Jefferson Water and Sewer District

Franklin County

Regular Audit

For the Years Ended December 31, 2007 and 2006

Year Audited Under GAGAS: 2007

Balestra, Harr & Scherer, CPAs, Inc.
528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: (740) 289-4131 Fax: (740) 289-3639

Mary Taylor, CPA
Auditor of State

Board of Trustees
Jefferson Water and Sewer District
6455 Taylor Road
Blacklick, Ohio 43044

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 20, 2008

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Jefferson Water & Sewer District
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For the Years Ended December 31, 2007 and 2006

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the business-type activities of the Jefferson Water and Sewer District (the District), as of and for the years ended December 31, 2007 and 2006 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 financial position of the business-type activities of the District, as of December 31, 2007 and 2006, and the changes in its financial position and its cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2008, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Jefferson Water and Sewer District
Independent Auditor's Report

As described in Note 14 to the basic financial statements, the District 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

Balestra, Harr & Scherer, CPAs, Inc.
August 31, 2008

This discussion and analysis, along with the accompanying financial reports, of Jefferson Water and Sewer District (JWSD or "the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets of JWSD exceeded total liabilities on December 31, 2007 and 2006 by $11,951,810 and $12,010,148, respectively. The District's net assets decreased by $58,338 (-0.49%) in 2007 and increased by $2,605,893 (27.71%) in 2006.

The District's Operating Revenues increased in 2007 by $659,010 (18.45%) and decreased in 2006 by $1,692,931 (-32.16%). Operating and Maintenance Expenses (excluding depreciation expense) increased $85,146 (3.22%) in 2007 and $549,366 (26.23%) in 2006. Depreciation expense increased $76,129 (9.84%) in 2007 and $189,675 (32.46%) in 2006.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to accounting used by private sector businesses. 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, 2007 and 2006. The District's net assets are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past two years and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. They summarize the net changes in cash resulting from operating, investing and financing activities.

STATEMENTS OF NET ASSETS

Table 1 summarizes the Statements of Net Assets of the District. Capital assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", are Capital assets less outstanding debt that was used to acquire those assets.

Table 1

	2007	**2006 ***	**Change**	**2005 ***	**Change**
Current and Other Assets	$ 7,236,130	$ 6,944,259	$ 291,871	$ 8,673,883	$ (1,729,624)
Capital Assets	23,971,644	23,955,816	15,828	19,820,393	4,135,423
Total Assets	**31,207,774**	**30,900,075**	**307,699**	**28,494,276**	**2,405,799**
Long Term Liabilities	17,377,920	16,923,918	454,002	17,610,240	(686,322)
Other Liabilities	1,878,044	1,966,009	(87,965)	1,479,781	486,228
Total Liabilities	**19,255,964**	**18,889,927**	**366,037**	**19,090,021**	**(200,094)**
Net Assets					
Invested in Capital Assets,					
Net of Related Debt	6,505,700	7,535,212	(1,029,512)	4,840,008	2,695,204
Unrestricted	5,446,110	4,474,936	971,174	4,564,247	(89,311)
Total Net Assets	**$ 11,951,810**	**$ 12,010,148**	**$ (58,338)**	**$ 9,404,255**	**$ 2,605,893**

* As restated – see note 15 of the notes to the basic financial statements for additional information regarding the restatement.

The District's net assets decreased by $58,338 in 2007. The 2007 decrease is primarily a result of an increase in long-term liabilities, which was partially offset by an increase in cash.

Unrestricted net assets increased by $971,174 in 2007. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Invested in capital assets, net of related debt decreased by $1,029,512 from 2006 to 2007 primarily due to net increases of debt of $1,055,650 and depreciation expense of $814,953, offset by net additions of capital assets of $830,781.

The District's Net Assets increased by $2,605,893 in 2006. The 2006 increase is primarily a result of capital contributions of $3,015,155 which was partially offset by increases in expenses.

Unrestricted net assets decreased by $89,311 in 2006. Unrestricted net assets may be used without constraints established by bond covenants or other legal requirements. Invested in capital assets, net of related debt increased by $2,695,204 from 2005 to 2006 primarily due to additions of capital assets of $4,902,617 which were partially offset by net increases of debt of $1,445,921 and depreciation expense of $774,000.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 below summarizes the changes in revenues, expenses and net assets.

Table 2

	2007	2006 *	Change	2005 *	Change
Operating Revenues	$ 4,230,356	$ 3,571,346	$ 659,010	$ 5,264,277	$ (1,692,931)
Total Operating Revenues	**4,230,356**	**3,571,346**	**659,010**	**5,264,277**	**(1,692,931)**
Operating Expenses					
(Excluding Depreciation)	2,729,088	2,643,942	85,146	2,094,576	549,366
Depreciation Expense	850,129	774,000	76,129	584,325	189,675
Total Operating Expenses	**3,579,217**	**3,417,942**	**161,275**	**2,678,901**	**739,041**
Operating Income	651,139	153,404	497,735	2,585,376	(2,431,972)
Non-Operating Revenues	243,819	158,042	85,777	113,558	44,484
Non-Operating Expenses	(953,296)	(720,708)	(232,588)	(767,845)	47,137
Capital Contributions	-	3,015,155	(3,015,155)	-	3,015,155
Changes in Net Assets	**(58,338)**	**2,605,893**	**(2,664,231)**	**1,931,089**	**674,804**
Net Assets at Beginning of Year	**12,010,148**	**9,404,255**	**2,605,893**	**7,473,166**	**1,931,089**
Net Assets at End of Year	**$ 11,951,810**	**$ 12,010,148**	**$ (58,338)**	**$ 9,404,255**	**$ 2,605,893**

* As restated - See note 15 of the notes to the basic financial statements for additional information regarding the restatement.

Operating revenues increased by $659,010 from 2006 to 2007 which is due to increases in charges for services and miscellaneous revenue which were partially offset by a decrease in tap fees.

Operating expenses increased $161,275 from 2006 to 2007 due to increases in plant operations, salaries and payroll related expenses and depreciation expense. These increases were partially offset by a decrease in general and administration expenses.

Operating revenues decreased by $1,692,931 from 2005 to 2006 which is due to decreases in tap fees which were partially offset by higher revenues from the District's regular water and sewer fees.

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

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

CAPITAL ASSETS

The District had $29,164,531 and $28,507,987 invested in depreciable capital assets (before depreciation) at the end of 2007 and 2006 respectively. This amount is an increase of $656,544 (2.3%) from 2006 and $9,323,950 (48.6%) from 2005. This increase is due to an ongoing Water Plant Expansion project. This project was funded by a USDA loan through 2006 and a commercial bank loan in 2007. For additional information regarding capital assets, please see note 4 to the basic financial statements.

Table 3

	2007	2006	Change	2005	Change
Non-depreciable Capital Assets					
Land and land easements	$ 624,782	$ 623,724	$ 1,058	$ 596,426	$ 27,298
Construction in progress	391,940	218,761	173,179	4,667,392	(4,448,631)
Total Non-depreciable Capital Assets	1,016,722	842,485	174,237	5,263,818	(4,421,333)
Depreciable Capital Assets					
Buildings and improvements	5,212,891	5,133,414	79,477	1,229,298	3,904,116
Completed construction	12,680,437	12,467,474	212,963	11,498,042	969,432
Furniture and general equipment	2,224,012	1,859,908	364,104	420,928	1,438,980
Vehicles and accessories	108,264	108,264	-	111,997	(3,733)
Donated assets	8,938,927	8,938,927	-	5,923,772	3,015,155
Totals Before Accumulated Depreciation	**29,164,531**	**28,507,987**	**656,544**	**19,184,037**	**9,323,950**
Accumulated Depreciation	(6,209,609)	(5,394,656)	(814,953)	(4,627,462)	(767,194)
Net Depreciable Capital Assets	22,954,922	23,113,331	(158,409)	14,556,575	8,556,756
Total Capital Assets	**$ 23,971,644**	**$ 23,955,816**	**$ 15,828**	**$ 19,820,393**	**$ 4,135,423**

DEBT

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

	2007	2006	Change	2005	Change
Ohio Water Development Authority (OWDA)	$ 11,072,544	$ 11,570,294	$ (497,750)	$ 14,964,373	$ (3,394,079)
Rural Development	4,793,400	4,840,000	(46,600)	-	4,840,000
National City Loan	1,600,000	-	1,600,000	-	-
Total Long Term Debt	**17,465,944**	**16,410,294**	**1,055,650**	**14,964,373**	**1,445,921**
Less: Current Maturities	660,324	544,350	115,974	481,764	62,586
Net Total Long Term Debt	**$ 16,805,620**	**$ 15,865,944**	**$ 939,676**	**$ 14,482,609**	**$ 1,383,335**

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

CASH

Cash and cash equivalents were $5,032,432 on December 31, 2007 and $3,834,740 on December 31, 2006.

CONTACT INFORMATION

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

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2007 AND 2006

	2007	2006 *
CURRENT ASSETS		
Cash and cash equivalents	$ 4,879,453	$ 3,681,761
Accounts receivable	483,087	417,389
Inventory	82,118	70,384
Prepaid expense	36,922	33,091
Intergovernmental receivable	13,597	-
Current portion of notes receivable	811	811
Current portion of notes receivable - tap fees	484,960	699,560
Current portion of deferred expense	124,924	399,974
Total Current Assets	6,105,872	5,302,970
RESTRICTED ASSETS		
Restricted cash and cash equivalents	152,979	152,979
Water assessments receivable	339,891	362,018
Sewer assessments receivable	47,675	49,561
Total Restricted Assets	540,545	564,558
CAPITAL ASSETS		
Capital assets, not being depreciated	1,016,722	842,485
Capital assets, net of accumulated depreciation	22,954,922	23,113,331
Total Capital Assets	23,971,644	23,955,816
OTHER ASSETS		
Notes receivable less current portion - tap fees	572,300	1,057,974
Loan fees - net of amortization	17,413	18,757
Total Other Assets	589,713	1,076,731
Total Assets	31,207,774	30,900,075
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	335,560	290,449
Accrued wages and benefits and withholding payroll expenses	52,249	59,526
Current portion of capital lease	-	10,310
Current portion of long term debt	660,324	544,350
Current portion of deferred revenue - tap fees	484,960	699,560
Accrued interest payable	344,951	361,814
Total Current Liabilities	1,878,044	1,966,009
LONG TERM LIABILITIES		
Long term debt less current portion	16,805,620	15,865,944
Deferred revenue - tap fees	572,300	1,057,974
Total Long Term Liabilities	17,377,920	16,923,918
Total Liabilities	19,255,964	18,889,927
NET ASSETS		
Invested in capital assets, net of related debt	6,505,700	7,535,212
Unrestricted	5,446,110	4,474,936
Total Net Assets	11,951,810	12,010,148
Total Liabilities and Net Assets	$ 31,207,774	$ 30,900,075

* As restated - see Note 15

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

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Charges for services	$ 3,456,547	$ 2,743,372
Tap fees	634,205	791,510
Intergovernmental	43,139	-
Miscellaneous income	96,465	36,464
Total Operating Revenues	4,230,356	3,571,346
OPERATING EXPENSES:		
Plant operations	1,867,790	1,726,255
Salaries and payroll related expenses	641,093	574,250
General and administration expenses	220,205	343,437
Depreciation	850,129	774,000
Total Operating Expenses	3,579,217	3,417,942
Operating Income	651,139	153,404
OTHER INCOME AND (EXPENSES):		
Proceeds from insurance	62,380	-
Loss on disposal of capital assets	(27,204)	-
Interest income	181,439	158,042
Interest expense	(926,092)	(720,708)
Total Other Income (Expenses)	(709,477)	(562,666)
Decrease In Net Assets before Capital Contributions	(58,338)	(409,262)
Capital Contributions - Donated Lines	-	3,015,155
Increase (Decrease) In Net Assets	(58,338)	2,605,893
Net Assets, Beginning of Year - *Restated - See Note 15*	12,010,148	9,404,255
Net Assets, End of Year	$ 11,951,810	$ 12,010,148

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

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 4,026,398	$ 2,946,126
Cash received from operating grants	29,542	-
Cash received from other operating income	96,465	36,464
Cash payments to suppliers for goods and services	(1,783,399)	(1,751,307)
Cash payments for employee services and benefits	(648,370)	(586,630)
Net Cash Provided From Operating Activities	1,720,636	644,653
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Proceeds from insurance	62,380	-
Interest received on bank accounts	148,273	126,186
Net Cash From Non-Capital Financing Activities	210,653	126,186
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction of water and sewer projects	(893,161)	(2,254,950)
Principal payments on construction loans	(544,350)	(4,817,205)
Interest payments on construction loans	(942,552)	(357,716)
Proceeds from construction loans	1,600,000	6,263,126
Special assessment collections - principal	24,013	24,774
Special assessment collections - interest	33,166	31,856
Principal payments on capital lease	(10,310)	(5,702)
Interest payments on capital lease	(403)	(1,178)
Net Cash From Capital and Related Financing Activities	(733,597)	(1,116,995)
Net Increase (Decrease) In Cash and Cash Equivalents	1,197,692	(346,156)
Cash and Cash Equivalents, Beginning of the Year	3,834,740	4,180,896
Cash and Cash Equivalents, End of the Year	$ 5,032,432	$ 3,834,740

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

(continued)

JEFFERSON WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	$ 651,139	$ 153,404
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	850,129	774,000
CHANGES IN NET ASSETS AND LIABILITIES:		
(Increase) Decrease in Accounts Receivable	(65,698)	25,458
(Increase) Decrease in Intergovernmental Receivable	(13,597)	-
(Increase) Decrease in Prepaid Insurance	(3,831)	(5,950)
(Increase) Decrease in Meter Inventory	(11,734)	(32,407)
(Increase) Decrease in Deferred Expense	275,050	275,257
Increase (Decrease) in Accounts Payable (Operating)	45,111	81,485
Increase (Decrease) in Accrued Wages, Benefits and Payroll Taxes	(7,277)	(12,380)
Increase (Decrease) in Deferred Income - Tap Fees	1,344	(614,214)
Total Adjustments	1,069,497	491,249
Net Cash Provided by Operating Activities	$ 1,720,636	$ 644,653

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

1. NATURE OF ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations and water and sewer related activities of the District.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision of the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The District is solely responsible for its finances. The District is empowered to issue debt payable solely from District revenues.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units.

The significant accounting policies followed in the preparation of these financial statements conform to accounting principles generally accepted in the United States of America for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. Under the guidelines of GASB 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its enterprise fund activities. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 statement of net assets. The operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

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

Budgetary Process
The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2006 and 2007, and passed annual appropriations and resolutions.

Appropriations – Budgetary expenditures (i.e., disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year –end.

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

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

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

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

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

Capital Assets
Capital assets are stated at cost (except as noted in the next paragraph with respect to donated developer lines) and are depreciated over the estimated useful lives of the assets from 5 years to 50 years depending upon the type of asset. The District capitalizes assets that have a value or cost in excess of $1,000 at the date of acquisition and an expected useful life of one or more years.

Donated developer lines are stated at fair value based on developer documentation, and are depreciated over 50 years, which represents the estimated useful lives of the assets.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Amortization
Loan fees are being amortized over sixty months beginning with the date of the first payment of each loan. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan fees amortization expense charged to operations for the years ended December 31, 2007 and 2006 were $2,657 and $2,945, respectively.

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

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

Interest Expense
Interest expense for the years ended December 31, 2007 and 2006 represents the interest portion of construction loan payments to the Ohio Water Development Authority and Rural Development in the amount of $925,689 and $719,530 and the vehicle/equipment lease payments are $403 and $1,178, respectively.

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

Board Designated Cash Fund
The Board of Trustees allocates $1,500 each year, via resolution, for expenditures to be designated by the Trustees. This procedure is in accordance with the Ohio Revised Code. Board discretionary expenditures for the fiscal years ended December 31, 2007 and 2006 were $109 and $258 and were approved as bills and paid individually.

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

Operating Revenues and Expenses
Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are service revenues and late charges for water and sewer services provided. Operating expenses are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. Revenues and expenses not meeting these definitions are identified as nonoperating.

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

Inventory of Materials and Supplies
Inventories of materials and supplies are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Restricted Assets

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

3. RECEIVABLES

Accounts receivable are presented at their net realizable value of $483,087 and $417,389 as of December 31, 2007 and 2006.

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

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

4. CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2007 was as follows:

	Ending Balance at 12/31/2006	Additions	Deletions	Ending Balance at 12/31/2007
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	$ 623,724	$ 1,058	$ -	$ 624,782
Construction in Progress	218,761	392,538	(219,359)	391,940
Total Capital Assets, Not Being Depreciated	842,485	393,596	(219,359)	1,016,722
Capital Assets, Being Depreciated				
Buildings and Improvements	5,133,414	141,857	(62,380)	5,212,891
Completed Construction	12,467,474	212,963	-	12,680,437
Vehicles and Accessories	108,264	-	-	108,264
Furniture and General Equipment	1,859,908	364,104	-	2,224,012
Donated Assets	8,938,927	-	-	8,938,927
Total Capital Assets, Being Depreciated	28,507,987	718,924	(62,380)	29,164,531
Less Accumulated Depreciation:				
Buildings and Improvements	(671,050)	(140,585)	35,176	(776,459)
Completed Construction	(3,421,875)	(393,553)	-	(3,815,428)
Vehicles and Accessories	(86,332)	(9,636)	-	(95,968)
Furniture and General Equipment	(342,445)	(127,338)	-	(469,783)
Donated Assets	(872,954)	(179,017)	-	(1,051,971)
Total Accumulated Depreciation	(5,394,656)	(850,129)	35,176	(6,209,609)
Total Capital Assets Being Depreciated, Net	23,113,331	(131,205)	(27,204)	22,954,922
Total Capital Assets	$ 23,955,816	$ 262,391	$ (246,563)	$ 23,971,644

4. CAPITAL ASSETS - CONTINUED

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

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

5. NOTE RECEIVABLE - TAP FEES

The District has signed tap agreements under which developers have agreed to purchase water and sewer taps over the next several years. The developers have secured their obligation to purchase these taps by signing irrevocable, unconditional letters-of-credit. The following is the schedule of future tap payments to be made to the District for the fiscal years subsequent to December 2006 and 2007:

	2007	2006
2007	$ -	$ 699,560
2008	484,960	484,960
2009	477,560	477,560
2010	63,160	63,160
2011	31,580	32,294
	1,057,260	1,757,534
Current Portion of Notes Receivable	(484,960)	(699,560)
	$ 572,300	$ 1,057,974

6. LONG-TERM DEBT

Notes payable related to construction of the District's infrastructure consist of the following notes payable to the Ohio Water Development Authority for December 31, 2007 and 2006:

OWDA Notes Payable	**2007**	**2006**
8.05% due in semi-annual payments of $71,302, including interest through July, 2015.	$ 817,948	$ 888,988
8.07% due in semi-annual payments of $134,051, including interest through July, 2015.	1,536,547	1,669,888
7.50% due in semi-annual payments of $12,431, including interest through July, 2015.	145,624	158,591
7.50% due in semi-annual payments of $15,361, including interest through July, 2015.	179,950	195,974
7.21% due in semi-annual payments of $12,396, including interest through July, 2018.	183,977	194,729
7.14% due in semi-annual payments of $7,170, including interest through July, 2018.	106,782	113,050
6.51% due in semi-annual payments of $19,856, including interest through January, 2022.	185,230	192,416
6.18% due in semi-annual payments of $2,367, including interest through July, 2022.	45,441	47,255
5.88% due in semi-annual payments of $9,785, including interest through January, 2023.	195,483	203,110
5.66% due in semi-annual payments of $16,119, including interest through January, 2025.	352,158	363,804
5.56% due in semi-annual payments of $22,440, including interest through January, 2025.	498,037	514,535

6. LONG-TERM DEBT – CONTINUED

OWDA Notes Payable	**2007**	**2006**
5.77% due in semi-annual payments of $9,067, including interest through January, 2025.	$198,138	$204,560
5.85% due in semi-annual payments of $7,797, including interest through January, 2021.	142,782	149,623
6.72% due in semi-annual payments of $25,478, including interest through January, 2021.	442,966	462,820
6.16% due in semi-annual payments of $18,861, including interest through January, 2020.	322,178	339,018
6.41% due in semi-annual payments of $4,667, including interest through January, 2027.	103,079	105,681
6.39% due in semi-annual payments of $12,930, including interest through January, 2027.	286,007	293,243
6.39% due in semi-annual payments of $3,383, including interest through July, 2027.	75,793	77,628
6.39% due in semi-annual payments of $12,877, including interest through January, 2027.	284,827	292,033
6.03% due in semi-annual payments of $64,884, including interest through January, 2027.	1,476,377	1,515,349
6.03% due in semi-annual payments of $15,454, including interest through January, 2027.	351,642	360,924
6.03% due in semi-annual payments of $10,084, including interest through January, 2027.	229,457	235,514
6.03% due in semi-annual payments of $17,014, including interest through January, 2027.	387,131	397,350
5.15% due in semi-annual payments of $3,230, including interest through July, 2028	82,312	84,450
4.40% due in semi-annual payments of $56,999, including interest through July, 2028.	1,552,131	1,596,371
4.66% due in semi-annual payments of $32,573, including interest through July, 2029.	890,547	913,390
	11,072,544	11,570,294
Less: current maturities	(531,724)	(497,750)
TOTAL OWDA NOTES PAYABLE	$ 10,540,820	$ 11,072,544

6. LONG-TERM DEBT – CONTINUED

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

	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007	Amount Due Within One Year
O.W.D.A.	$ 11,570,294	$ -	$ 497,750	$ 11,072,544	$ 531,724
Rural Development	4,840,000	-	46,600	4,793,400	48,600
National City Loan	-	1,600,000	-	1,600,000	80,000
	$ 16,410,294	$ 1,600,000	$ 544,350	$ 17,465,944	$ 660,324

Maturities of the District's debt for the years subsequent to December 31, 2007 are as follows:

	Ohio Water Development Authority Loans			Rural Development Mortgage Revenue Bonds		
	Principal	Interest*	Total	Principal	Interest*	Total
2008	$ 531,724	$ 685,427	$ 1,217,151	$ 48,600	$ 209,711	$ 258,311
2009	568,096	649,056	1,217,152	50,800	207,585	258,385
2010	607,039	610,050	1,217,089	53,000	205,363	258,363
2011	648,740	568,411	1,217,151	55,300	203,044	258,344
2012	693,401	523,750	1,217,151	57,700	200,624	258,324
2013-2017	3,286,553	1,866,626	5,153,179	328,800	962,973	1,291,773
2018-2022	2,396,253	1,004,519	3,400,772	407,200	884,472	1,291,672
2023-2027	2,101,134	364,480	2,465,614	504,500	787,246	1,291,746
2028-2032	239,604	11,144	250,748	624,900	666,803	1,291,703
2033-2037	-	-	-	774,100	517,606	1,291,706
2038-2042	-	-	-	959,000	332,793	1,291,793
2043-2046	-	-	-	929,500	103,841	1,033,341
	$ 11,072,544	$ 6,283,463	$ 17,356,007	$ 4,793,400	$ 5,282,061	$ 10,075,461

	National City Loan			Total		
	Principal	Interest	Total	Principal	Interest	Total
2008	$ 80,000	$ 37,593	$ 117,593	$ 660,324	$ 932,731	$ 1,593,055
2009	160,000	64,528	224,528	778,896	921,169	1,700,065
2010	160,000	57,552	217,552	820,039	872,965	1,693,004
2011	160,000	50,576	210,576	864,040	822,031	1,686,071
2012	160,000	43,600	203,600	911,101	767,974	1,679,075
2013-2017	800,000	113,360	913,360	4,415,353	2,942,959	7,358,312
2018-2022	80,000	1,744	81,744	2,883,453	1,890,735	4,774,188
2023-2027	-	-	-	2,605,634	1,151,726	3,757,360
2028-2032	-	-	-	864,504	677,947	1,542,451
2033-2037	-	-	-	774,100	517,606	1,291,706
2038-2042	-	-	-	959,000	332,793	1,291,793
2043-2046	-	-	-	929,500	103,841	1,033,341
	$ 1,600,000	$ 368,953	$ 1,968,953	$ 17,465,944	$ 11,934,477	$ 29,400,421

6. LONG-TERM DEBT – CONTINUED

Maturities in the years vary from year to year as new disbursements are added to the existing loans resulting in a change in balance, payments and interest.

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

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

During fiscal year 2007, the District obtained a National City Bank loan in the amount of $1,600,000 for the purpose of Blacklick sanitary sewer improvements. The terms of the loan are an interest rate of 4.36% with a maturity date of 2018.

In connection with the mortgage revenue bonds and Ohio Water Development Authority loans, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds and loans are payable, through their final maturities, solely from net revenues applicable to its fund. The principal and interest remaining to be paid on these bonds and loans as of December 31, 2007 are $10,075,461 and $11,072,544, respectively. The coverage ratio at December 31, 2007 was 9.09.

7. CAPITAL LEASE OBLIGATIONS

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

Property and equipment acquired by lease have been capitalized as equipment in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded as obligations under capital leases on the balance sheet. Principal payments totaled $10,312 and $5,702 and interest payments totaled $403 and $1,178 during 2007 and 2006, respectively. The leases were paid in full during 2007.

8. CAPITAL CONTRIBUTIONS

Donated Developer Lines

The District received capital contributions in 2006 in the amount of $3,015,155. The capital contributions represent donated developer sewer and water lines. Once construction and inspection are final for developer sewer and water lines, lines are given/donated to the District and recorded at fair value, and the lines become operational.

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

Grants

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

Assessments

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

9. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

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

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

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

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

B. OPERS provides retirement, disability, and survivor benefits as well as post-retirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

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

D. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2007 and 2006, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2007 and 2006 member contribution rates were 9.5% and 9.0% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1% for both 2007 and 2006. Public safety division members contributed at and 9.75% for 2007 and 9% for 2006.

For local government employer units for 2007 and 2006, the rates were 13.85% and 13.70% of covered payroll respectively. For both the law enforcement and public safety divisions, the employer contribution rates for 2007 and 2006 were 17.17% and 16.93%, respectively.

The District's required contributions to OPERS for the years ended December 31, 2007, 2006 and 2005 were \$63,266, \$59,102, and \$52,995, respectively; 86% has been contributed for 2007 and 100% for 2006 and 2005.

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

A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as post-retirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-Employment health care coverage.

10. POST-EMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

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

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.85% and 13.7% of covered payroll for fiscal years 2007 and 2006, respectively. The portion of employer contributions allocated to health care was 5% from January 1 through June 30, 2007, 6% from July 1 through December 31, 2007, and 4.5% for 2006.

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 – 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, 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 4.0%, 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 costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

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

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 374,979 for 2007 and 362,120 for 2006.
2. The employer contributions that were used to fund post-employment benefits were $25,123 for 2007 and $17,409 for 2006.
3. $12.0 and $11.1 billion represent the actuarial value of OPERS' net assets available for OPEBs at December 31, 2006 and December 31, 2005, respectively.

10. POST-EMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM - CONTINUED

    4. The Actuarial Valuation as of December 31, 2006 reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at \$30.7 billion and \$18.7 billion, respectively. The actuarial valuation as of December 31, 2005 reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at \$31.3 billion and \$20.2 billion, respectively.

E. OPERS Retirement Board Implements its Health Care Preservation Plan

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was 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 the health care plan.

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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

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

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

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

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

11. DEPOSITS WITH FINANCIAL INSTITUTION – LEGAL REQUIREMENTS – CONTINUED

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

The District's deposit bank balances as of December 31, 2007 and 2006 were \$5,023,464 and \$3,714,379. The District's balances were either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

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

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

12. RISK MANAGEMENT – CONTINUED

Property Coverage

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

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

Financial Position

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.

	2007	2006
Assets	$37,560,071	$36,123,194
Liabilities	(17,340,825)	(16,738,904)
Retained Earnings	$20,219,246	$19,384,290

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

13. DEFERRED EXPENSE

The District is undergoing various sewer line projects in Columbus, Ohio. Before they could tap into the sewer lines, they were required to pay for this in advance. The amount of the payment charged to Jefferson Water and Sewer District was $1,375,250. The District's management estimates that it will take approximately five years to complete these projects. Therefore, rather than absorb the entire cost in June of 2003, the District elected to amortize the cost over the sixty-month period, expensing monthly an amount of $22,921. The total amounts expensed for 2007 and 2006 were $275,050 and $275,052, respectively.

14. NEW ACCOUNTING PRONOUNCEMENTS

For the year ended December 31, 2007, the District implemented Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and disclosure requirements for future revenues that are pledged or sold. The implementation of this statement had no effect on previously reported net assets.

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

15. RESTATEMENT OF NET ASSETS

A restatement was made to correct errors in prior years' deferred revenue. This restatement had the following effect on net assets:

Net Assets December 31, 2005	$	8,155,873
Restatement Amount		1,248,382
Net Assets January 1, 2006	$	9,404,255

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

We have audited the financial statements of the business-type activities of the Jefferson Water and Sewer District, Franklin County, (the District), as of and for the years ended December 31, 2007 and 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2008, wherein we noted the District implemented Governmental Accounting Standard 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Internal Control Over Financial Reporting (Continued)

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe finding number 2007-1 is also a material weakness.

We also noted certain internal control matters that we reported to the District' management in a separate report dated August 31, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-2.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated August 31, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District' responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and members of the Board. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
August 31, 2008

Finding 2007-1

Material Weakness – Internal Controls Over Financial Reporting

Financial statement misstatements were identified during the audit that should have been prevented or detected by the District's internal controls over financial reporting. Misstatements in prior balances were identified by District's management which required correction of previously reported balances. Misstatements were identified within the following balances:

- Proceeds from insurance and related loss on capital asset.
- Prior period deferred revenue balances.

The accompanying financial statements were adjusted to reflect correction of these misstatements. The District should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported and that erroneous transactions are timely identified and corrected.

Client Response:
Developer went bankrupt and the District realized prior year receivables recorded would not be recognized in future years. Adjusted net assets to reflect adjustment to receivable not realized in future years due to bankrupt developer. In a prior year the receivable was reversed off when the developer went bankrupt and the District identified it would not receive those receivables. However, the related deferred revenue was not removed, so the prior period adjustment recognized in 2007 was to remove that deferred revenue portion.

Finding 2007-2

Material Noncompliance – Proper Encumbrance of Funds

Ohio Revised Code Section 5705.41(D) states "No orders or contracts involving the expenditure of money are to 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 utilize a proper encumbrance system, such as the use of purchase orders, for all expenditures nor did they issue then and now certificates for the period ended December 31, 2007. During the audit period the District issued a single super blanket purchase order that was to cover most all expenditures throughout the audit period. It was noticed in several cases that the expenditures covered under the super blanket did not meet the criteria under Ohio Revised Code. The District should adopt an appropriate encumbrance system.

Client Response:
The District's fiscal officer certifies that appropriate funds are available prior to entering into contracts or expending funds via "super blanket". The super blanket is issued by "type of purchase" within the specified fund: personnel/benefits, administration, plant operations, debt service, and capital expenditures. Upon additional discussion with the audit firm, the District received further clarification as to how blanket certificates and super blanket certificates can and should be used. The District will review its current processes to implement the auditors' suggestions and will consult with its accountants as unexpected situations arise to ensure compliance with this requirement.

Mary Taylor, CPA
Auditor of State

JEFFERSON WATER AND SEWER DISTRICT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 6, 2008

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