 and had no investments in 2006.

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 in 2005 and had no investments in 2006.

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 risks 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

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, 2006 and 2005.

	2006	2005
Casualty Coverage:		
Assets	$30,997,868	$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained Earnings	$15,122,127	$13,725,507
Property Coverage:		
Assets	$5,125,326	$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained Earnings	$4,262,163	$3,375,087

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 2006 and 2005 were $275,052 and $275,052, respectively.

14. NEW ACCOUNTING PRONOUNCEMENTS

For the fiscal year 2006, the District implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislatio,* and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have any effect on the financial statements, nor did their implementation require a restatement of prior year balances.

Jefferson Water and Sewer District
Franklin County
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2006

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	$ 1,990,041
Total Federal Awards Expenditures			$ 1,990,041

N/A - direct award

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.

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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 & Sewer District
Franklin County, Ohio
6455 Taylor Rd
Blacklick , Ohio 43004

We have audited the financial statements of the business-type activities of the Jefferson Water & Sewer District, Franklin County, Ohio (the District), as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 31, 2007, wherein we indicated the District implemented GASB Statements No. 46 and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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 that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the District in a separate letter dated July 31, 2007.

This report is intended for the information and use of management, members of 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.

July 31, 2007

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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 & Sewer District
Franklin County, Ohio
6455 Taylor Rd
Blacklick , OHIO 43004

Compliance

We have audited the compliance of the Jefferson Water & 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, 2006. 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, 2006.

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 District's 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Internal Control Over Compliance (Continued)

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

This report is intended solely for the information and use of management, members of 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.

July 31, 2007

Jefferson Water & Sewer District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Year Ended December 31, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level	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 weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal controlreported 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 System for Rural Communities – Rural Development Loan, CFDA # 10.760
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $300,000 Type B: all others
(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

JEFFERSON WATER AMD 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
OCTOBER 4, 2007