

Jefferson Water and Sewer District

Franklin County

Regular Audit

July 1, 2001-June 30, 2003

Fiscal Years Audited Under GAGAS: 2003 & 2002

**BALESTRA, HARR & SCHERER CPAs, INC.**

CERTIFIED PUBLIC ACCOUNTANTS  
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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Jefferson Water and Sewer District  
P.O. Box 116  
Blacklick, OH 43004

We have reviewed the Independent Auditor's Report of the Jefferson Water and Sewer District, Franklin County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2001 through June 30, 2003. 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.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

August 19, 2004

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JEFFERSON WATER AND SEWER DISTRICT  
FRANKLIN COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditors' Report	1
General Purpose Financial Statements:	
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Net Assets	3
Statements of Cash Flows	4-5
Notes to General Purpose Financial Statements	6-15
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	16-17
Schedule of Findings	18-20
Schedule of Prior Audit Findings	21

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Board of Trustees  
Jefferson Water and Sewer District  
P.O. Box 116  
Blacklick, Ohio 43004

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the Jefferson Water and Sewer District (the District), Franklin County, as of and for the years ended June 30, 2003 and 2002. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Jefferson Water and Sewer District, as of June 30, 2003 and 2002, and the results of its operations and cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2004 on our consideration of the District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Balestra, Harr & Scherer CPAs, Inc.  
Balestra, Harr & Scherer CPAs, Inc.

February 12, 2004

**JEFFERSON WATER AND SEWER DISTRICT  
BALANCE SHEETS  
JUNE 30, 2003 AND 2002**

	2003	2002
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$1,254,238	\$141,110
Accounts receivable	\$98,231	\$145,467
Current portion of notes receivable	\$21,697	\$16,040
Current portion of notes receivable - tap fees	\$1,196,030	\$752,590
Current portion of deferred expense	\$250,050	\$0
TOTAL CURRENT ASSETS	\$2,820,246	\$1,055,207
<b>RESTRICTED ASSETS</b>		
Water assessments receivable	\$453,915	\$469,755
Sewer assessments receivable	\$66,849	\$69,282
TOTAL RESTRICTED ASSETS	\$520,764	\$539,037
<b>PROPERTY AND EQUIPMENT - net</b>	\$13,340,062	\$13,197,637
<b>OTHER ASSETS</b>		
Notes receivable less current portion	\$2,780	\$9,362
Notes receivable less current portion - tap fees	\$3,684,292	\$3,538,172
Prepaid expense	\$14,210	\$4,330
Deferred expense less current portion	\$1,102,279	\$0
Workers compensation deposit	\$0	\$763
Loan fees - net of amortization	\$15,987	\$16,348
TOTAL OTHER ASSETS	\$4,819,548	\$3,568,975
<b>TOTAL ASSETS</b>	\$21,500,620	\$18,360,856
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long term debt	\$395,962	\$405,032
Current portion of capital lease	\$12,391	\$20,851
Accounts payable	\$189,955	\$186,695
Current portion of deferred revenue - tap fees	\$964,164	\$959,982
Accrued and withholding payroll expenses	\$30,741	\$32,469
TOTAL CURRENT LIABILITIES	\$1,593,213	\$1,605,029
<b>LONG TERM LIABILITIES</b>		
Capital lease less current portion	\$25,394	\$38,412
Long term debt less current portion	\$11,365,889	\$10,473,902
Deferred revenue less current portion - tap fees	\$4,860,264	\$3,538,172
TOTAL LONG TERM LIABILITIES	\$16,251,547	\$14,050,486
<b>NET ASSETS</b>		
Grants	\$675,653	\$675,653
Assessments	\$1,104,804	\$1,104,804
Donated Assets	\$2,396,532	\$2,396,532
Fund equity (deficit)	(\$521,129)	(\$1,471,648)
TOTAL NET ASSETS	\$3,655,860	\$2,705,341
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$21,500,620	\$18,360,856

See accompanying notes to the financial statements.

**JEFFERSON WATER AND SEWER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002
OPERATING REVENUES		
Charges for services	\$1,691,279	\$1,295,067
Water tap fees	\$1,534,336	\$537,340
Miscellaneous income	\$6,658	\$6,025
TOTAL OPERATING REVENUES	\$3,232,273	\$1,838,432
OPERATING EXPENSES		
Plant operations	\$563,145	\$468,320
Salaries and payroll related expenses	\$393,409	\$396,799
General and administration expenses	\$126,025	\$206,033
Depreciation	\$537,751	\$458,558
TOTAL OPERATING EXPENSES	\$1,620,330	\$1,529,710
OPERATING INCOME (LOSS)	\$1,611,943	\$308,722
OTHER INCOME AND (EXPENSES)		
Interest income	\$70,042	\$41,160
Interest expense	(\$731,466)	(\$620,613)
TOTAL INCOME (EXPENSES)	(\$661,424)	(\$579,453)
INCREASE (DECREASE) IN NET ASSETS	\$950,519	(\$270,731)
NET ASSETS, BEGINNING OF YEAR	\$2,705,341	\$2,976,072
NET ASSETS, END OF YEAR	\$3,655,860	\$2,705,341

See accompanying notes to the financial statements.

**JEFFERSON WATER AND SEWER DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$4,035,786	\$1,917,445
Cash payments to suppliers for goods and services	(\$2,039,675)	(\$1,044,634)
Cash payments for employee services and benefits	(\$395,137)	(\$377,985)
	\$1,600,974	\$494,826
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Interest received on tap agreements	\$26,400	\$34,152
Interest received on bank accounts	\$43,642	\$7,008
	\$70,042	\$41,160
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Construction of water and sewer projects	(\$702,324)	(\$1,776,349)
Principal payments on construction loans	(\$1,009,297)	(\$294,279)
Payments on computer and lease	(\$21,478)	(\$8,494)
Interest payment on notes	(\$715,669)	(\$629,982)
Proceeds from construction loans	\$1,892,214	\$1,663,771
Interest payments on capital lease	(\$1,334)	(\$3,263)
	(\$557,888)	(\$1,048,596)
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(\$557,888)	(\$1,048,596)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$1,113,128	(\$512,610)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	\$141,110	\$653,720
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	\$1,254,238	\$141,110

See accompanying notes to the financial statements.

Continued

**JEFFERSON WATER AND SEWER DISTRICT  
STATEMENTS OF CASH FLOWS - CONTINUED  
YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$1,611,943	\$308,722
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	\$537,751	\$458,558
Amortization	\$7,685	\$9,753
	\$545,436	\$468,311
CHANGES IN NET ASSETS AND LIABILITIES		
Accounts receivable	\$48,360	(\$9,321)
Water and sewer receivable	\$18,273	\$19,487
Prepaid/Deferred Expense	(\$1,362,209)	(\$3,347)
Notes Receivable	(\$588,635)	\$13,747
Accounts payable	\$3,260	(\$358,687)
Deferred Income - Tap Fees	\$1,326,274	\$37,100
Accrued payroll and withheld taxes	(\$1,728)	\$18,814
	(\$556,405)	(\$282,207)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$1,600,974	\$494,826

See accompanying notes to the financial statements.

**JEFFERSON WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2003 and 2002**

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 6119.01 of the Ohio Revised Code. The District is managed by a Board comprised of five appointed trustees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements conform to accounting principles generally accepted in the United States of America for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. Under the guidelines of GASB 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. The adoption of this approach to accounting for proprietary activities by the District required no change from prior years. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

Basis of Presentation – Fund Accounting

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

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

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

Basis of Accounting

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

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the year ended June 30, 2003, has adopted 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.

**JEFFERSON WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2003 and 2002**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

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

Accounts Receivable

Accounts receivable are shown at their net realizable value. The direct write-off method is used to record bad debts. Uncollectible accounts receivable are charged to operations during the period in which they are determined to be uncollectible. The results of using the direct write-off method closely approximates 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 June 30, 2003, are recorded as prepaid expenses using the consumption method. An asset for prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which services are consumed.

Property, Plant and Equipment

Property, plant and equipment are stated at cost (except as noted in the next paragraph with respect to donated developer lines) and are depreciated over the estimated useful lives of the assets from 5 years to 50 years depending upon the type of asset.

Donated developer lines are stated at fair value based on developer documentation, and are depreciated over 50 years, which represents the estimated useful lives of the assets. Refer also to Note 1 – Contributed Capital from Donated Developer Lines.

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

Amortization

Loan fees are being amortized over sixty months beginning with the date of the first payment of each loan. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan fees amortization expense charged to operations for the years ended June 30, 2003 and 2002 were \$9,753 and \$7,685, 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 June 30, 2002 and 2003 represents the interest portion of construction loan payments to the Ohio Water Development Authority in the amount of \$617,350 and \$730,132 and the vehicle/equipment lease payments are \$3,263 and \$1,334, respectively.

**JEFFERSON WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2003 and 2002**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributed Capital

The District recognized as contributed capital, grants received for construction costs, special assessments to customers for construction costs, and donated assets from developers (See Note 8) prior to implementing GASB Statement No.33.

Estimates

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

Board Designated Cash Fund

The Board of Trustees allocates \$1,500 each year, via resolution, for expenditures to be designated by the Trustee. This procedure is in accordance with the Ohio Revised Code. Board discretionary expenditures for the fiscal year ended June 30, 2002 was \$1,048 and was approved as bills were paid individually. There were no board discretionary expenditures for the fiscal year ended June 30, 2003.

3. RECEIVABLES

Accounts receivable are presented at their net realizable value of \$98,231 and \$145,467 as of June 30, 2003 and 2002.

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. PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant and equipment at June 30, 2003 and 2002:

	2003	2002
Land and land easment	\$ 595,686	\$ 587,086
Buildings	1,231,498	1,186,658
Furniture and general equipment	247,921	210,606
Planning and construction	12,454,416	11,864,996
Vehicles	81,783	81,783
Donated assets	2,384,602	2,384,602
	16,995,906	16,315,731
Less: Accumulated depreciation	(3,655,844)	(3,118,094)
<b>TOTALS</b>	<b>\$ 13,340,062</b>	<b>\$ 13,197,637</b>

Included in the planning and construction amount above is construction in progress of \$366,208 for fiscal year ended June 30, 2002.

**JEFFERSON WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2003 and 2002**

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 June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
2003	\$ -	\$ 752,590
2004	1,196,030	598,120
2005	956,792	682,992
2006	747,092	473,292
2007	747,092	473,292
2008	541,072	326,472
Thereafter	692,244	984,004
	<u>4,880,322</u>	<u>4,290,762</u>
Current Portion of Notes Receivable	<u>(1,196,030)</u>	<u>(752,590)</u>
	<u>\$ 3,684,292</u>	<u>\$ 3,538,172</u>

6. NOTES PAYABLE

Notes payable related to construction of the District's infrastructure consist of the following notes payable to the Ohio Water Development Authority for June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
8.05% due in semi-annual payments of \$71,302, including interest through July, 2015.	\$ 1,071,899	\$ 1,124,019
8.07% due in semi-annual payments of \$134,051, including interest through July, 2015.	2,013,088	2,110,845
7.50% due in semi-annual payments of \$12,431, including interest through July, 2015.	192,313	202,023
7.50% due in semi-annual payments of \$15,361, including interest through July, 2015.	237,645	249,644
7.21% due in semi-annual payments of \$12,396, including interest through July, 2018.	222,837	230,975

**JEFFERSON WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2003 and 2002**

6. NOTES PAYABLE - CONTINUED

	<u>2003</u>	<u>2002</u>
7.14% due in semi-annual payments of \$7,170, including interest through July, 2018.	129,458	134,215
6.51% due in semi-annual payments of \$9,856, including interest through July, 2022.	211,444	217,028
6.18% due in semi-annual payments of \$2,367, including interest through July 2022.	52,086	53,513
5.88% due in semi-annual payments of \$9,785, including interest through January, 2023.	223,541	229,609
5.66% due in semi-annual payments of \$16,119, including interest through January, 2025.	395,132	404,476
5.56% due in semi-annual payments of \$22,440, including interest through January, 2025.	558,932	572,180
5.77% due in semi-annual payments of \$9,067, including interest through January, 2025.	221,774	206,806
5.85% due in semi-annual payments of \$7,797, including interest through January, 2021.	167,959	173,408
6.72% due in semi-annual payments of \$25,478, including interest through January, 2021.	515,192	530,498
6.16% due in semi-annual payments of \$18,861, including interest through January, 2020.	383,897	397,155
6.41% due in semi-annual payments of \$4,668, including interest through January, 2027.	112,570	114,592
6.39% due in semi-annual payments of \$12,930, including interest through January, 2027.	312,411	317,503
6.39% due in semi-annual payments of \$3,384, including interest through January, 2027.	82,488	83,914
6.39% due in semi-annual payments of \$12,877, including interest through July, 2026.	311,123	292,287
6.03% due in semi-annual payments of \$74,816, including interest through January, 2027.	1,591,339	1,510,977

**JEFFERSON WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2003 and 2002**

6. NOTES PAYABLE – CONTINUED

	2003	2002
6.03% due in semi -annual payments of \$15,454, including interest through January, 2027.	385,680	391,099
6.03% due in semi -annual payments of \$10,084, including interest through January, 2027.	251,667	256,054
6.03% due in semi -annual payments of \$17,014, including interest through January, 2027.	424,604	431,709
5.89% due in a balloon of \$320,730 payment, including interest through July, 2006. (Closed into a new loan.)	-	622,702
5.15% due in estimated semi-annual payments of \$3,398, including interest beginning January 1, 2004 through July 2028.	90,248	7,950
5.70% due in one lump sum payment on July 1, 2007. (Closed into a new loan.)	-	13,753
5.40% due in estimated annual equal payments of \$34,634 beginning 7/1/08 through 1/1/2013. (The amount of this loan is not fully disbursed. The total amount encumbered is \$300,008.)	49,344	-
4.40% due in estimated semi-annual payments of \$60,114 beginning 1/1/04 through 7/1/28. (The amount of this loan is not fully disbursed. The total amount encumbered is \$1,811,996.)	1,553,180	-
	11,761,851	10,878,934
Less: current maturities	(395,962)	(405,032)
<b>TOTAL NOTES PAYABLE</b>	<b>\$ 11,365,889</b>	<b>\$ 10,473,902</b>

Maturities of the Ohio Water Development Authority notes payable for the years subsequent to June 30, 2003 are as follows:

	Principal	Interest*	Total
2004	\$ 395,962	\$ 718,983	\$ 1,114,945
2005	423,139	686,964	1,110,103
2006	452,238	814,788	1,267,026
2007	483,400	640,737	1,124,137
2008	543,310	642,241	1,185,551
Thereafter	9,463,802	5,103,435	14,567,237
	<b>\$ 11,761,851</b>	<b>\$ 8,607,148</b>	<b>\$ 20,368,999</b>

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.

**JEFFERSON WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2003 and 2002**

6. NOTES PAYABLE – CONTINUED

\*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 is \$264,861.

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 \$21,478 and 9,852 and interest payments totaled \$1,334 and \$3,263 during 2003 and 2002, respectively. The District’s future minimum lease payments under capital lease obligations for the next four years are as follows:

	2003
2004	\$ 14,188
2005	9,348
2006	9,348
2007	8,888
TOTAL MINIMUM LEASE PAYMENTS	41,772
Less: amount representing interest	(3,987)
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	\$ 37,785

8. CONTRIBUTED CAPITAL

Contributed Capital consists of the following:

Grants

Grants have been issued in prior years to assist the District with construction and start-up costs.

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.

Donated Developer Lines

Once construction and inspection are final for developer water and sewer lines, lines are given/donated to the District and recorded at fair value, and the lines become operational.

9. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

The District participates in the Public Employees Retirement system of Ohio (“PERS”), a cost-sharing multi-employer defined benefit pension plan operated by the State. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy of the report by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

**JEFFERSON WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2003 and 2002**

9. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) - CONTINUED

Most plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations except for two exempt employees. Contributions are authorized by State statute. The contribution rates are determined actuarially. The District's required contributions to PERS for the year ended June 30, 2003, 2002 and 2001 was \$56,270, \$42,948 and \$34,888, respectively.

10. POSTEMPLOYMENT BENEFITS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution on OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate for 2003 was 13.55 percent of covered payroll, 0 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry are normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 402,041. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits are December 31, 2001 (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

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 two-year period of designation of depositories. Inactive deposits must be evidenced either by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

- a. 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;

**JEFFERSON WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2003 and 2002**

11. DEPOSITS WITH FINANCIAL INSTITUTION – LEGAL REQUIREMENTS – CONTINUED

- b. 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;
- c. 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;
- d. Bonds and other obligations of the State of Ohio;
- e. 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;
- f. The State Treasurer’s investment pool (STAR Ohio); and
- g. Certain bankers’ acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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.

The following are the carrying amount of deposits and their classifications at June 30, 2003:

The District carrying amount of deposits	\$ 1,254,238
Bank carrying amount of deposits	\$ 1,309,481
Insured by the FDIC	\$ 200,000
Collateralized by third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions	1,109,481
<b>TOTAL</b>	<b>\$ 1,309,481</b>

**JEFFERSON WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2003 and 2002**

11. DEPOSITS WITH FINANCIAL INSTITUTION – LEGAL REQUIREMENTS – CONTINUED

GASB Statement No. 3 *Deposits with Financial Institution, Investments and Reverse Repurchase Agreements* requires that local governments disclose the carrying amounts and market value of investments classified by risk. Category 1 includes investments that are insured or registered for which the securities are held in the counter party's trust department or agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counter party's, trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department but not in the District's name. The District had no investments at June 30, 2003.

12. RISK MANAGEMENT

The District contracted with The Public Entities Pool of Ohio for commercial general and public liability insurance. The coverage insures up to \$4,000,000 for each occurrence and \$12,000,000 for an aggregate total.

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. PAST DUE NOTES RECEIVABLES – TAP FEES

Management noted that some individuals are past due in payments of voluntary tap agreements. Management feels these are fully collectible and does not require an allowance for uncollectible account. The District stated that each recipient of water will be notified of the delinquencies and will be warned as to the possibility of having their water turned off.

14. 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 one year, they have elected to amortize the cost over the sixty-month period. In the fiscal year 2003, one month was expensed in the amount of \$22,921, leaving a balance of \$1,352,329, which is included in the total deferred expense of \$1,366,539.

15. CONTINGENCIES

The District is party to legal proceedings. The District's management is of the opinion that disposition of these proceedings will not have a material effect, if any, on the financial condition of the District.

# BALESTRA, HARR & SCHERER CPAs, INC.

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## **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Jefferson Water and Sewer District  
P.O. Box 116  
Blacklick, Ohio 43004

We have audited the general purpose financial statements of the Jefferson Water and Sewer District (the District), Franklin County, as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated February 12, 2004. 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.

### Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing and 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 five instances of noncompliance that are required to be reported under *Government Auditing Standard* which is described in the accompanying schedule of findings as items 2001-1813-001 through 2001-1813-002 and 2003-0212-001 through 2003-0212-003. We also noted other matters involving compliance which we have reported to the management in a separate letter dated February 12, 2004.

### 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 general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the general purpose 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to the management in a separate letter dated February 12, 2004.

Board of Trustees

Jefferson Water and Sewer District

Blacklick, Ohio 43004

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

Page 2

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

Balestra, Harr & Scherer CPAs, Inc.

Balestra, Harr & Scherer CPAs, Inc.

February 12, 2004

**SCHEDULE OF FINDINGS**

**JEFFERSON WATER & SEWER DISTRICT  
FRANKLIN COUNTY  
JUNE 30, 2003 AND 2002**

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

Finding Number	2001-1813-001
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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 purchase orders for all expenditures nor did they issued then and now certificates. The Districts expenditures for fiscal year July 1, 2002 through June 30, 2003 exceeded its appropriations. No appropriation measure was passed for fiscal year July 1, 2001 through June 30, 2002.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2001-1813-001	Appropriation measure was passed for the December 31, 2003 year end. Purchase orders were also implemented before the December 31, 2003 year end.	Corrected before the December 31, 2003 year end.	Mark Williams, Controller

Finding Number	2001-1813-002
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Ohio Revised Code Section 9.34 sets forth the fiscal years for government units. It also states that the fiscal year of every school library district and all political subdivisions or taxing districts except for school districts shall begin on January 1 and end on December 31. The District runs on a fiscal year of July 1 through June 30, but does not have an approval letter from the Auditor of State permitting this practice.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2001-1813-002	The December 31 fiscal year end was adopted before December 31, 2003 year end.	Corrected before the December 31, 2003 year end.	Mark Williams, Controller

**SCHEDULE OF FINDINGS**

**JEFFERSON WATER & SEWER DISTRICT  
FRANKLIN COUNTY  
JUNE 30, 2003 AND 2002**

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

Finding Number	2003-0212-001
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Ohio Revised Code Section 5705.28 states “On or before July 15 (January 15 for school districts), in each year, the taxing authority of each subdivision or other taxing unit is required to adopt a tax budget for the next succeeding fiscal year.” The District did not adopt a budget for the fiscal year ended June 30, 2002. The District adopted its fiscal year ended June 30, 2003 budget on June 20, 2003. The District has not adopted its fiscal year ended June 30, 2004 budget by the required January 15, 2003 date.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-0212-001	The District adopted a tax budget for fiscal year 2004 prior to the December 31 fiscal year end.	Corrected before the December 31, 2003 year end.	Mark Williams, Controller

Finding Number	2003-0212-002
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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 fiscal years July 1, 2001 through June 30, 2002 and July 1, 2003 through June 30, 2004. The District did not file fiscal year July 1, 2002 through June 30, 2003’s appropriation measure until June 20, 2003.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-0212-002	The District passed an appropriation measure for the years ended December 31 2003 and 2004 before the December 31, 2003 year end.	Corrected before the December 31, 2003 year end.	Mark Williams, Controller

**SCHEDULE OF FINDINGS**

**JEFFERSON WATER & SEWER DISTRICT  
FRANKLIN COUNTY  
JUNE 30, 2003 AND 2002**

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

Finding Number	2003-0212-003
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Ohio Revised Code Section 5705.41(B) states “No subdivision or taxing unit is to expend money unless it has been appropriated.” The District did not appropriate any of its fiscal year 7/1/2001 through 6/30/2002 funds.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-0212-003	The District did appropriate funds for the fiscal year 7/1/2002 through 6/30/2003.	Corrected before the December 31, 2003 year end.	Mark Williams, Controller

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

**JEFFERSON WATER & SEWER DISTRICT  
FRANKLIN COUNTY  
JUNE 30, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-1813-001	ORC, Section 5705.41(D)	No	Corrected prior to the December 31, 2003 year end. Original finding initiated in 2001.
2001-1813-002	ORC, Section 9.34	No	Corrected prior to the December 31, 2003 year end. Original finding initiated in 2001.
2001-1813-003	ORC, Section 117.38	No	Original finding initiated in 2001. See current year management letter comment.
2001-1813-004	ORC, Section 117.38	No	Original finding initiated in 2001. See current year management letter comment.
2001-1813-005	IRR, Section 1.61-21	Yes	
2001-1813-006	Lack of Cash Procedures	Yes	
2001-1813-007	Cash Disbursements	Yes	



**Auditor of State  
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**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  
AUGUST 31, 2004**