Jefferson Water and Sewer District

Franklin County

Regular Audit

July 1, 2003 through December 31, 2003

Fiscal Period Audited Under GAGAS: Six Month Period Ended

December 31, 2003

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
6455 Taylor Road
P.O. Box 116
Blacklick, Ohio 43004

We have reviewed the *Independent Auditor's Report* of the Jefferson Water and Sewer District, Franklin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2003 through December 31, 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

December 15, 2006

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Jefferson Water & Sewer District
Franklin County

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INDEPENDENT AUDITOR'S REPORT

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

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 six month period ended December 31, 2003. 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 December 31, 2003, and the results of its operations and cash flows for the six month period 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 June 30, 2006 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

Balestra, Harr & Scherer CPAs, Inc.

June 30, 2006

JEFFERSON WATER AND SEWER DISTRICT
BALANCE SHEET
AS OF DECEMBER 31, 2003

		2003
CURRENT ASSETS		
Cash and cash equivalents	$	1,866,955
Accounts receivable		149,416
Current portion of notes receivable		3,801
Current portion of notes receivable - tap fees		1,224,442
Current portion of deferred expense		137,103
TOTAL CURRENT ASSETS	$	3,381,717
RESTRICTED ASSETS		
Water assessments receivable		431,416
Sewer assessments receivable		65,989
TOTAL RESTRICTED ASSETS	$	497,405
PROPERTY AND EQUIPMENT - net		12,544,087
OTHER ASSETS		
Notes receivable less current portion		16,503
Notes receivable less current portion - tap fees		4,552,602
Prepaid expense		13,649
Deferred expense less current portion		1,078,684
Loan fees - net of amortization		13,042
TOTAL OTHER ASSETS	$	5,674,480
TOTAL ASSETS	$	22,097,689
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable		193,637
Current portion of capital lease		7,160
Current portion of long term debt		196,048
Current portion of deferred revenue - tap fees		843,644
Accrued and withholding payroll expenses		40,443
TOTAL CURRENT LIABILITIES	$	1,280,932
LONG TERM LIABILITIES		
Capital lease less current portion		24,038
Long term debt less current portion		11,774,976
Deferred revenues less current portion - tap fees		5,778,200
TOTAL LONG TERM LIABILITIES	$	17,577,214
NET ASSETS		
Donated Assets		2,396,532
Grants		675,653
Assessments		1,104,804
Fund Equity (Deficit)		(937,446)
TOTAL NET ASSETS	$	3,239,543
TOTAL LIABILITIES AND NET ASSETS	$	22,097,689

See accompanying notes to the financial statements.

JEFFERSON WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2003

	2003
OPERATING REVENUES	
Charges for services	$1,101,699
Water tap fees	869,718
Miscellaneous income	362
TOTAL OPERATING REVENUES	1,971,779
OPERATING EXPENSES	
Plant operations	732,028
Salaries and payroll related expenses	231,454
General and administration expenses	103,956
Depreciation	244,741
TOTAL OPERATING EXPENSES	1,312,179
OPERATING INCOME	659,600
OTHER INCOME AND (EXPENSES)	
Loss on disposal of assets	(529,124)
Interest income	45,401
Interest expense	(366,461)
TOTAL OTHER INCOME (EXPENSES)	(850,184)
INCREASE (DECREASE) IN NET ASSETS	(190,584)
NET ASSETS, BEGINNING OF YEAR (Restated)	3,430,127
NET ASSETS, END OF YEAR	$3,239,543

See accompanying notes to the financial statements.

JEFFERSON WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2003

	2003
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 1,825,461
Cash payments to suppliers for goods and services	(692,255)
Cash payments for employee services and benefits	(221,752)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	911,454
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on tap agreements	830
Interest received on bank accounts	44,571
NET CASH FROM INVESTING ACTIVITIES	45,401
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Construction of water and sewer projects	(230,130)
Principal payments on construction loans	(161,577)
Interest payments on construction loans	(365,496)
Principal payments on capital lease	(9,348)
Interest payments on capital lease	(965)
Proceeds from construction loans	423,378
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(344,138)
NET INCREASE IN CASH AND CASH EQUIVALENTS	612,717
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	1,254,238
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 1,866,955

See accompanying notes to the financial statements.

Continued

JEFFERSON WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS - CONTINUED
FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2003

		2003
RECONCILIATION OF OPERATING INCOME TO NET CASH		
PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$	659,600
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation		244,741
Amortization		2,944
CHANGES IN NET ASSETS AND LIABILITIES		
(Increase) decrease in accounts receivable		(51,185)
(Increase) decrease in notes receivable		(892,549)
(Increase) decrease in prepaid expense		561
(Increase) decrease in deferred expense		136,542
Increase (decrease) in accounts payable		3,682
Increase (decrease) in deferred income - tap fees		797,416
Increase (decrease) in accrued payroll and withheld taxes		9,702
TOTAL ADJUSTMENTS		251,854
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	911,454

See accompanying notes to the financial statements.

JEFFERSON WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Six Month Period Ended December 31, 2003

1. NATURE OF ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

<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.

<u>Basis of Accounting</u>
The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

<u>Budgetary Process</u>
The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the six month period ended December 31, 2003, has adopted and passed necessary appropriations and resolutions.

<u>Appropriations</u> – 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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

<u>Revenue Recognition</u>
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.

<u>Accounts Receivable</u>
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.

<u>Prepaid Expenses</u>
Payments made to vendors for services that will benefit periods beyond December 31, 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 when the services are consumed.

<u>Property, Plant and Equipment</u>
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 developers lines are stated at fair value based on developers' 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.

<u>Amortization</u>
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 six month period ended December 31, 2003 was $2,944.

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

<u>Statement of Cash Flows</u>
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.

<u>Interest Expense</u>
Interest expense for the six month period ended December 31, 2003 represents the interest portion of construction loan payments to the Ohio Water Development Authority in the amount of $365,496 and the vehicle/equipment lease payment of $965.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

<u>Contributed Capital</u>
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.

<u>Estimates</u>
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.

<u>Board Designated Cash Fund</u>
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 December 31, 2003 was $221 and were approved as bills and paid individually.

3. RECEIVABLES

Accounts receivable was presented at their net realizable value of $149,416 as of December 31, 2003.

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 December 31, 2003:

	2003
Land and land easements	$ 596,426
Buildings & Improvements	1,229,873
Furniture and general equipment	283,679
Planning & Construction	11,208,266
Construction in Progress	253,407
Vehicles & Accessories	81,789
Donated assets	2,384,602
	16,038,042
Less: Accumulated depreciation	(3,493,955)
TOTALS	$ 12,544,087

During the six month period ended December 31, 2003 the District disposed of a water treatment plant which resulted in a loss on the disposal of assets of $529,124.

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 2003:

	2003
2004	$ 1,387,472
2005	1,042,072
2006	1,157,072
2007	962,872
2008	750,272
Thereafter	493,787
Total Notes Receivable - Tap Fees	5,793,547
Current Portion of Notes Receivable	(1,224,442)
Notes Receivable - Tap Fees - Long Term	$ 4,569,105

6. NOTES PAYABLE

Notes payable related to construction of the District's infrastructure consist of the following notes payable to the Ohio Water Development Authority for December 31, 2003:

	2003
8.05% due in semi-annual payments of $71,302, including interest through July, 2015.	$ 1,043,741
8.07% due in semi-annual payments of $134,051, including interest through July, 2015.	1,960,266
7.50% due in semi-annual payments of $12,341, including interest through July, 2015.	187,094
7.50% due in semi-annual payments of $15,361, including interest through July, 2015.	231,196
7.21% due in semi-annual payments of $12,396, including interest through July, 2018.	218,474
7.14% due in semi-annual payments of $7,170, including interest through July, 2018.	126,909
6.51% due in semi-annual payments of $9,856, including interest through July, 2022.	208,470
6.18% due in semi-annual payments of $2,367, including interest through January 2022.	51,329
5.88% due in semi-annual payments of $9,785, including interest through January, 2023.	220,420
5.66% due in semi-annual payments of $16,119, including interest through January, 2025.	390,331

6. NOTES PAYABLE – CONTINUED

5.56% due in semi-annual payments of $22,440, including interest through January, 2025.	552,030
5.77% due in semi-annual payments of $9,067, including interest through January, 2025.	219,105
5.85% due in semi-annual payments of $7,797, including interest through January, 2021.	165,157
6.72% due in semi-annual payments of $25,478, including interest through January, 2021.	507,290
6.16% due in semi-annual payments of $18,861, including interest through January, 2020.	377,070
6.41% due in semi-annual payments of $4,667, including interest through January, 2027.	111,510
6.39% due in semi-annual payments of $12,930, including interest through January, 2027.	309,463
6.39% due in semi-annual payments of $3,383, including interest through January, 2027.	81,740
6.39% due in semi-annual payments of $12,877, including interest through January, 2027.	308,186
6.03% due in semi-annual payments of $64,884, including interest through January, 2027.	1,603,225
6.03% due in semi-annual payments of $15,454, including interest through January, 2027.	393,595
6.03% due in semi-annual payments of $10,084, including interest through January, 2027.	249,172
6.03% due in semi-annual payments of $17,014, including interest through January, 2027.	420,392
5.15% due in semi-annual payments of $3,230, beginning January 1, 2004 through July, 2028.	89,341
5.40% due in balloon payment in July, 2008.	246,614
4.40% due in semi-annual payments of $56,999 beginning January 1, 2004 through July, 2028.	1,698,904
	11,971,024
Less: current maturities	(196,048)
TOTAL NOTES PAYABLE	$ 11,774,976

6. NOTES PAYABLE – CONTINUED

Maturities of the Ohio Water Development Authority notes payable for the years subsequent to December 31, 2003 are as follows:

	Principal	Interest*	Total
2004	$ 196,044	$ 379,960	$ 576,004
2005	415,505	736,481	1,151,986
2006	444,196	697,810	1,142,006
2007	474,906	677,100	1,152,006
2008	507,403	644,203	1,151,606
Thereafter	9,932,968	5,096,619	15,029,587
TOTALS	$ 11,971,022	$ 8,232,173	$ 20,203,195

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 over the life of the loans is $264,861.

7. CAPITAL LEASE OBLIGATIONS

The District entered into agreements to lease trucks and computer equipment during prior fiscal years. 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 $9,348 and interest payments totaled $965 during 2003. The District's future minimum lease payments under capital lease obligations for the next four years are as follows:

	2003
2004	9,348
2005	9,348
2006	9,348
2007	8,093
TOTAL MINIMUM LEASE PAYMENTS	36,137
Less: amount representing interest	(4,939)
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	$ 31,198

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)

Ohio Public Employees Retirement System: All employees of the District participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans:

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

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

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

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. The Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contributions rates were consistent across all three plans (TP, MD, and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The employee contribution rates are 8.5% for employees other than law enforcement and public safety. The Law enforcement classification consists of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll. For both law enforcement and public safety, the employer rate was 16.70% of covered payroll.

The District’s contributions to the PERS of Ohio for the six month period ended December 31, 2003 were $23,169, while contributions for the fiscal years ended June 30, 2003 and 2002 were $56,270 and $42,948 respectively. These contributions were equal to the required contributions for the period and years, respectively.

10. POSTEMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System: Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple employer defined 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 defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying member of both the Traditional and the Combined Plans; however, health care benefits are not statutorilly guaranteed.

Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 1 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll, and 5% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2003. 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 the unfunded actuarial accrued liability. 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. The investment assumption rate for 2003 was 8%. An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years [9 and beyond], health care costs were assumed to increase at 4% [the projected wage inflation rate].

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants at December 31, 2003 was 369,885. During 2004, the portion of the District's contributions that were used to fund post-employment benefits was $4,714. As of December 31, 2003, the unaudited estimated net assets available for future OPEB payments were $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 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.

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS - CONTINUED

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;

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 Commerce National Bank.

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

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS - CONTINUED

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits - The carrying amount of the District's deposits as of December 31, 2003 was $1,123,887, and the bank balance was $1,127,074. Of the bank balance:

1. $200,000 was covered by federal depository insurance; and

2. $927,074 was collateralized by pledged collateral held by a third party trustee in the name of the District.

Investments – The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty'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 counterparty, or by its trust department or agent but not in the District's name.

Balance as of December 31, 2003

	Category 3	**Carrying Amount**	**Fair Value**
Repurchase Agreements	$ 743,068	$ 743,068	$ 743,068

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

GASB 3 to GASB 9 Reconciliation

GASB 9 Balances	**Cash & Cash Equivalents 12/31/2003**	**Investments 12/31/2003**
GASB 9 Balance	$ 1,866,955	$ -
Repurchase Agreements	(743,068)	743,068
GASB 3	$ 1,123,887	$ 743,068

12. RISK MANAGEMENT

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

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

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

Property Coverage

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

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

Financial Position

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, 2003.

	2003
Casualty Coverage:	
Assets	$25,288,098
Liabilities	(12,872,985)
Retained Earnings	$12,415,113
Property Coverage:	
Assets	$3,158,813
Liabilities	(792,061)
Retained Earnings	$2,366,752

The District has not incurred significant reductions in insurance coverage from the prior year by major category of risk. Settled claims resulting from these risks have not exceeded insurance coverage in the past six month period ended December 31, 2003 or the previous two fiscal 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 has elected to amortize the cost over the sixty-month period, expensing monthly an amount of $22,921. The total amounts expensed for the six month period ended December 31, 2003 was $137,525.

14. RESTATEMENT OF BEGINNING BALANCES

Restatement of Net Assets In the prior year, accumulated depreciation was misstated due to an error in calculation and tap fees were misstated due to an error in calculation. The beginning net assets was restated due to these corrections of errors. These restatements had the following effect on net assets as it was previously reported as of June 30, 2003:

Net Assets at June 30, 2003	$ 3,655,860
Restatements due to:	
Tap Fee Error	134,380
Accumulated Depreciation Error	(360,113)
Net Assets at June 30, 2003 (As Restated)	$ 3,430,127

The District changed their fiscal year end from June 30 to December 31 which resulted in a six month stub period for which these financial statements are presented. This change in fiscal year did not have any effect on the net assets of the District as of June 30, 2003.

15. NEW ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board has issued GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*. The phase-in period of this accounting principle will require the District to implement the change for the year ended December 31, 2004. The District is preparing for this change in accounting principle, but has elected not to early implement it for the six month period ended December 31, 2003.

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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 & 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 six month period ended December 31, 2003, and have issued our report thereon dated June 30, 2006. 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 District6'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards.* We noted other matters involving compliance which we have reported to the management in a separate letter dated June 30, 2006.

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.

We noted other matters involving internal control over financial reporting, which we have reported to the management of the District in a separate letter dated June 30, 2006.

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

June 30, 2006

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

FINDING NUMBER	None

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-1813-001	Ohio Revised Code Section 5705.41(D) – Prior certification of funds by fiscal officer	No	Corrected prior to the December 31, 2003 year end. Original finding initiated in 2001. There were still some instances of noncompliance noted which are now addressed in the management letter.
2001-1813-002	Ohio Revised Code Section 9.34	Yes	
2003-0212-001	Ohio Revised Code Section 5705.28 – Adoption of tax budget	Yes	
2003-0212-002	Ohio Revised Code Section 5705.38 – Adoption of appropriations	No	The District passed an appropriation measure; however, it was not done at the beginning of the six month fiscal period. This was addressed in the management letter.
2003-0212-003	Ohio Revised Code Section 5705.41(B) – Expending money prior to adoption of appropriation measure.	No	The District passed an appropriation measure; however, it was not done at the beginning of the six month fiscal period. This was addressed in the management letter.

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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
DECEMBER 28, 2006