

Bishopville Water District

Morgan County, Ohio

Regular Audit

January 1, 2004 through December 31, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, Inc.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Bishopville Water District
10123 West Mountville Road
Glouster, Ohio 45732

We have reviewed the *Independent Auditor's Report* of the Bishopville Water District, Morgan County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 20, 2006

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Bishopville Water District
Morgan County, Ohio

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Board of Trustees
Bishopville Water District
10123 West Mountville Road
Glouster, Ohio 45732

We have audited the accompanying financial statements of the business-type activities, of the Bishopville Water District (the District), Morgan County, as of and for the years ended December 31, 2005 and 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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, 2005 and 2004, and the results of its operations and its cash flows thereof, for the year 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 August 31, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bishopville Water District
Independent Auditor's Report
Page 2

As described in Note 9, for the year ended December 31, 2005, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 40 *Deposits and Investment Risk Disclosure*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

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

Balestra, Harr & Scherer, CPAs, Inc.
August 31, 2006

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

This discussion and analysis, along with the accompanying financial reports, of Bishopville Water District (BWD 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 BWD exceeded liabilities on December 31, 2005 by \$149,168 and on December 31, 2004 by \$141,449. The District's net assets increased by \$7,719 (5.5%) in 2005 and by \$6,481 (4.8%) in 2004.

The District's Operating Revenues increased by \$20,256 (14.5%) in 2005 and by \$3,059 (2.2%) in 2004. Operating Expenses increased by \$20,296 (15.8%) in 2005 and by \$8,738 (7.3%) in 2004.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

The **Statements of Net Assets** include all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets 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, special 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. It summarizes the net changes in cash resulting from operating, investing and financing activities.

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

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", represents Capital Assets less outstanding debt that was used to acquire those assets.

TABLE 1	2005	2004	Change Amount	2003	Change Amount
Current and Other Assets	\$112,591	\$93,226	\$19,365	\$77,937	\$15,289
Restricted Assets	25,142	25,142	0	25,410	(268)
Capital Assets	505,547	306,100	199,447	295,312	10,788
Total Assets	643,280	424,468	218,812	398,659	25,809
Long Term Liabilities	300,404	90,760	209,644	234,928	(144,168)
Other Liabilities	193,708	192,259	1,449	28,763	163,496
Total Liabilities	494,112	283,019	211,093	263,691	19,328
Net Assets					
Invested in Capital Assets, Net					
Of Related Debt	59,090	65,335	(6,245)	38,166	27,169
Restricted for Debt Service	0	0	0	25,410	(25,410)
Unrestricted	90,078	76,114	13,964	71,392	4,722
Total Net Assets	\$149,168	\$141,449	\$7,719	\$134,968	\$6,481

The District's Net Assets increased by \$7,719 (5.5%) in 2005 and \$6,481 (4.8%) in 2004. These increases are primarily the result of an increase in water sales and tap fees received in both years.

Unrestricted net assets increased \$13,964 from 2004 to 2005 and increased by \$4,722 from 2003 to 2004. Unrestricted assets may be used without constraints established by other legal requirements. Cash increased by \$14,878 from 2004 to 2005 and \$15,662 from 2003 to 2004 primarily due to an increase in cash received from customers in 2005 and proceeds from loans in 2004.

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

STATEMENTS OF CHANGES IN NET ASSETS

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

TABLE 2	2005	2004	Difference	2003	Difference
Operating Revenues	\$160,334	\$140,078	\$20,256	\$137,019	\$3,059
Operating Expenses (Excluding Depreciation)	135,746	115,450	20,296	106,687	8,763
Depreciation	12,926	12,926	0	12,951	(25)
Total Operating Expenses	148,672	128,376	20,296	119,638	8,738
Operating Income	11,662	11,702	(40)	17,381	(5,679)
Non-Operating Revenues	1,051	823	228	1,084	(261)
Non-Operating Expenses	(4,994)	(6,044)	1,050	(7,321)	1,277
Changes in Net Assets	7,719	6,481	1,238	11,144	(4,663)
Net Assets at Beginning of Year	141,449	134,968	6,481	123,824	11,144
Net Assets at End of Year	\$149,168	\$141,449	\$7,719	\$134,968	\$6,481

Operating Revenues increased \$20,256 from 2004 to 2005 due to an increased number of customers. Operating expenses exclusive of depreciation increased \$20,296 primarily due to increases in wages and repair and maintenance expenses; however these increases were partially offset by decreases in legal and professional services and bookkeeping expenses. Depreciation remained the same from 2004 to 2005.

Operating Revenues increased \$3,059 from 2003 to 2004 due to an increase in tap fee revenue. Operating expenses exclusive of depreciation increased \$8,763 primarily due to increases in legal and professional services and bookkeeping expenses due to the audit taking place every two years. Depreciation increased by \$25 from 2003 to 2004 due to additional capital assets being put into service and being depreciated.

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

CAPITAL ASSETS

The District had \$864,296 invested in Capital Assets (before depreciation) at the end of 2005. This amount is an increase of \$212,373 (32.6%) from the previous year. This increase is due to additions to the water plant. The District had \$505,547 invested in Net Capital Assets (after depreciation) at the end of 2005. This amount is an increase of \$199,447 (65.2%) from the previous year. The reason that Net Capital Assets did not increase as much is due to depreciation expense in the amount of \$12,926 during 2005.

The District had \$651,923 invested in Capital Assets (before depreciation) at the end of 2004. This amount is an increase of \$23,715 (3.8%) from the previous year. This increase is due to increases in land and the water plant. The District had \$306,100 invested in Net Capital Assets (after depreciation) at the end of 2004. This amount is an increase of \$10,788 (3.7%) from the previous year. The reason that Net Capital Assets did not increase as much is due to depreciation expense in the amount of \$12,926. Additional information regarding capital assets can be found in Note 4 to the Basic Financial Statements.

Table 3

	2005	2004	Change Amount	2003	Change Amount
Land	\$2,250	\$2,250	\$0	\$1,500	\$750
Construction in Progress	345,116	132,743	212,373	0	132,743
Plant	513,901	513,901	0	623,679	(109,778)
Office Equipment	3,029	3,029	0	3,029	0
Totals Before					
Accumulated Depreciation	864,296	651,923	212,373	628,208	23,715
Accumulated Depreciation	(358,749)	(345,823)	(12,926)	(332,896)	(12,927)
Net Capital Assets	\$505,547	\$306,100	\$199,447	\$295,312	\$10,788

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

DEBT

The District issues long term debt to finance much of its construction. The District typically levies special assessments on the benefiting property owners and then obtains Ohio Water Development Authority Loans (OWDA) to finance these water line projects. The special assessment collections are generally received over a twenty five year period and such collections are used to pay the debt service on the OWDA Loans. Additional information regarding debt can be found in Note 5 to the Basic Financial Statements.

TABLE 4

	<u>2005</u>	<u>2004</u>	<u>Change Amount</u>	<u>2003</u>	<u>Change Amount</u>
GMAC #10493001	\$71,580	\$86,868	(\$15,288)	\$101,567	(\$14,699)
GMAC #10493002	11,605	21,322	(9,717)	28,957	(7,635)
GMAC #10493004	0	0	0	1,622	(1,622)
WSOS #120-01-01	72,000	72,000	0	72,000	0
WSOS #120-01-02	53,000	53,000	0	53,000	0
OWDA #4371	175,897	0	175,897	0	0
OPWC #CR25G	54,800	0	54,800	0	0
OPWC #CR26G	7,575	7,575	0	0	7,575
Total Long Term Debt	446,457	240,765	205,692	257,146	(16,381)
Current Maturities	146,053	150,005	(3,952)	22,218	127,787
Net Total Long Term Debt	\$300,404	\$90,760	\$209,644	\$234,928	(\$144,168)

CASH

Cash and investments on December 31, 2005 were \$126,359 and on December 31, 2004 were \$111,481.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Vicki Mingus, Clerk, Bishopville Water District, 3758 Vicksville Lane, Glouster, Ohio 45732 or (740) 767-4522.

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY**

STATEMENTS OF NET ASSETS

As of December 31, 2005 and 2004

	2005	2004
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 101,217	\$ 86,339
Accounts receivable	9,575	6,123
Allowance for doubtful accounts	(450)	(450)
Prepaid Assets	2,249	1,214
Total current assets	112,591	93,226
Restricted Assets		
Cash and cash equivalents	25,142	25,142
Total restricted assets	25,142	25,142
Noncurrent assets		
Capital Assets:		
Land	2,250	2,250
Construction in Progress	345,116	132,743
Plant	513,901	513,901
Office equipment	3,029	3,029
	864,296	651,923
Less: Accumulated depreciation	(358,749)	(345,823)
Net Capital Assets	505,547	306,100
Total assets	\$ 643,280	\$ 424,468
Liabilities		
Current liabilities		
Accounts payable	\$ 8,626	\$ 7,476
Payroll taxes accrued and withheld	2,479	1,178
Tap fees - expansion	36,550	33,600
Notes payable - current portion	146,053	150,005
Total current liabilities	193,708	192,259
Long-term liabilities		
Notes payable - GMAC	62,132	83,185
Notes payable - OWDA	175,897	-
Notes payable - OPWC	62,375	7,575
Total long-term liabilities	300,404	90,760
Total liabilities	494,112	283,019
Net assets		
Invested in capital assets, net of related debt	59,090	65,335
Restricted for debt service		
Unrestricted	90,078	76,114
Total net assets	\$ 149,168	\$ 141,449
Total Liabilities and net assets	\$ 643,280	\$ 424,468

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

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues		
Water sales	\$ 156,184	\$ 137,078
Tap fees and other miscellaneous	4,150	3,000
Total operating revenues	<u>160,334</u>	<u>140,078</u>
Operating expenses		
Wages	28,330	13,670
Water purchased	59,054	50,000
Utilities	4,235	3,991
Insurance	5,062	4,826
Payroll taxes	4,415	2,677
Legal and professional	897	5,636
Licenses and permits	288	864
Repair and maintenance	13,485	8,463
Board member salaries	5,311	4,200
Bookkeeping	7,400	14,400
Office expense	2,023	1,441
Water testing	3,090	2,675
Miscellaneous expense	169	232
Postage	1,462	1,375
Office rent	525	900
Dues and subscriptions	-	100
Depreciation	12,926	12,926
Total operating expenses	<u>148,672</u>	<u>128,376</u>
Operating income	<u>11,662</u>	<u>11,702</u>
Nonoperating revenues (expenses)		
Interest revenue	1,051	823
Interest expense	(4,994)	(6,044)
Net other income (expense)	<u>(3,943)</u>	<u>(5,221)</u>
Changes in net assets	7,719	6,481
Net assets, beginning of year	141,449	134,968
Net assets, end of year	<u>\$ 149,168</u>	<u>\$ 141,449</u>

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

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Cash received from customers	\$ 152,732	\$ 137,849
Cash received for tap fees	4,150	3,000
Cash payments to suppliers for goods and services	(97,575)	(92,786)
Cash payments for employee services and benefits	(36,755)	(20,685)
Net cash provided by operating activities	<u>22,552</u>	<u>27,378</u>
Cash flows from capital and related financing activities		
GMAC principal payments	(25,005)	(23,956)
GMAC interest payments	(4,994)	(6,044)
Proceeds from OWDA loans	175,897	-
Proceeds from OPWC loans	54,800	7,575
Tap fees for expansion	2,950	33,600
Capital outlay	(212,373)	(23,714)
Net cash provided (used) by capital and related financing activities	<u>(8,725)</u>	<u>(12,539)</u>
Cash flows from investing activities		
Interest on cash and investments	<u>1,051</u>	<u>823</u>
Net increase (decrease) in cash and cash equivalents	14,878	15,662
Cash and cash equivalents at beginning of year	111,481	95,819
Cash and cash equivalents at end of year	<u>\$ 126,359</u>	<u>\$ 111,481</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 11,662	11,702
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	12,926	12,926
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,452)	771
(Increase) decrease in prepaid insurance	(35)	(130)
(Increase) decrease in prepaid licenses	(1,000)	-
Increase (decrease) in accounts payable (operating)	1,150	2,247
Increase (decrease) in accrued wages and benefits	1,301	(138)
Total adjustments	<u>10,890</u>	<u>15,676</u>
Net cash provided by operating activities	<u>\$ 22,552</u>	<u>\$ 27,378</u>

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

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

1. DESCRIPTION OF THE ENTITY

The Bishopville Water District, Morgan County, (the District) is a regional water district organized under the provisions of Ohio Rev. Code Chapter 6119 by the Common Pleas Courts of Athens and Morgan Counties on November 8, 1999. The District operates under the direction of a seven-member Board of Trustees. The staff consists of an appointed Board Treasurer, an appointed accountant and one office clerk, who are responsible for the fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the District's users. The District serves all or parts of the following political subdivisions in Athens and Morgan Counties:

Trimble Township, Athens County
Union Township, Morgan County

Homer Township, Morgan County

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The Ohio Revised Code requires the District to adopt an annual budget. The District did not follow the budgeting procedures required by Ohio Revised Code Chapter 5705. The District was unaware of these requirements when formed and was made aware of them in the prior audit. Consequently, no budgets were prepared or adopted, and no budgetary disclosures are included in the basic financial statements. Section 41(D) of Ohio Revised Code Chapter 5705 requires the District to reserve (encumber) appropriations when commitments are made and certify necessary funds are in the treasury or in the process of collection free from any previous encumbrances. In addition to not passing an annual appropriation resolution the district did not use purchase orders to encumber funds and certify money is in the treasury or process of collection.

D. Cash and Cash Equivalents

Cash in the District's operating account and certificates of deposit are considered cash for the purposes of the Statement of Cash Flows. Certificates of deposit are stated at their fair market value.

E. Inventory

The inventory is valued at cost, which approximates market, utilizing the first in, first out (FIFO) method. The inventory of the District consists of expendable materials and supplies. The cost is recorded as an expense at the time individual inventory items are used.

F. Restricted Assets

Restricted assets represent monies legally restricted for payment of debt issues.

G. Capital Assets and Depreciation

Capital assets acquired or constructed for the general use of the District in providing services are recorded at cost. Construction costs of the water system are capitalized, including interest incurred on construction projects until they are substantially completed. Donated assets are recorded at their fair market value at the time recorded. Depreciation of capital assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation. The estimated useful lives by major fixed asset class are as follows:

Plant	40 Years
Office Equipment	5 Years

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences

GASB Statement 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. Compensated absence is earned on the basis of services already performed by employees.
2. It is probable that the compensated absence will be paid in a future period.

The District does not record compensated absences in accordance with GASB 16. However, the District feels that any liability would be immaterial to the basic financial statements as a whole.

I. Long-Term Obligations

Long-term debt and other obligations are reported as liabilities.

J. Estimates

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

K. Fund Equity

Reserves represent those portions of fund equity not appropriate for expenditure or legally segregated for a specific use. Balances reserved are for debt issues.

3. CASH AND CASH EQUIVALENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the District has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

Interim monies can be deposited or invested in the following securities:

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

3. CASH AND CASH EQUIVALENTS (Continued)

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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.

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

3. CASH AND CASH EQUIVALENTS (Continued)

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

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying amount of the District's deposits at December 31, 2005 and 2004 was \$126,359, and \$111,481 and the bank balance was \$129,132 and \$119,759. Of the bank balance:

1. For December 31, 2005 and 2004, \$129,020 and \$119,759, respectively, was covered by the Federal Deposit Insurance Corporation; and
2. \$112 for 2005 was uninsured and uncollateralized and exposed to custodial credit risk. Although all Ohio statutory requirements for the collateralization of deposits had been followed, non-compliance with federal requirements could potentially prevent the District from exercising a successful claim as a secured creditor against the FDIC and render them a general creditor for the uncollateralized amount.

4. CAPITAL ASSETS

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

	Ending Balance 12/31/04	Additions	Deletions	Ending Balance 12/31/05
Capital Assets, Not Being Depreciated				
Land	\$ 2,250	\$ -	\$ -	\$ 2,250
Construction in Progress	132,743	212,373	-	345,116
Total Capital Assets, Not Being Depreciated	134,993	212,373	-	347,366
Capital Assets Being Depreciated				
Plant	513,901	-	-	513,901
Office Equipment	3,029	-	-	3,029
Total Capital Assets, Being Depreciated	516,930	-	-	516,930
Less Accumulated Depreciation:				
Plant	342,990	12,848	-	355,838
Office Equipment	2,833	78	-	2,911
Total Accumulated Depreciation	345,823	12,926	-	358,749
Total Capital Assets Being Depreciated, Net	171,107	(12,926)	-	158,181
Total Capital Assets, Net	\$ 306,100	\$ 199,447	\$ -	\$ 505,547

BISHOPVILLE WATER DISTRICT
Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2005 and 2004

5. LONG-TERM DEBT

Debt outstanding at December 31, 2005 and 2004, is as follows:

Loan	Ending Balance 12/31/2004	Additions	Payments	Ending Balance 12/31/2005	Amount Due in One Year
GMAC #10493001	\$ 86,868	\$ -	\$ 15,288	\$ 71,580	\$ 15,532
GMAC #10493002	21,322	-	9,717	11,605	5,521
WSOS #120-01-01	72,000	-	-	72,000	72,000
WSOS #120-01-02	53,000	-	-	53,000	53,000
OWDA #4371	-	175,897	-	175,897	-
OPWC #CR25G	-	54,800	-	54,800	-
OPWC #CR26G	7,575	-	-	7,575	-
Total	<u>\$ 240,765</u>	<u>\$ 230,697</u>	<u>\$ 25,005</u>	<u>\$ 446,457</u>	<u>\$ 146,053</u>

The outstanding GMAC loans were issued for the acquisition and construction of Phase I, II, and III of the construction of the District's infrastructure to provide water to the District's customers. The revenue of the District has been pledged to repay this debt.

The outstanding WSOS CAC, OWDA and OPWC loans were issued for plant expansion in order to serve the increasing number of customers. The revenue to the District has been pledged to repay this debt.

Amortization of the above debt, including interest of \$18,982 is scheduled as follows:

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

Year Ending
December 31:

	GMAC Loan #10493001		
	Principal	Interest	Total
2006	15,532	3,872	19,404
2007	16,490	2,914	19,404
2008	17,507	1,897	19,404
2009	18,587	818	19,405
2010	3,464	28	3,492
	71,580	9,529	81,109

Year Ending
December 31:

	GMAC Loan #10493002		
	Principal	Interest	Total
2006	5,521	455	5,976
2007	5,804	172	5,976
2008	280	1	281
2009	-	-	-
2010	-	-	-
	11,605	628	12,233

	WSOS Community Action #120-01-01		
	Principal	Interest	Total
2006	72,000	5,083	77,083
2007	-	-	-
2008	-	-	-
2009	-	-	-
2010	-	-	-
	72,000	5,083	77,083

	WSOS Community Action #120-01-02		
	Principal	Interest	Total
2006	53,000	3,742	56,742
2007	-	-	-
2008	-	-	-
2009	-	-	-
2010	-	-	-
	53,000	3,742	56,742

	Total		
	Principal	Interest	Total
2006	146,053	13,152	159,205
2007	22,294	3,086	25,380
2008	17,787	1,898	19,685
2009	18,587	818	19,405
2010	3,464	28	3,492
	208,185	18,982	227,167

Project loan agreement 4371 has not been finalized with the OWDA and project loan agreements CR25G and CR26G have not been finalized with the OPWC; therefore, no amortization schedules have been created. As a result these loans are not shown on the above maturity schedule.

6. PENSION PLAN

A. Public Employees Retirement System

1. Pension Benefit Obligation

All employees of the District participate in the Ohio Public Employees Retirement System (OPERS) which 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.

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

6. PENSION PLAN (Continued)

3. The Combined Plan (CO) - a cost sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2005 member contribution rates were 8.5 percent. The 2005 employer contribution rate for local government employer units was 13.55 percent of covered payroll.

The District's contribution to OPERS for the years ending December 31, 2005, 2004 and 2003 was \$2,409, \$1,162 and \$3,430 respectively which was equal to the required contributions.

2. Other Postemployment Benefits

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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 recipients and primary survivor recipients is available. The health care coverage provided by OPERS is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 and 2004 employer contribution rate for local government employer units was 13.55% of covered payroll, and 4.00% was used to fund health care for the years 2005 and 2004.

The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2004.

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

6. PENSION PLAN (Continued)

Funding Method – 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.

Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

Investment Return – The investment assumption rate for 2004 was 8.00%.

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

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109 for 2005 and 355,287 for 2004.
2. The employer contributions that were used to fund postemployment benefits were \$711 for 2005 and \$343 for 2004.
3. \$10.8 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2004.
4. The Actuarial Valuation as of December 31, 2004, reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at \$29.5 billion and \$18.7 billion, respectively.

OPERS Retirement Board adopts a Health Care Preservation Plan

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

BISHOPVILLE WATER DISTRICT

Morgan County, Ohio

Notes to the Basic Financial Statements

December 31, 2005 and 2004

7. RISK MANAGEMENT

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years. There has been no significant change in coverage from the prior year.

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

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

8. SUBSEQUENT EVENTS

In February 2006, the District paid off WSOS Loan # 120-01-02 which was recorded at \$53,000. In August 2006, the District paid off WSOS Loan #120-01-01 which was recorded at \$72,000.

The District has encountered numerous problems with project completion deadlines for their ongoing expansion project relating to extensive issues with easements. The District is in danger of losing its funding due to these problems with project completion deadlines. There are numerous possibilities of litigation. It is unknown at this time how these issues will affect the District financially.

9. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

In fiscal year 2004, the District elected to present its annual financial report comparable to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*, as it applies to the District's cash basis of accounting. The District implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures". GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. The implementation of GASB Statement No. 40 had no effect on the District's financial statements.

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. These new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

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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***

Board of Trustees
Bishopville Water District
10123 West Mountville Road
Glouster, Ohio 45732

We have audited the financial statements of the business type activities of the Bishopville Water District (the District), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2006, in which we indicated the District implemented Governmental Accounting Standards Board Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 2005-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would be material weaknesses. However, of the reportable conditions described above, we consider item 2005-04 to be a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001, 2005-002, and 2005-003.

Bishopville Water District
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
Page 2

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

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

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

Balestra, Harr & Scherer, CPAs, Inc.

August 31, 2006

BISHOPVILLE WATER DISTRICT
MORGAN COUNTY
DECEMBER 31, 2005 and 2004

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Revised Code Section 5705.38 states “On or about the first day of each fiscal year, an appropriation measure is to be passed.” The District failed to pass an appropriation measure for 2005 or 2004.

The District plans to adopt an appropriation measure during subsequent years.

We recommend the District pass an appropriation measure on or about the first day of the fiscal year.

The Clerk has responded that the District will begin adopting appropriation measures on or about the first day of the fiscal year.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Revised Code Section 5705.41(B) states “No subdivision or taxing authority is to expend money unless it has been appropriated.” The District did not appropriate any funds during 2005 or 2004.

The District plans to adopt an appropriation measure during subsequent years.

We recommend the District pass an appropriation measure on or about the first day of the fiscal year.

The Clerk has responded that the District will begin adopting appropriation measures on or about the first day of the fiscal year.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) states “no orders or contracts involving the expenditure of money should be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.” The District did not certify that funds for expenses were in the treasury or in the process of collections nor did they appropriate amounts required for expenses during 2005 and 2004.

The District plans to adopt an appropriation measure during subsequent years and will implement a purchase order system.

We recommend the District pass an appropriation measure on or about the first day of the fiscal year, as well as implement a purchase order system.

The Clerk has responded that the District will implement a purchase order system and begin adopting appropriation measures on or about the first day of the fiscal year.

BISHOPVILLE WATER DISTRICT
MORGAN COUNTY
DECEMBER 31, 2005 and 2004

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2005-004

Reportable Condition - Material Weakness – Monthly Bank Reconciliations

Accurate monthly reconciliations of the ending bank account balance to the Water District's ending book balance were not performed each month during the audit period by the Clerk.

This resulted in inaccurate book balances and cumbersome reconciliation procedures.

As a result, we make the following recommendations:

- We recommend that accurate reconciliations of the Water District's bank accounts be performed by the Clerk on a monthly basis. Any reconciling items should be documented and investigated to prevent unsupported adjustments from being recorded.
- We recommend the Water District Treasurer maintain accurate listing of outstanding checks and deposits and follow up on items which have been outstanding for an extended period of time to ensure that proper credit is given to the Water District for outstanding deposits and outstanding checks are voided and paid into the Water District's unclaimed monies fund in accordance with Auditor of State Bulletin 96-013 or reissued.
- We recommend that monthly bank reconciliations be reviewed and approved by the Water District Board as part of their monthly Board Meetings and signed or initialed by the Board President indicating Board review and approval.
- We recommend interest should be posted monthly based on amounts indicated on the bank statements and checks be issued in a manner to agree to the amount posted to the accounting system.

The Clerk has responded that accurate, monthly reconciliations of the ending bank account balance to the District's ending book balance will be performed in the future.

**BISHOPVILLE WATER DISTRICT
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Noncompliance Citation – Ohio Revised Code Section 5705.38	No	Reissued as finding number 2005-001
2003-002	Noncompliance Citation – Ohio Revised Code Section 5705.41(B)	No	Reissued as finding number 2005-002
2003-003	Noncompliance Citation – Ohio Revised Code Section 5705.41(D)	No	Reissued as finding number 2005-003



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BISHOPVILLE WATER DISTRICT

MORGAN 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
NOVEMBER 9, 2006**