

Adams County Regional Water District

Adams County, Ohio

Regular Audit

January 1, 2007 through December 31, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 S. WEST STREET, P.O. Box 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



Mary Taylor, CPA
Auditor of State

Board of Trustees
Adams County Regional Water District
9203 SR 136
West Union, Ohio 45693

We have reviewed the *Independent Auditor's Report* of the Adams County Regional Water District, Adams County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Adams County Regional Water District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 28, 2008

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Adams County Regional Water District
Adams County, Ohio
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For the Years Ended December 31, 2007 and 2006

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528 South West Street, P.O. Box 687
Piketon, Ohio 45661

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

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Board of Trustees
Adams County Regional Water District
9203 State Route 136
West Union, Ohio 45693

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

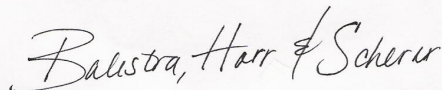
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 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 business-type activities of the District, as of December 31, 2007 and 2006, and the results of its operations and its cash flows thereof, for the years 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 April 4, 2007 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 18, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.



Balestra, Harr & Scherer, CPAs, Inc.
April 4, 2008

Adams County Regional Water District
Adams County, Ohio
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2007 and 2006

The following discussion provides a summary overview of the financial activities of the Adams County Regional Water District ("the District") for the year ended December 31, 2007. The information should be read in conjunction with the basic financial statements included in this report.

The Management's 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 \$5,856,805 and \$5,647,933 as of December 31, 2007 and 2006 respectively.
- Net assets increased by \$208,872 in 2007 and decreased by \$100,067 in 2006.
- Operating revenues increased by \$277,860 (9.14%) and decreased by \$24,790 (0.81%) and operating and maintenance expenses increased by \$134,239 (4.71%) and \$55,705 (1.99%) in 2007 and 2006 respectively.
- Retirement of debt principal totaled \$595,649 and \$568,692 for 2007 and 2006 respectively and additions to debt principal totaled \$0 for both 2007 and 2006.

Overview of the 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 and 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 Statements 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 District net assets (the difference between assets and liabilities). They provide 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 Statements of Revenues, Expenses and Changes in Net Assets present a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. These statements measure 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 Statements of Cash Flows provide information about the District's cash receipts and disbursements during the year. They summarize 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.

Adams County Regional Water District
Adams County, Ohio
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2007 and 2006

Financial Analysis of the District's Financial Position and Results of Operations

The tables below provide a summary of the District's restated financial position and operations for 2007, 2006 and 2005, respectively.

Table 1
Condensed Statement of Net Assets
December 31

	2007	2006*	2005*
<u>Assets</u>			
Current & other assets	\$ 4,433,382	\$ 4,406,046	\$ 4,189,491
Capital assets, net	16,384,694	17,018,518	17,685,164
Total assets	20,818,076	21,424,564	21,874,655
<u>Liabilities</u>			
Current liabilities	1,266,064	1,457,879	1,212,250
Long-term debt	13,695,207	14,318,752	14,914,405
Total liabilities	14,961,271	15,776,631	16,126,655
<u>Net Assets</u>			
Invested in capital assets, net			
of related debt	2,065,938	2,104,113	2,202,067
Restricted for debt service	383,387	388,346	365,937
Unrestricted	3,407,480	3,155,474	3,179,996
Total net assets	\$ 5,856,805	\$ 5,647,933	\$ 5,748,000

*Restated – see Note 17 of the notes to the basic financial statements for information on the restatement

As noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$5,856,805 as of December 31, 2007, of which \$2,065,938 is for net investment in capital assets; compared to an excess of \$5,647,933 as of December 31, 2006.

The largest portion of the District's net assets is reflected in its cash and certificates of deposit, and its capital assets, less accumulated depreciation and related debt outstanding. 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 requirement.

For the year ended December 31, 2007 and 2006 respectively, total assets of the District decreased by \$606,488 and \$450,091 due to depreciation of capital assets. Total liabilities as of December 31, 2007 and 2006 decreased by \$815,360 and \$350,024, respectively; due mainly to retirement of debt.

Adams County Regional Water District
Adams County, Ohio
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2007 and 2006

Financial Analysis of the District's Financial Position and Results of Operations (Continued)

The following table summarizes the restated changes in revenues and expenses for the District between 2007, 2006 and 2005:

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

	<u>2007</u>	<u>2006*</u>	<u>2005*</u>
<u>Operating revenue</u>			
Sales to customers	\$ 2,454,375	\$ 2,260,934	\$ 2,278,783
Sales to public authorities	759,957	692,543	701,441
Other revenues	102,486	85,481	83,524
Total operating revenue	<u>3,316,818</u>	<u>3,038,958</u>	<u>3,063,748</u>
<u>Non operating revenue</u>			
Tap fee revenue	187,200	220,900	232,100
Grant revenue	150,000	10,640	
Interest income	151,270	127,330	76,629
Total non operating revenue	<u>488,470</u>	<u>358,870</u>	<u>308,729</u>
Total revenue	<u>3,805,288</u>	<u>3,397,828</u>	<u>3,372,477</u>
<u>Operating expenses</u>			
Operations	1,516,290	1,400,036	1,405,503
Maintenance	197,333	197,534	158,209
Depreciation	1,271,564	1,253,378	1,231,531
Total operating expenses	<u>2,985,187</u>	<u>2,850,948</u>	<u>2,795,243</u>
<u>Non operating expenses</u>			
Interest expense	683,815	764,827	789,752
Loss on disposal of assets		8,978	5,226
Total non operating expenses	<u>683,815</u>	<u>773,805</u>	<u>794,978</u>
Total expenses	<u>3,669,002</u>	<u>3,624,753</u>	<u>3,590,221</u>
<u>Income (Loss) before contributions</u>			
<u>& extraordinary item</u>	136,286	(226,925)	(217,744)
Capital contributions	39,810	126,858	37,641
Extraordinary item	<u>32,776</u>	<u>0</u>	<u>0</u>
Change in net assets	<u>\$ 208,872</u>	<u>\$ (100,067)</u>	<u>\$ (180,103)</u>

*Restated – see note 15 of the notes to the basic financial statements for information on the restatement

Adams County Regional Water District
Adams County, Ohio
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2007 and 2006

Financial Analysis of the District's Financial Position and Results of Operations (Continued)

Operating revenues consist of user charges for water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2007:

- Operating revenue increased by \$277,860 (9.14%) and decreased by \$24,790 (0.81%) in 2007 and 2006 respectively.
- Non-operating revenues increased by \$129,600 (36.11%) due to a grant received in 2007 and \$50,141 (16.24%) in 2006 due to an increase in the interest earned on funds. .
- Operating expenses increased by \$134,239 (4.71%) due to an increase in depreciation and operational expenses in 2007 and \$55,705 (1.95%) in 2006 due to an increase in depreciation and maintenance of capital assets. Total expenses increased by \$44,249 (1.22%) and \$34,532 (0.96%) in 2007 and 2006 respectively.

Capital contributions from customers decreased by \$87,048 (68.62%) in 2007 and increased \$89,217 (237%) in 2006. These contributions are provided by customers and grants from various agencies and are used to help cover the costs of line extensions.

Capital Assets

As of December 31, 2007 and 2006, respectfully, the District had \$16,384,694 and \$17,018,518 invested in capital assets. This amount represents a net decrease of \$633,824 (3.8%) in 2007 and \$666,646 (3.77%) in 2006.

Table 3
Capital Assets
December 31,

	2007	2006*	2005*
Land and improvements	\$ 442,904	\$ 442,904	\$ 441,404
Construction in progress	370,867	55,953	22,835
Buildings	515,125	508,540	537,812
Wells and wellfield improvements	1,335,217	1,335,217	1,330,047
Mains, lines and meters	24,086,937	23,873,700	23,627,816
Storage tanks	2,035,404	1,943,455	1,642,689
Water treatment & other equipment	1,193,943	1,182,888	1,173,618
Less: Accumulated depreciation	(13,595,703)	(12,324,139)	(11,091,057)
Totals	\$ 16,384,694	\$ 17,018,518	\$ 17,685,164

*Restated – see note 17 of the notes to the basic financial statements for information on the restatement

Major additions in 2007 and 2006 at cost included:

Line extension	\$ 213,238	\$ 245,883
Coon Hill Tank Rehab		235,400
Heidi Lane Booster Station		46,948
Generator		16,391
Clayton Tank Rehab	91,949	-0-
	\$ 305,187	\$ 544,622

Adams County Regional Water District
Adams County, Ohio
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2007 and 2006

Debt Administration

The District finances its construction primarily through the issuance of revenue bonds or through low interest loan programs with the State of Ohio. At December 31, 2007, the District had total debt outstanding of \$14,318,756 compared to \$14,914,405 at December 31, 2006 and \$15,483,097 at December 31, 2005. This represents a decrease of \$595,649 and \$568,692, respectfully from payments on principal of the debt.

Additional information on the District's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and 2008 Budget

Adams County Regional Water District increased service rates, which went into effect on January 1, 2005, and no retail rate increase is scheduled for 2008. The District will be reviewing rates in 2008 for a possible increase for 2009.

The service area of the District continues to grow. One hundred forty-four tap fees were paid in 2007. The District is encouraging more rural customers to come on line by allowing the customers, should an extension be feasible, to pay for the material costs of a line extension over a period of several years as a facility charge on their monthly bill. Two hundred-fifty to three hundred new customers are expected over the next two years. Should the proposed Lawshe/Louisville Road Water Line Extension become a reality, this could increase by another one hundred taps.

The operating budget for 2008 is \$4,122,598, which is \$399,468 more than the 2007 budget due to expected increased costs for purchase of land, capital improvements, equipment, and operating and maintenance costs. The District plans to purchase 130.59 acres along US 52 as a Source Water Protection Area (SWAP) at a cost of \$391,770. This land could possibly be used for future well field expansion, as well as protecting the existing well field from contaminants. Scheduled capital improvements include the exterior and interior painting of the District's 100,000-gallon Winchester Tank, the exterior painting of the water treatment plant's 50,000-gallon red water tank, a water line upgrade to increase water delivery to the Unity Road area, the fencing of the Measley Ridge Tank, and a 12" line extension to serve the Village of Seaman and the new Adams County Regional Medical Center and new elementary school building, as well as budgeting for materials for facility-charge funded line extensions. Due to the high costs of these improvements, it is anticipated that the District will be using up to \$940,000 of its cash assets to help fund these necessary projects.

Contacting the District's Financial Management

This report is designed to provide the District's customers, bondholders, creditors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact the General Manager, Adams County Regional Water District, 9203 St. Rt. 136, West Union, Ohio 45693.

Adams County Regional Water District
Statements of Net Assets
December 31, 2007 and 2006

	2007	2006*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$1,729,667	\$1,707,348
Certificates of deposit	1,505,980	1,484,314
Accounts receivable:		
Customers, net of allowance for doubtful accounts of \$11,201	447,207	416,535
Other receivables	381	73
Accrued interest receivable	50,882	44,334
Inventories	215,450	252,163
Prepaid expenses	49,774	59,093
Total current assets	3,999,341	3,963,860
 NONCURRENT ASSETS		
Restricted cash and certificates of deposit	383,387	388,346
Deferred costs, net	50,654	53,840
Total noncurrent assets	434,041	442,186
 CAPITAL ASSETS (at cost)		
Non depreciable capital assets		
Land	393,660	393,660
Construction in progress	370,867	55,953
Total non depreciable assets	764,527	449,613
 Depreciable capital assets		
Land and land improvements	49,244	49,244
Buildings	515,125	508,540
Wells and wellfield improvements	1,335,217	1,335,217
Mains, lines and meters	24,086,937	23,873,700
Storage tanks	2,035,404	1,943,455
Water treatment and plant equipment	288,708	288,708
Trucks, tractors and radio equipment	819,349	816,419
Office furniture and equipment	85,886	77,761
Less: accumulated depreciation	(13,595,703)	(12,324,139)
Total depreciable capital assets	15,620,167	16,568,905
Total capital assets (net of depreciation)	16,384,694	17,018,518
Total noncurrent assets	16,818,735	17,460,704
Total assets	\$20,818,076	\$21,424,564

(Continued)

Adams County Regional Water District
Statements of Net Assets
December 31, 2007 and 2006

	2007	2006*
CURRENT LIABILITIES		
Accounts payable	\$66,869	\$262,376
Accrued expenses	231,467	211,606
Accrued interest	288,829	358,494
Current portion of long-term debt	623,549	595,653
Customer deposits	55,350	29,750
Total current liabilities	<u>1,266,064</u>	<u>1,457,879</u>
LONG-TERM DEBT, less current portion	13,695,207	14,318,752
Total Liabilities	<u>14,961,271</u>	<u>15,776,631</u>
NET ASSETS		
Invested in capital assets, net of debt service	2,065,938	2,104,113
Restricted for debt service	383,387	388,346
Unrestricted net assets	3,407,480	3,155,474
Total net assets	<u>\$5,856,805</u>	<u>\$5,647,933</u>

*Restated

See accompanying notes to the financial statements.

Adams County Regional Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2007 and 2006

	2007	2006*
OPERATING REVENUES		
Sales to customers	\$2,454,375	\$2,260,934
Sales to public authorities	759,957	692,543
Other revenues	102,486	85,481
Total operating revenues	<u>3,316,818</u>	<u>3,038,958</u>
OPERATING EXPENSES		
Salaries	737,890	689,605
Utilities	256,555	226,908
Depreciation expense	1,271,564	1,253,378
Amortization expense	3,186	3,506
Repairs	124,616	124,465
Truck expense	49,838	45,849
Supplies	22,879	27,220
Pension expense	127,652	120,552
Payroll taxes	26,812	26,696
Insurance	213,486	206,661
Office supplies and postage	28,932	28,161
Legal and engineering fees	3,855	9,041
Accounting fees	14,046	10,885
Director fees	30,650	24,025
Advertising	2,652	1,323
Bank charges	0	1,007
Bad debt expense	21	225
Other expenses	70,553	51,441
Total operating expenses	<u>2,985,187</u>	<u>2,850,948</u>
OPERATING INCOME	331,631	188,010
NONOPERATING REVENUES (EXPENSES)		
Tap fee revenue	187,200	220,900
Grant Revenue	150,000	10,640
Interest income	151,270	127,330
Interest expense	(683,815)	(764,827)
Loss on Disposal of Assets	0	(8,978)
Total nonoperating revenues (expenses)	<u>(195,345)</u>	<u>(414,935)</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	136,286	(226,925)
CAPITAL CONTRIBUTIONS	<u>39,810</u>	<u>126,858</u>
INCOME(LOSS) BEFORE EXTRAORDINARY ITEM	176,096	(100,067)
INSURANCE PROCEEDS FROM FIRE LOSS	32,776	0
CHANGE IN NET ASSETS	208,872	(100,067)
NET ASSETS - BEGINNING OF YEAR	<u>5,647,933</u>	<u>5,748,000</u>
NET ASSETS - END OF YEAR	<u>\$5,856,805</u>	<u>\$5,647,933</u>

*Restated

See accompanying notes to the financial statements.

Adams County Regional Water District
Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	2007	2006*
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$3,311,438	\$3,070,225
Cash payments to employees for services	(737,890)	(689,605)
Cash payments to suppliers for goods and services	(904,906)	(993,686)
	1,668,642	1,386,934
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income on investments	144,722	140,456
	144,722	140,456
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of operating facilities, including		
construction in progress and capitalized interest	(834,997)	(361,596)
Members tap fees	187,200	220,900
Insurance Proceeds	32,776	0
Grant Revenue	150,000	0
Payments on long term debt obligations	(595,649)	(568,692)
Proceeds from construction contributions	39,810	126,858
Interest paid on long term debt obligations	(753,479)	(779,858)
	(1,774,339)	(1,362,388)
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,025	165,002
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,580,009	3,415,007
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$3,619,034	\$3,580,009
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$331,631	\$198,650
Adjustments to reconcile operating income to		
net cash provided by operating activities:		
Depreciation	1,271,564	1,253,378
Amortization	3,186	3,506
Changes in assets and liabilities:		
Accounts receivable, customers and other	(30,980)	20,627
Inventories	36,713	(81,352)
Prepaid expenses	9,319	(7,061)
Accounts payable and other accrued expenses-excluding capital		
asset additions	21,609	6,986
Customer deposits	25,600	(7,800)
	\$1,668,642	\$1,386,934

*Restated

See accompanying notes to the financial statements.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 1. DESCRIPTION OF ENTITY

(a) Description of Operations

Adams County Regional Water District (the "District"), was organized under the provisions of Section 6119 of the Ohio Revised Code on January 1, 1997. Prior to that date, the District was operated as an Ohio not-for-profit corporation known as Adams County Water Co., Inc. The District provides water service to its members in Adams County. The accounting policies used by the District reflect practices common to the industry.

(b) Reporting Entity

The financial reporting entity consists of the Adams County Regional Water District (the primary government). No component units have been separately organized.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The District has elected not to follow FASB guidance issued after November 30, 1989.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

(b) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers cash in operating bank accounts, money market accounts, and certificates of deposit with an original maturity of three months or less as cash.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

(d) Deferred Financing Costs

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

(e) Capital Assets

Capital assets are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 2007 and 2006, no interest was capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments, over a \$1,000 threshold, are capitalized.

(f) Depreciation

Provision for depreciation has been made on the basis of estimated lives of assets, using the straight-line method. Depreciable lives for the various assets are as follows:

Land improvements	10-20 Years
Building	45 Years
Wells and wellfield improvements	10-20 Years
Mains, lines and meters	20-50 Years
Storage tanks	10-50 Years
Equipment	5-10 Years

(g) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reported period. Actual results could differ from those estimates.

(h) Customer Accounts Receivable

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

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. Revenues are recognized when earned and expenses when incurred. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to unrestricted net assets to the extent such are available and then to restricted net assets.

(j) Net Assets

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital, net of related debt."

Of the District's \$383,387 in restricted net assets, none were restricted by enabling legislation.

(k) Investments and Investment Policy

The District has adopted an investment and depository policy, which states that the District will invest in the following instruments, as provided by Section 135.35 of the Ohio Revised Code.

- Securities of the United States Government
- Federal agency obligations
- Repurchase agreements
- State of Ohio bonds and other obligations
- No-load money market mutual funds
- State Treasurer's investment pool (STAROhio)
- Certain bankers' acceptances and commercial paper notes

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 3. RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Restricted cash and certificates of deposit consist of savings accounts and certificates of deposit and represent amounts designated as reserved to comply with loan agreements with the U.S. Department of Agriculture Farmers Home Administration (FMHA) described more fully in Note 4.

Note 4. LONG-TERM DEBT

On April 21, 1999, the District issued \$2,639,424 in water revenue refunding bonds with rates of 4.5% to 6.5% in order to refinance the existing notes payable to FMHA. The terms of the bonds are identical to the previously issued notes and, therefore, no economic gain has been recognized by the District. During 2005, the District issued \$144,000 in a water revenue refunding bond to acquire equipment in connection with the District's water supply system. The bond has a rate of 4.25% with a final maturity date in 2015.

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

	<u>Amount of Original Issue</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>
\$	322,095	2034	4.50%
	242,304	2015	5.00%
	987,342	2019	5.00%
	645,300	2008	5.00%
	246,725	2018	5.00%
	195,658	2023	6.50%
	144,000	2015	4.25%

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 623,549	\$ 725,343	\$ 1,348,892
2009	562,442	695,696	1,258,138
2010	589,000	668,974	1,257,974
2011	617,193	640,783	1,257,976
2012	647,297	611,023	1,258,320
2013-2017	3,662,445	2,548,778	6,211,223
2018-2022	4,218,454	1,564,638	5,783,092
2023-2027	3,290,776	435,017	3,725,793
2028-2032	73,400	17,897	91,297
2033-2034	34,200	2,327	36,527
Total	<u>\$ 14,318,756</u>	<u>\$ 7,910,475</u>	<u>\$ 22,229,231</u>

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 4. LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2007:

	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/07</u>	<u>Due Within</u> <u>One Year</u>
1999 water revenue refunding bonds	\$1,670,700	\$ -	\$ 159,200	\$1,511,500	\$ 166,900
2006 water revenue refunding bond	132,100		12,300	119,800	12,900
Note payable OWDA, payable in semiannual installments of \$342,839 starting January 1, 2002, including interest at 6.39%, due July, 2026.	7,680,676		197,996	7,482,680	210,850
Note payable OWDA, payable in semiannual installments of \$66,981 starting Jan. 1, 2000, including interest at 2%, due July, 2024.	2,008,388		93,794	1,914,594	95,670
Note payable OWDA, payable in 50 semiannual installments of \$54,013 starting Jan. 1, 2000, including interest at 5.86%, due July, 2024.	1,181,521		38,787	1,142,734	41,063
Note payable OWDA, payable in 50 semiannual installments of \$25,260, starting July 1, 2000, including interest at 5.56%, due January, 2025.	579,194		18,570	560,624	19,618
Note payable OWDA, payable in 50 semiannual installments of \$53,061, starting July 1, 2000, including interest at 2%, due January, 2025.	1,627,433		73,574	1,553,859	75,045
Note payable OWDA, payable in 40 semiannual installments of \$1,591, starting July 1, 2003, including interest at 5.15%, due January, 2022.	34,393		1,428	32,965	1,503
	<u>\$14,914,405</u>	<u>\$ 0</u>	<u>\$ 595,649</u>	<u>\$14,318,756</u>	<u>\$ 623,549</u>

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 4. LONG-TERM DEBT (Continued)

Capital assets, together with all revenue and service charges which may arise from the operations of the District, are pledged for the payment of revenue bond debt.

The notes payable OWDA are secured by operating facilities.

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2007 and 2006 was \$383,387 and \$388,346 respectively. This amount equaled the required reserve.

Note 5. CONTRIBUTIONS IN AID OF CONSTRUCTION

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

Note 6. EQUITY IN POOLED 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 Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts, including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

State statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or securities 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;

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 6. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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; and
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. Investments 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.

Cash on Hand At December 31, 2007 and 2006, the District had \$182 and \$173 respectively, in undeposited cash on hand which is included on the statement of net assets of the District as part of "cash and cash equivalents".

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 6. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. The District is required to categorize deposits and investments according to GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*. The bank balances of the District's deposits at December 31, 2007 and 2006 were \$3,764,178 and \$3,637,378, respectively. Of the bank balances at December 31, 2007 and 2006 all was covered by either federal depository insurance or collateral held by the pledging bank's trust department but not in the District's name pursuant to Section 135.181 Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Although the pledging bank has an investment and securities pool used to collateralize all public deposits, which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The deposits not covered by federal depository insurance are considered uninsured and uncollateralized under the provisions of GASB Statement No. 3 and subject to custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investments in a single issuer. The District's investment policy does not address concentration of credit risk.

Note 7. POST-EMPLOYMENT BENEFITS

Statement 12 of the Governmental Accounting Standards Board (GASB), *Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Governmental Employers*, establishes standards for disclosure of information on post-employment benefits other than pension benefits by all state and local government employers.

- (a) Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan-a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan-a defined contribution plan; and the Combined Plan-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 Pension 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 postretirement 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 meet the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 12.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 7. POST-EMPLOYMENT BENEFITS (Continued)

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2007, state employers contributed at a rate of 13.77% of covered payroll, local government employer units, contributed at 13.85% of covered payroll and public safety and law enforcement employer units contributed at 17.17%. The portion of employer contributions, for all employers, allocated to health care was 5.00% from January 1 through June 30, 2007 and 6.00% from July 1 through December 31, 2007.

- (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:

Actuarial Review-The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2006.

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

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

Investment Return-The investment assumption rate for 2006 was 6.5%.

Active Employee Total Payroll-An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In addition, annual pay increases over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health Care-Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 5.00% for the next 8 years. In subsequent years, (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

- (d) OPEB is advanced-funded on an actuarially determined basis. The following disclosures are required:
 - a. The Traditional Pension and Combined Plans had 379,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130.
 - b. The rates stated in Section A, above, are the contractually required contribution rates for OPERS. The District contributions actually made to fund post-employment benefits during the years 2007 and 2006 were \$42,661 and \$39,602 respectively.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 7. POST-EMPLOYMENT BENEFITS (Continued)

c. The amount of \$12.0 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2006.

d. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2006, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at \$30.7 billion and \$18.7 billion, respectively.

(e) OPERS Retirement Board Implement it 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. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to health care plan.

NOTE 8. PENSION BENEFITS

Statement 27 of the Governmental Accounting Standards Board (GASB), *Accounting for Pensions by State and Local Governmental Employers*, establishes standards for disclosures of information on pension benefits by all state and local government employers.

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

1. The traditional Pension Plan-a cost sharing, mutlpole-employer defined benefit pension plan.
2. The Member-Directed Plan-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.
3. The Combined Plan-a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions 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, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

NOTE 8. PENSION BENEFITS (Continued)

- (c) Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- (d) OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.
- (e) The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2007 member contribution rates were 9.5% for members in state and local classifications. Public safety members contributed 9.75%. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%.

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

- (f) The District contributed \$127,680, \$116,624 and \$112,635 to the plan for 2007, 2006 and 2005.

Note 9. TERMINATION BENEFITS

The District's liabilities for benefits upon termination of employment are not estimable and therefore have not been recognized in the financial statements.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 10. CAPITAL ASSETS

The balance of capital assets at December 31, 2007 consists of the following:

	Balance 12/31/06*	Additions	Dispositions	Balance 12/31/07
Non-depreciable capital assets				
Land	\$393,660	\$0	\$0	\$393,660
Construction in program	55,953	436,248	(121,334)	370,867
Total non-depreciable capital assets	449,613	436,248	(121,334)	764,527
Depreciable capital assets				
Land improvements	49,244	0	0	49,244
Buildings	508,540	6,585	0	515,125
Wells and wellfield improvements	1,335,217	0	0	1,335,217
Mains, lines and meters	23,873,700	213,237	0	24,086,937
Storage tanks	1,943,455	91,949	0	2,035,404
Water treatment and plant equipment	288,708	0	0	288,708
Trucks, tractors and radio equipment	816,419	2,930	0	819,349
Office furniture and equipment	77,761	8,125	0	85,886
Total depreciable capital assets	28,893,044	322,826	0	29,215,871
Accumulated depreciation				
Land improvements	(18,129)	(2,411)	0	(20,540)
Buildings	(238,321)	(16,254)	0	(254,575)
Wells and wellfield improvements	(1,078,224)	(30,503)	0	(1,108,727)
Mains, lines and meters	(9,200,055)	(1,018,359)	0	(10,218,414)
Storage tanks	(872,539)	(131,445)	0	(1,003,984)
Water treatment and plant equipment	(257,558)	(5,128)	0	(262,686)
Trucks, tractors and radio equipment	(604,207)	(59,584)	0	(663,791)
Office furniture and equipment	(55,106)	(7,880)	0	(62,986)
Total accumulated depreciation	(12,324,139)	(1,271,564)	0	(13,595,703)
Total	\$17,018,518	(\$512,490)	(\$121,334)	\$16,384,694

* Restated

Note 11. COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to full-time, permanent employees to specified maximums. Upon termination, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2007 and 2006 were \$194,370 and 183,114 respectively.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 12. ECONOMIC DEPENDENCY

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

Note 13. RISK MANAGEMENT

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

Note 14. CONTINGENCIES

The District is involved in various opens workers' compensation cases. The ultimate resolution of these matters is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

Note 15. DEFERRED COSTS

Deferred costs are the result of the capitalization of fees incurred to obtain loans from OWDA.

Note 16. ADVERTISING COSTS

The District expenses advertising costs as incurred. Advertising expenses amounted to \$2,652 and \$1,323 in 2007 and 2006 respectively.

Note 17. CHANGE IN ACCOUNTING POLICY

In 2007 the District increased its capitalization threshold to \$1,000. Assets purchased prior to 2007 below that threshold were removed from the depreciation schedule January 1, 2006. Summarized below are the effects of the change.

Net Assets	
January 1, 2006 originally reported	5,769,635
Effect of Change	<u>(21,635)</u>
January 1, 2006 restated	5,748,000

Note 18. CHANGE IN ACCOUNTING PRINCIPALS

For the year ended December 31, 2007, the District implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The application of this new standard did not have an effect on the financial statements, nor did their implementation require a restatement of prior year net assets.

Note 19. INSURANCE PROCEEDS

On July 17, 2007 a barn located on the District's well field property burned. The barn's book value at the time of the fire was zero (-0). On September 20, 2007, the District received an insurance recovery of \$32,776. The recovery is reported as a separate line item on the Statement of Revenues, Expenses and Changes in Net Assets. The District will receive additional monies once all debris has been removed from the property.

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

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

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Board of Trustees
Adams County Regional Water District
9203 State Route 136
West Union, Ohio 45693

We have audited the accompanying financial statements of the business-type activities of Adams County Regional Water District (the District), Adams County, as of and for the years ended December 31, 2007 and 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 4, 2007, in which we indicated the District implemented Governmental Accounting Standards Board Statement No. 48. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

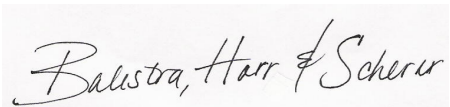
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Compliance and Other Matters

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

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

Balestra, Harr & Scherer, CPAs, Inc.
April 4, 2008

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.



Mary Taylor, CPA
Auditor of State

ADAMS COUNTY REGIONAL WATER DISTRICT

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 10, 2008**