

Adams County Regional Water District

Adams County, Ohio

Regular Audit

January 1, 2006 through December 31, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Adams County Regional Water District, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 22, 2007

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Adams County Regional Water District
Adams County, Ohio
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For the Years Ended December 31, 2006 and 2005

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Adams County Regional Water District (the District), Adams County, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2006 and 2005, and the results of its operations and its cash flows thereof, for the years ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Adams County Regional Water District
Independent Auditor's Report
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As described in Note 15, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

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

Balestra, Harr & Scherer, CPAs, Inc.
April 13, 2007

Adams County Regional Water District
Adams County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005

The following discussion provides a summary overview of the financial activities of the Adams County Regional Water District ("the District") for the years ended December 31, 2006 and 2005. The information should be read in conjunction with the basic financial statements and the notes to those statements included in this report.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 issued June 1999. Certain comparative information between the current year and the prior years is required to be presented and is presented in the MD&A.

Financial Highlights

- Assets exceeded liabilities by \$5,666,612 as of December 31, 2006 and by \$5,769,636 as of December 31, 2005.
- Net assets decreased by \$103,024 in 2006 and by \$183,363 in 2005.
- Operating revenues decreased by \$14,150 (.5%) in 2006 and increased by \$283,570 in 2005. Operating and maintenance expenses increased by \$30,352 (1.9%) in 2006 and \$92,344 (3.2%) in 2005.
- Retirements of debt principal totaled \$568,692 in 2006 and \$531,906 in 2005. There were no additions in 2006. There was \$144,000 in additions in 2005.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Assets present the District's financial position and report the resources owned by the District (assets), obligations owed by the District (liabilities) and the District's net assets (the difference between assets and liabilities). They provide a way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statements of Revenues, Expenses and Changes in Net Assets present a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. These statements measure the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees.

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

The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

Adams County Regional Water District
Adams County, Ohio
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Financial Analysis of the District's Financial Position and Results of Operations

The tables below provide a summary of the District's financial position and operations for 2006, 2005 and 2004, respectively.

Table 1
Condensed Statement of Net Assets
December 31

	2006	2005	2004
<u>Assets</u>			
Current & other assets	\$4,406,047	\$4,189,491	\$3,955,588
Capital assets, net	17,037,196	17,706,800	18,494,231
Total assets	21,443,243	21,896,291	22,449,819
<u>Liabilities</u>			
Current liabilities	1,457,879	1,212,250	1,145,372
Long-term liabilities	14,318,752	14,914,405	15,351,448
Total liabilities	15,776,631	16,126,655	16,496,820
<u>Net Assets</u>			
Invested in capital assets,			
of related debt	2,122,791	2,223,703	2,623,228
Restricted for debt service	388,347	365,937	365,977
Unrestricted	3,155,474	3,179,996	2,963,794
Total net assets	\$5,666,612	\$5,769,636	\$5,952,999

As noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$5,666,612 as of December 31, 2006, of which \$2,122,791 is invested in capital assets, net of related debt; compared to an excess of \$5,769,636 as of December 31, 2005.

The largest portion of the District's net assets is reflected in its cash and certificates of deposit, and its capital assets, less accumulated depreciation and related debt outstanding. The District strives to keep adequate cash reserves on hand in order to maintain or expand its facilities to meet the needs of its customers and to comply with regulatory requirements.

For the years ended December 31, 2006 and 2005, respectively, total assets of the District decreased by \$453,048 and \$553,528 due to the difference between capital asset additions and depreciation. Total liabilities as of December 31, 2006 and 2005 decreased by \$350,024 and \$370,165, respectively; due mainly to retirement of debt.

Adams County Regional Water District
Adams County, Ohio
Management's Discussion and Analysis
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The following table summarizes the changes in revenues, expenses, and net assets for the District between 2006, 2005 and 2004:

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

	2006	2005	2004
<u>Operating revenue</u>			
Sales to customers	\$2,260,934	\$2,278,783	\$1,862,346
Sales to public authorities	692,543	701,441	671,085
Other revenues	96,121	83,524	246,747
Total operating revenue	3,049,598	3,063,748	2,780,178
<u>Nonoperating revenue</u>			
Tap fee revenue	220,900	232,100	197,600
Interest income	127,330	76,629	60,528
Total nonoperating revenue	348,230	308,729	258,128
Total revenue	3,397,828	3,372,477	3,038,306
<u>Operating expenses</u>			
Operations	1,396,530	1,405,503	1,366,090
Maintenance	197,534	158,210	149,012
Depreciation and amortization	1,259,841	1,234,790	1,191,055
Total operating expense	2,853,905	2,798,503	2,706,157
<u>Nonoperating expenses</u>			
Interest expense	764,827	789,752	810,169
Loss on disposal of assets	8,978	5,226	0
Total nonoperating expenses	773,805	794,978	810,169
Total expenses	3,627,710	3,593,481	3,516,326
<u>Loss before contributions</u>	(229,882)	(221,004)	(478,020)
Capital contributions	126,858	37,641	95,648
Change in net assets	(\$103,024)	(\$183,363)	(\$382,372)

Operating revenues consist of user charges for water consumption. Operating expenses reflect the cost of providing these services. For the years ended December 31, 2006 and 2005:

- Operating revenue decreased by \$14,150 (-0.5%) in 2006 and increased \$283,570 (10.2%) in 2005.
- Non-operating revenues increased by \$39,501 (12.8%) in 2006 due to an increase in the interest earned on funds and increased \$50,601 (19.6%) in 2005 due to an increase in tap fees collected.
- Operating expenses increased by \$55,402 (2.0%) in 2006 and \$92,344 (3.2%) in 2005 due to an increase in depreciation and maintenance of capital assets. Total expenses increased by \$34,229 (0.1%) in 2006 and \$77,155 in 2005.

Adams County Regional Water District
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For the Years Ended December 31, 2006 and 2005

Capital contributions from customers increased by \$89,217 (237%) in 2006 and decreased by \$58,007 (60.6%) in 2005. These contributions are provided by customers and grants from various agencies and are used to help cover the costs of line extensions.

Capital Assets

As of December 31, 2006 and 2005, respectively, the District had \$17,037,196 and \$17,706,800 invested in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$669,604 (3.8%) in 2006 and \$787,431 (4.3%) in 2005.

Table 3
Capital Assets
December 31

	2006	2005	2004
Land and improvements	\$448,400	\$446,900	\$438,731
Construction in progress	55,953	22,835	264,496
Buildings	514,556	543,829	533,700
Wells and wellfield improvements	1,338,879	1,333,709	1,313,709
Mains, lines and meters	23,903,601	23,657,718	23,265,960
Storage tanks	1,944,582	1,643,816	1,548,521
Water treatment & other equipment	1,192,346	1,183,772	1,163,683
Less: Accumulated depreciation	(12,361,121)	(11,125,779)	(10,034,569)
Totals	<u>\$17,037,196</u>	<u>\$17,706,800</u>	<u>\$18,494,231</u>

Major additions in 2006 and 2005 at cost included:

	<u>2006</u>	<u>2005</u>
Line extension	\$245,883	\$393,760
Coon Hill Tank Rehab	235,400	0
Heidi Lane Booster Station	46,948	0
Generator	16,391	0
Rehab of Pumpkin Ridge tank	0	92,500
Case loader backhoe	0	59,473
Eager Beaver trailer	0	15,624
Sullair air compressor	0	10,980
2006 International dump truck	0	60,883
Wellfield electrical pedestal painting	0	20,000
	<u>\$544,622</u>	<u>\$653,220</u>

Major dispositions in 2006 and 2005, at cost included:

	<u>2006</u>	<u>2005</u>
Bentonville Booster Station	\$29,273	\$0
Prime pit and controls	0	16,061
Softening equipment	0	56,563
Control equipment	0	31,257
	<u>\$29,273</u>	<u>\$103,881</u>

Additional information on the District's capital assets can be found in Note 8 to the financial statements.

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Adams County, Ohio
Management's Discussion and Analysis
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Debt Administration

The District finances its construction primarily through the issuance of revenue bonds or through low interest loan programs with the State of Ohio. At December 31, 2006, the District had total debt outstanding of \$14,914,405 compared to \$15,483,097 at December 31, 2005 and \$15,871,003 at December 31, 2004. This represents a decrease of \$568,692 and \$387,906, respectively, from payments on principal of the debt.

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

Economic Factors and 2006 Budget

Adams County Regional Water District increased service rates, which went into effect on January 1, 2005, and no retail rate increase is scheduled for 2007. The service area of the District continues to grow. One hundred sixty-nine tap fees were paid in 2006. The District is encouraging more rural customers to come on line by allowing the customers, should an extension be feasible, to pay for the material costs of a line extension over a period of several years as a facility charge on their monthly bill. Two hundred-fifty to three hundred new customers are expected over the next two years.

The operating budget for 2007 is \$3,723,130, which is \$48,288 more than the 2006 budget due to expected increased costs for capital improvements, equipment, and operating and maintenance costs. Scheduled capital improvements include the exterior and interior painting of the District's 50,000-gallon Clayton Tank, a major water line upgrade to increase water delivery to the Old State Road area, a line extension on Coffee Hollow Road, and a 12" line extension to serve the Village of Seaman and the new Adams County Hospital, as well as budgeting for materials for facility-charge funded line extensions. Due to the high costs of these improvements, it is anticipated that the District will be using up to \$400,000 of its cash assets to help fund these necessary projects.

Contacting the District's Financial Management

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

Adams County Regional Water District

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$1,707,348	\$1,661,291
Certificates of deposit	1,484,314	1,387,780
Accounts receivable:		
Customers, net of allowance for doubtful accounts of \$11,201	416,535	435,277
Other receivables	73	1,957
Accrued interest receivable	44,334	57,460
Inventories	252,163	170,811
Prepaid expenses	59,093	52,032
Total current assets	<u>3,963,860</u>	<u>3,766,608</u>
NONCURRENT ASSETS		
Restricted cash and certificates of deposit	388,347	365,937
Deferred costs, net	53,840	56,946
Total noncurrent assets	<u>442,187</u>	<u>422,883</u>
CAPITAL ASSETS (at cost)		
Non depreciable capital assets		
Land	393,660	392,160
Construction in progress	55,953	22,835
Total non depreciable assets	<u>449,613</u>	<u>414,995</u>
Depreciable capital assets		
Land and land improvements	54,740	54,740
Buildings	514,556	543,829
Wells and wellfield improvements	1,338,879	1,333,709
Mains, lines and meters	23,903,601	23,657,718
Storage tanks	1,944,582	1,643,816
Water treatment and plant equipment	290,767	290,767
Trucks, tractors and radio equipment	819,705	817,623
Office furniture and equipment	81,874	75,382
Less: accumulated depreciation	(12,361,121)	(11,125,779)
Total depreciable capital assets	<u>16,587,583</u>	<u>17,291,805</u>
Total capital assets (net of depreciation)	<u>17,037,196</u>	<u>17,706,800</u>
Total noncurrent assets	<u>17,479,383</u>	<u>18,129,683</u>
Total assets	<u>\$21,443,243</u>	<u>\$21,896,291</u>

(Continued)

Adams County Regional Water District

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
CURRENT LIABILITIES		
Accounts payable	\$262,376	\$35,205
Accrued expenses	211,606	197,681
Accrued interest	358,494	373,122
Current portion of long-term debt	595,653	568,692
Customer deposits	29,750	37,550
Total current liabilities	<u>1,457,879</u>	<u>1,212,250</u>
LONG-TERM DEBT, less current portion	14,318,752	14,914,405
Total Liabilities	<u>15,776,631</u>	<u>16,126,655</u>
NET ASSETS		
Invested in capital assets, net of debt service	2,122,791	2,223,703
Restricted for debt service	388,347	365,937
Unrestricted net assets	3,155,474	3,179,996
Total net assets	<u>\$5,666,612</u>	<u>\$5,769,636</u>

See accompanying notes to the financial statements.

Adams County Regional Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Sales to customers	\$2,260,934	\$2,278,783
Sales to public authorities	692,543	701,441
Other revenues	96,121	83,524
Total operating revenues	<u>3,049,598</u>	<u>3,063,748</u>
OPERATING EXPENSES		
Salaries	689,605	672,265
Utilities	226,908	218,875
Depreciation expense	1,256,335	1,231,284
Amortization expense	3,506	3,506
Repairs	124,465	94,379
Truck expense	45,849	38,504
Supplies	27,220	25,326
Pension expense	120,552	116,709
Payroll taxes	26,696	27,746
Insurance	206,661	226,277
Office supplies and postage	28,161	25,478
Legal and engineering fees	9,041	4,251
Accounting fees	10,885	20,262
Director fees	24,025	25,150
Advertising	1,323	2,093
Bank charges	1,007	1,183
Bad debt expense	225	465
Other expenses	51,441	64,750
Total operating expenses	<u>2,853,905</u>	<u>2,798,503</u>
OPERATING INCOME	195,693	265,245
NONOPERATING REVENUES (EXPENSES)		
Tap fee revenue	220,900	232,100
Interest income	127,330	76,629
Interest expense	(764,827)	(789,752)
Loss on Disposal of Assets	(8,978)	(5,226)
Total nonoperating revenues (expenses)	<u>(425,575)</u>	<u>(486,249)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(229,882)	(221,004)
CAPITAL CONTRIBUTIONS	<u>126,858</u>	<u>37,641</u>
CHANGE IN NET ASSETS	(103,024)	(183,363)
NET ASSETS - BEGINNING OF YEAR	<u>5,769,636</u>	<u>5,952,999</u>
NET ASSETS - END OF YEAR	<u><u>\$5,666,612</u></u>	<u><u>\$5,769,636</u></u>

See accompanying notes to the financial statements.

Adams County Regional Water District
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$3,070,224	\$3,005,198
Cash payments to employees for services	(689,605)	(672,264)
Cash payments to suppliers for goods and services	(993,686)	(855,149)
	1,386,933	1,477,785
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income on investments	140,456	42,060
	140,456	42,060
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of operating facilities, including construction in progress and capitalized interest	(361,596)	(449,079)
Members tap fees	220,900	232,100
Borrowings on short term obligations	0	144,000
Payments on long term debt obligations	(568,692)	(531,906)
Proceeds from construction contributions	126,858	37,641
Interest paid on long term debt obligations	(779,858)	(802,156)
	(1,362,388)	(1,369,400)
NET INCREASE IN CASH AND CASH EQUIVALENTS	165,001	150,445
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,415,008	3,264,563
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$3,580,009	\$3,415,008
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$195,693	\$265,245
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,256,335	1,231,284
Amortization	3,506	3,506
Changes in assets and liabilities:		
Accounts receivable, customers and other	20,626	(58,546)
Inventories	(81,352)	(2,726)
Prepaid expenses	(7,061)	8,877
Accounts payable and other accrued expenses-excluding capital asset additions of \$234,110 in 2006 and \$12,404 in 2005	6,986	14,545
Customer deposits	(7,800)	15,600
	\$1,386,933	\$1,477,785

See accompanying notes to the financial statements.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 1. DESCRIPTION OF ENTITY

(a) Description of Operations

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

(b) Reporting Entity

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

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

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

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

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

(b) Cash and Cash Equivalents

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

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Inventories

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

(d) Deferred Financing Costs

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

(e) Capital Assets

Capital assets are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 2006 and 2005, no interest was capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments, over a \$1,000 threshold, are capitalized.

(f) Depreciation

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

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

(g) Estimates

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

(h) Customer Accounts Receivable

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

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Operating Revenues and Expenses

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

(j) Net Assets

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

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

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

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

Of the District's \$388,347 in restricted net assets, none was restricted by enabling legislation.

(k) Investments and Investment Policy

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

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

Note 3. RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

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

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 4. LONG-TERM DEBT

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

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

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

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2006, are as follows:

	Principal	Interest	Total
2007	\$595,653	\$753,540	\$1,349,193
2008	623,548	725,328	1,348,876
2009	562,442	695,729	1,258,171
2010	588,998	668,978	1,257,976
2011	617,193	640,780	1,257,973
2012-2016	3,528,166	2,722,706	6,250,872
2017-2021	4,105,254	1,774,739	5,879,993
2022-2026	4,172,651	656,565	4,829,216
2027-2031	70,300	21,060	91,360
2032-2036	50,200	4,585	54,785
	<u>\$14,914,405</u>	<u>\$8,664,010</u>	<u>\$23,578,415</u>

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 4. LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2006:

	Balance 12/31/2005	Additions	Payments	Balance 12/31/2006	Due Within One Year
1999 water revenue refunding bonds	\$1,821,900	\$0	\$151,200	\$1,670,700	\$159,200
2005 water revenue refunding bonds	144,000	0	11,900	132,100	12,300
Note payable to OWDA, payable in semiannual installments of \$342,839 starting January 1, 2002, including interest at 6.39%, due July, 2026.	7,866,602	0	185,926	7,680,676	197,996
Note payable to OWDA, payable in semiannual installments of \$66,981 starting January 1, 2000, including interest at 2%, due July, 2024.	2,100,343	0	91,955	2,008,388	93,794
Note payable to OWDA, payable in 50 semiannual installments of \$54,013 starting January 1, 2000, including interest at 5.86%, due July, 2024.	1,218,163	0	36,642	1,181,521	38,789
Note payable to OWDA, payable in 50 semiannual installments of \$25,260, starting July 1, 2000, including interest at 5.56%, due January, 2025	596,774	0	17,580	579,194	18,571
Note payable to OWDA, payable in 50 semiannual installments of \$53,061, starting July 1, 2000, including interest at 2%, due January, 2025.	1,699,564	0	72,131	1,627,433	73,574
Note payable to OWDA, payable in 40 semiannual installments of \$1,591, starting July 1, 2003, including interest at 5.15%, due January, 2022	35,751	0	1,358	34,393	1,429
	<u>\$15,483,097</u>	<u>\$0</u>	<u>\$568,692</u>	<u>\$14,914,405</u>	<u>\$595,653</u>

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 4. LONG-TERM DEBT (Continued)

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

The OWDA notes payable are secured by operating facilities.

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2006 and 2005 was \$388,347 and \$365,937, respectively. This amount equaled the required reserve.

Note 5. CONTRIBUTIONS IN AID OF CONSTRUCTION

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

Note 6. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligations or securities issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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;

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

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

4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

Cash on Hand At year end, the District had \$173 in undeposited cash on hand which is included on the statement of net assets of the District as part of "cash and cash equivalents".

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

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

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. The District is required to categorize deposits and investments according to GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*. At December 31, 2006 and 2005, the carrying amounts of the District's deposits were \$3,579,836 and \$2,582,986, respectively. The bank balances of the District's deposits at December 31, 2006 and 2005 were \$3,637,378 and \$2,614,259, respectively. Of the bank balances at December 31, 2006 and 2005, \$400,000 and \$400,000 was covered by federal depository insurance, while \$3,237,378 and \$2,214,259 was covered by collateral held by the pledging bank's trust department but not in the District's name pursuant to Section 135.181, Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

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

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.

	Fair Value		
	2006	2005	Maturity in Years
Repurchase Agreements	\$0	\$831,824	<1
Total Investments	\$0	\$831,824	

The classification of cash and cash equivalents on the basic 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*. The District's repurchase agreements are category 3 investments.

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value on an investment. The District's investment policy does not address interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy does not address credit risk. The District's repurchase agreements were unrated.

Custodial Credit Risk: Custodial Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy does not address custodial credit risk. The District's investment in the repurchase agreements for the year ended December 31, 2005 were exposed to custodial credit risk in that they were uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investments in a single issuer. The District's investment policy does not address concentration of credit risk. All the District's investments as of December 31, 2005 were held in a repurchase agreement .

Note 7. PENSION PLAN

A. Public Employees Retirement System

1. Plan Description and Funding Policy

All employees of the District participate in the Ohio Public Employees Retirement System ("OPERS"), a cost-sharing multiple employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio, 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees is 9.00%. The 2006 employer rate for local government employer units was 13.70% of covered payroll, 9.20% to fund the pension benefit obligation and 4.50% to fund health care. The contribution requirements of plan members and the Commission are established and may be amended by the Public Employees Retirement Board. The District's contributions to the OPERS for the years ended December 31, 2006, 2005 and 2004 were \$116,624, \$112,635, and \$109,775, respectively, which is equal to required contributions.

2. Other Postemployment Benefits

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

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

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

Adams County Regional Water District
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Notes to the Financial Statements
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Note 7. PENSION PLAN (Continued)

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

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2006, local government employer units, contributed at 13.70% of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 4.50%.

- (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, 2005.

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

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

Investment Return-The investment assumption rate for 2005 was 6.5%.

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

Health Care-Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

- (d) OPEB is advanced-funded on an actuarially determined basis. The following disclosures are required:
 - a. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,804.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 7. PENSION PLAN (Continued)

- b. The rates stated in Section a, above, are the actuarially determined contribution requirements for OPERS. The District contributions actually made to fund post-employment benefits during 2006 was \$38,311.
- c. The amount of \$11.1 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2005.
- d. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2005, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB 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, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Note 8. CAPITAL ASSETS

The balance of capital assets at December 31, 2006 consists of the following:

	Balance 12/31/05	Additions	Dispositions	Balance 12/31/06
Non-depreciable capital assets				
Land	\$392,160	\$1,500	\$0	\$393,660
Construction in program	22,835	64,379	(31,261)	55,953
Total non-depreciable capital assets	414,995	65,879	(31,261)	449,613
Depreciable capital assets				
Land improvements	54,740	0	0	54,740
Buildings	543,829	0	(29,273)	514,556
Wells and wellfield improvements	1,333,709	5,170	0	1,338,879
Mains, lines and meters	23,657,718	245,883	0	23,903,601
Storage tanks	1,643,816	300,766	0	1,944,582
Water treatment and plant equipment	290,767	0	0	290,767
Trucks, tractors and radio equipment	817,623	2,777	(695)	819,705
Office furniture and equipment	75,382	6,492	0	81,874
Total depreciable capital assets	28,417,584	561,088	(29,968)	28,948,704

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 8. CAPITAL ASSETS (Continued)

Accumulated depreciation				
Land improvements	(17,736)	(2,685)	0	(20,421)
Buildings	(245,326)	(16,851)	20,298	(241,879)
Wells and wellfield improvements	(1,048,423)	(31,513)	0	(1,079,936)
Mains, lines and meters	(8,202,453)	(1,017,695)	0	(9,220,148)
Storage tanks	(766,051)	(107,457)	0	(873,508)
Water treatment and plant equipment	(253,584)	(5,505)	0	(259,089)
Trucks, tractors and radio equipment	(541,584)	(66,388)	695	(607,277)
Office furniture and equipment	(50,622)	(8,241)	0	(58,863)
Total accumulated depreciation	(11,125,779)	(1,256,335)	20,993	(12,361,121)
Total	\$17,706,800	(\$629,368)	(\$40,236)	\$17,037,196

Note 9. COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to full-time, permanent employees to specified maximums. Upon termination, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2006 and 2005 were \$183,114 and \$169,583, respectively.

Note 10. ECONOMIC DEPENDENCY

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

Note 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant risk of losses is covered by commercial insurance. The District has not significantly reduced this coverage from the prior year. Settle claims have not exceeded coverage in any of the past three years.

Note 12. CONTINGENCIES

The District is involved in legal proceedings involving workers compensation claims. It is the opinion of management that the outcome of these proceedings will have no material adverse effect on the District's financial statements.

Note 13. DEFERRED COSTS

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

Note 14. ADVERTISING COSTS

The District expenses advertising costs as incurred. Advertising expenses amounted to \$1,323 and \$2,093 in 2006 and 2005, respectively.

Adams County Regional Water District
Adams County
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 15. CHANGE IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2006, the District implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. 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 a material effect on the financial statements, nor did their implementation require a restatement of prior year net assets.

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Ohio Society of Certified Public Accountants

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

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

We have audited the accompanying financial statements of the business-type activities of Adams County Regional Water District (the District), Adams County, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 13, 2007, in which we indicated the District implemented Governmental Accounting Standards Board Statements No. 42, 46, and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that have been reported to management of the District in a separate letter dated April 13, 2007.

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



Balestra, Harr & Scherer, CPAs, Inc.
April 13, 2007



Mary Taylor, CPA
Auditor of State

ADAMS COUNTY REGIONAL WATER DISTRICT

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 5, 2007**