

Scioto County Regional Water District No. 1

Scioto County, Ohio

Regular Audit

January 1, 2005 through December 31, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, Inc.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Scioto County Regional Water District Number One
P.O. Box 310
Lucasville, Ohio 45648

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

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

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

BETTY MONTGOMERY
Auditor of State

May 30, 2006

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*Scioto County Regional Water District
Scioto County, Ohio*

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Member American Institute of Certified Public Accountants

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Independent Auditor's Report

Board of Trustees
Scioto County Regional Water District
PO Box 310- Robert Lucas Road
Lucasville, Ohio 45648

We have audited the accompanying financial statements of the business-type activities of the Scioto County Regional Water District Number One (the District), Scioto County, as of and for the year ended December 31, 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, 2005, and the respective changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control 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 9 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.

Scioto County Regional Water District Number One
Independent Auditor's Report
Page 2

As described in Note 1-F, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "*Deposits and Investments Risk Disclosure*".

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

Balestra, Harr & Scherer, CPAs, Inc.
May 1, 2006

Scioto County Regional Water District Number One
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Our discussion and analysis of the Scioto County Regional Water District Number One (the District's) financial performance provides an overview of the District's financial activities for the year ended December 31, 2005. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two parts – Management's Discussion and Analysis (this section) and the Basic Financial Statements and Notes.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments such as the SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1.

Overview of the Basic Financial Statements

The District operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the District's basic financial statements include four components:

- *Statement of Net Assets*
- *Statement of Revenues, Expenses and Changes in Net Assets*
- *Statement of Cash Flows*
- *Notes to the Financial Statements*

The *Statement of Net Assets* includes all of the District's assets and liabilities, with the difference between the two reported as net assets. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The *Statement of Net Assets* provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The *Statement of Revenue, Expenses and Changes in Net Assets* presents information which shows how the District's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The Statement of Revenues, Expenses and Changes in Net Assets measure the success of the District's operations over the past year and determines whether the District has recovered its costs through water sales, user fees and other charges.

The *Statement of Cash Flows* provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Non-capital Financing
- Capital Financing
- Investing

This statement differs from the *Statement of Revenues, Expenses and Changes in Net Assets* in that it accounts only for transactions that result in cash receipts and cash disbursements.

The *Notes to the Financial Statements* provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Scioto County Regional Water District Number One

Management's Discussion and Analysis

For the Fiscal Year Ended December 31, 2005

Unaudited

Financial Highlights

During the year ending December 31, 2005, the District's operating revenues increased \$358,002 (or 11.0%) and operating expenses increased \$41,017 (or 1.5%) resulting in \$845,607 of income from operations. The increase in operating revenues for this year was a result of a water rate increase which resulted in higher water sales as compared to last year. The higher water sales are consistent with increased production within the system and increased usage by residential and bulk users.

During 2005, we once again provided water to the Southern Ohio Correctional Facility (SOCF). We are customarily a back-up source for this facility and would not normally see any significant revenues from this user. However, during 2005 SOCF was responsible for approximately \$43,000 in water sales.

Several upgrades to the plant and distribution were completed in 2005. Including the construction of a new #2 Booster station, an upgrade to Slocum Heights distribution line, and the Tick Ridge PRV. Plant and Distribution staffs both worked on upgrades to the Well Field area. These projects should be completed in 2006.

Upgrades in the distribution system included the installation of approximately 1000 radio meters. These meters replaced old manual read meters and increased the accuracy and frequency of the meter reading process. The District is in the process of upgrading all meters in the distribution system to radio read meters and expects to have the upgrade completed by 2006. The District also purchased two new handheld radio meter reading units to aid the distribution staff in the monthly reading process.

Due to a pending highway construction project through our district, we have made an extensive effort to obtain property easements on locations where the project may affect our lines. These easements, along with a property purchase, have increased our Land assets. The property purchased during 2005 will be used for construction of a new Distribution Garage which is more centrally located within our District and will contain sufficient warehouse and storage for our inventoried supplies.

Scioto County Regional Water District Number One
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Financial Analysis of the District

Net Assets - The District's net assets grew between fiscal years 2004 and 2005, increasing from \$5,787,505 to \$6,547,611. The \$760,106 increase in net assets is largely due to the upgrades in our plant and distribution system. Another factor that led to an increase in net assets was an increase in water and tap revenue which resulted in higher cash and investment reserves.

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Scioto County Regional Water District No. 1 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1
Statement of Net Assets

Net Assets	2005	2004
Total Current Assets	\$ 2,109,986	\$ 1,669,840
Total Non-Current Assets	6,896,438	6,803,037
Total Assets	9,006,424	8,472,877
Total Current Liabilities	389,916	448,649
Total Noncurrent Liabilities	2,068,897	2,236,722
Total Liabilities	2,458,813	2,685,371
Net Assets		
Invested in capital asset net of related debt	4,270,345	3,998,342
Restricted for:		
Debt Service	372,343	364,644
Unrestricted	1,904,923	1,424,519
Total Net Assets	\$ 6,547,611	\$ 5,787,505

Scioto County Regional Water District Number One

Management's Discussion and Analysis

For the Fiscal Year Ended December 31, 2005

Unaudited

Change in Net Assets – The District's income from operations increased in 2005 by \$316,985 for a total operating income of \$845,607 due to an increase in revenues; operating expenses remained stable with a modest increase of \$41,017. A portion of this increase can be attributed to the rising cost of fuel and chemicals. Modest across-the-board increases were given in hourly wage rates and health insurance costs remained stable. A portion of the increase in operating expense was due to higher depreciation expenses on the newly capitalized plant and distribution upgrades. In fiscal year 2005, 99% of the District's operating revenues came from water and tap sales. These revenues increased primarily due to an increase in water rates, as well as, higher consumption and tap sales.

SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1

Changes in Net Assets

	2005	2004	Percent Change
Total Operating Revenues	\$ 3,621,081	\$ 3,263,079	11%
Total Operating Expenses	2,775,474	2,734,457	1.5%
Operating Income	845,607	528,622	60%
Gain/Loss on Sale of Assets	(18,497)	20,915	-188%
Interest Income	36,208	8,476	327%
Interest Expense	(103,212)	(110,034)	6%
Total Non-Operating Revenues/Expenses	(85,501)	(80,643)	-6%
Income Before Capital Contributions	760,106	447,979	70%
Total Capital Contributions	-	150,243	-100%
Change in Net Assets	760,106	598,222	27%
Net Assets at Beginning of the Year	5,787,505	5,189,283	12%
Net Assets at End of the Year	\$ 6,547,611	\$ 5,787,505	13%

The District's non-operating loss increased by \$4,858 (or 6%). The District's interest revenue increased by \$27,732 for a total interest income of \$36,208, this was due to higher rates of return and an increase in the amount of the District's reserves. This trend is expected to continue as yield on investments will be higher during 2006. The non-operating expenses increased by 11,675 (or 10.6%) as a result of a loss on the sale of assets. Interest expense was slightly lower due to lower interest payments on debt service. The debt acquired with Ohio Public Works Commission within the past two years has been interest free, and the lower principal balance on the bonds payable has decreased the interest costs associated with this debt.

The District's operating expenses increased by \$41,017 (or 1.5%) to a total of \$2.75 million in fiscal year 2005. Operating expenses increased primarily due to an increase in depreciation expense on the capitalized equipment and projects. Other increases in operating expenses were caused by fuel, chemicals and a modest across-the-board raise for employees.

Scioto County Regional Water District Number One

Management's Discussion and Analysis

For the Fiscal Year Ended December 31, 2005

Unaudited

Capital Assets

As of December 31, 2005, the District had invested approximately \$6.5 million in capital assets net of \$8.7 million of accumulated depreciation. This amount represents a net increase (including additions and deductions) of \$89,037 over the prior year. The greatest increases to capital assets were additions and replacement of the District's distribution lines. Construction in progress increased by \$51,935. This increase was primarily due to the upgrade projects in the well fields and the Blue Run Cross County Lines. More detailed information about the District's capital assets is presented in Note 7 to the basic financial statements.

SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1

Capital Assets

	2004	Additions	Deletions	2005
Capital Assets, Not Being Depreciated				
Land	\$ 160,482	\$ 81,783	\$ -	\$ 242,265
Construction in Progress	298,861	216,625	(164,690)	350,796
Total Capital Assets, Not Being Depreciated	<u>459,343</u>	<u>298,408</u>	<u>(164,690)</u>	<u>593,061</u>
 Capital Assets Being Depreciated				
Supply, Facilities, Wells, & Pumps	993,321	-	-	993,321
Water Treatment Plant	3,489,422	97,596	(15,970)	3,571,048
Distribution System & Lines	8,136,111	398,595	(49,855)	8,484,851
Transportation Equipment	405,238	66,569	-	471,807
Furniture and Office Equipment	185,484	3,851	-	189,335
Other Equipment	915,687	27,846	(627)	942,906
Total Capital Assets, Being Depreciated	<u>14,125,263</u>	<u>594,457</u>	<u>(66,452)</u>	<u>14,653,268</u>
 Less Accumulated Depreciation:				
Supply, Facilities, Wells, & Pumps	(644,951)	(34,857)	-	(679,808)
Water Treatment Plant	(2,266,281)	(113,440)	13,659	(2,366,062)
Distribution System & Lines	(4,263,502)	(339,224)	33,669	(4,569,057)
Transportation Equipment	(270,777)	(38,864)	-	(309,641)
Furniture and Office Equipment	(119,323)	(19,129)	-	(138,452)
Other Equipment	(612,426)	(75,127)	627	(686,926)
Total Accumulated Depreciation	<u>(8,177,260)</u>	<u>(620,641)</u>	<u>47,955</u>	<u>(8,749,946)</u>
 Total Capital Assets Being Depreciated, Net	<u>5,948,003</u>	<u>(26,184)</u>	<u>(18,497)</u>	<u>5,903,322</u>
 Total Capital Assets, Net	<u>\$6,407,346</u>	<u>\$272,224</u>	<u>(\$183,187)</u>	<u>\$6,496,383</u>

Scioto County Regional Water District Number One
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Debt Administration

At December 31, 2005, the District had \$1.9 million in bonds payable. Since no additional funds were borrowed from OPWC during 2005, the total OPWC debt is \$322,105. More detailed information about the District's long-term debt is presented in Note 3 to the Basic Financial Statements.

Economic Factors

The District's financial condition continues to improve as the District proceeds through another year of periodic flood conditions and increased cost of fuel and chemicals. Effective January 1, 2005, a rate increase was implemented to help cover these costs as well as the additional cost of upgrades and labor. The local economic conditions continue to challenge the District with customer delinquency and water theft. By implementing a consistent collection approach the District has been able to keep customer delinquency at a reasonable level.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Kathie Martin, Treasurer at Scioto County Regional Water District Number One located at 326 Robert Lucas Road, Lucasville Ohio 45648, (740) 259-2301.

Scioto County Regional Water District Number One
Statement of Net Assets
As of December 31, 2005

ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,525,933
Accounts Receivable	483,028
Deposits	3,725
Prepaid Expenses	19,397
Inventories	77,903
Total current assets	<u>2,109,986</u>
Non-current Assets:	
Deferred Charges	27,712
Restricted Assets:	
Cash & Cash Equivalents	372,343
Capital Assets:	
Nondepreciable Capital Assets	593,061
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>5,903,322</u>
Total non-current assets	<u>6,896,438</u>
Total assets	<u>\$ 9,006,424</u>

LIABILITIES

Current Liabilities:	
Accounts payable	85,754
Employee Withholding Payable	31,556
Unset Water Taps Payable	25,700
Compensated Absences Payable	58,051
Customer Deposits	925
Current Bonds Payable	165,000
Current OPWC Payable	21,303
Current Capital Lease Payable	1,628
Total current liabilities	<u>389,917</u>
Non-current liabilities:	
Long Term Compensated Absences	30,788
Capital Lease Payable	2,306
OPWC Loan Payable	300,802
Revenues Bonds Payable	<u>1,735,000</u>
Total non-current liabilities	<u>2,068,896</u>
Total liabilities	<u>2,458,813</u>

NET ASSETS

Invested in capital assets, net of related debt	4,270,345
Restricted for debt service	372,343
Unrestricted	1,904,923
Total net assets	<u>\$ 6,547,611</u>

See accompanying notes to the financial statements.

Scioto County Regional Water District Number One
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2005

REVENUES

Water Sales	\$ 3,546,145
Water Tap Sales	60,150
Lab Test Fees	2,960
Miscellaneous	<u>11,826</u>
Total operating revenues	<u>3,621,081</u>

OPERATING EXPENSES

Water Taps and New Line Extensions	8,434
Supply and Treatment	931,450
Distribution	789,272
Administration, Billing, and Office	419,226
Board Expenses	6,451
Depreciation Expenses	<u>620,641</u>
Total Operating Expenses	<u>2,775,474</u>
Operating income (loss)	<u>845,607</u>

NON-OPERATING REVENUES (EXPENSES)

Loss on Sale of Assets	(18,497)
Interest Income	36,208
Interest Expense	<u>(103,212)</u>
Total non-operating revenue (expenses)	<u>(85,501)</u>

Change in net assets

	760,106
Net Assets January 1, 2005	<u>5,787,505</u>
Net Assets December 31, 2005	<u>\$ 6,547,611</u>

See accompanying notes to the financial statements.

Scioto County Regional Water District Number One
Statement of Cash Flows
For the Year Ended December 31, 2005

Cash Flows From Operating Activities:	
Receipts from Customers	\$ 3,561,167
Receipts from Others	11,826
Payments to Suppliers and Vendors	(876,892)
Payments to Employees	<u>(1,310,276)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,385,825</u>
Cash Flows From Capital and Related Financing Activities:	
Principal on Bond	(160,000)
Interest on Bond	(102,849)
OPWC Principal	(21,303)
Xerox Principal	(1,664)
Xerox Interest	(363)
Payments for Capital Acquisitions	<u>(728,175)</u>
Net Cash Provided By Capital Financing Activities	<u>(1,014,354)</u>
Cash Flows From Investing Activities:	
Interest Earned	<u>36,208</u>
Net Cash Provided By Capital Financing Activities	<u>36,208</u>
Net increase/decrease in cash and cash equivalents	407,679
Cash and cash equivalents, January 1, 2005	<u>1,490,597</u>
Cash and cash equivalents, December 31, 2005	<u><u>\$ 1,898,276</u></u>
Reconciliation of Change in Net Assets to Net Cash Provided (Used) By Operating Activities:	
Operating Income	\$ 845,607
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation Expense	620,641
Change in Assets	
(Increase) Decrease in Accounts Receivable	(48,088)
(Increase) Decrease in Prepaid Items	6,164
(Increase) Decrease in Materials and Supplies Inventory	2,258
(Increase) Decrease in Deferred Charges	3,334
Change in Liabilities	
Increase (Decrease) in Accounts Payable	(84,797)
Increase (Decrease) in Employee's Withholding Payable	23,890
Increase (Decrease) in Compensated Absences Payable	14,816
Increase (Decrease) in Unset Water Taps Payable	<u>2,000</u>
Total Adjustments	<u>540,218</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,385,825</u></u>

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Scioto County Regional Water District Number One is a water district organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Scioto County in August of 1966. The Regional Water District Number One operates under the direction of a seven member board of trustees. An appointed staff consisting of a superintendent, a plant superintendent, a distribution superintendent, and an office manager are responsible for fiscal control of the resources of the Scioto County Regional Water District Number One. The Scioto County Regional Water District Number One was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all or parts of the following political subdivisions:

Bloom Township
Clay Township
Harrison Township
Jefferson Township
Madison Township
Porter Township
Valley Township
Vernon Township
South Webster Village

B. BASIS OF ACCOUNTING

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental enterprise funds.

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The focus of enterprise fund measurement is based upon determination of operating income, changes in net assets, financial position, and cash flows. Under the provisions of Governmental Accounting Standards Board (GASB) Pronouncement No. 20, the District has elected to follow all GASB pronouncements and Financial Accounting Standards Board pronouncements issued on or after November 30, 1989, except for those that conflict with GASB pronouncements. The District's operating revenues are those that result from providing services and producing and delivering goods, and include all other revenues that do not result from transactions defined by GASB Statement No. 9 as capital and related financing, non-capital financing, or investing activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Scioto County Regional Water District Number One utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Unbilled water utility service receivables are recorded at year end. Expenses are recognized under the accrual basis of accounting when the liability is incurred.

C. FUND ACCOUNTING

The District uses fund accounting to segregate cash that is restricted as to use. The District classifies its fund into the Enterprise Fund Type.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operations of the District are included on the statement of net assets. The statement of changes in net assets presents increases (i.e. revenue) and decreases (i.e. expenses) in total net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

E. BUDGETARY PROCESS

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations

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

Estimated Resources

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

Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year.

F. CHANGE IN ACCOUNTING PRINCIPLES

For the year December 31, 2005, Scioto County Regional Water District Number One implemented GASB Statement No. 40 "*Deposits and Investment Risk Disclosure*".

GASB Statement No. 40 establishes new disclosure requirements for deposits and investments related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the District's financial statements for fiscal year 2005.

G. CAPITAL ASSETS

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. Donated assets are recorded at their estimated fair market value at the time received. Depreciation of capital assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation.

The estimated useful lives by major capital asset class are as follows:

Supply Facilities, Wells & Pumps	8 years
Transportation Equipment	5 years
Water Treatment Plant	40 years
Other Equipment	5 years
Distribution System & Lines	40 years
Furniture and Other Equipment	10 years

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. INVENTORY

The District maintains material inventory for its proprietary fund. Inventory is valued at cost and the District uses the first-in, first-out (FIFO) flow assumption in determining cost.

I. COMPENSATED ABSENCES

Accumulated vacation leave and accumulated compensatory time are recorded as an expense and liability of the District as the benefits accrue to the employees. In accordance with the provisions of Governmental Accounting Standards Statement No.16, Accounting for Compensated Absences, a liability is recorded for vested sick pay benefits which have been defined by District policy as available to those employees with ten years or more of service up to a maximum of four-hundred-eighty hours.

J. PENSIONS

The provision for pension cost is recorded when the related payroll is accrued and the obligation is incurred.

K. CASH & CASH EQUIVALENTS

To improve cash management, cash received by the District is pooled. The Proprietary fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

During fiscal year 2005, investments were limited to money market funds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District's cash and cash equivalents are considered to be cash on hand, deposits and short term investments (including restricted assets) with maturities of three months or less from the date of acquisition.

L. DEFERRED CHARGES

Deferred charges are non-regularly recurring, non-capital costs of operations that benefit future periods. These costs include those incurred in connection with deferred hydrology, hydrology study, and long and short term sludge plan. Deferred charges expense for 2005 was \$3,334, leaving a balance of \$27,712.

M. PREPAID EXPENSES

Charges entered in the accounts for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operation. Prepaid expenses for 2005 were \$19,397.

N. ESTIMATES

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. NET ASSETS

Net assets represent the differences between assets and liabilities. Net Assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted net assets consist of monies and other resources which are restricted to satisfy debt service requirements as specified in debt agreements.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS

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 can be withdrawn on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim 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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 money deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond 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;

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 (STAROhio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

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

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

Cash on Hand - At year end, the District had \$400 in undeposited cash on hand which is included on the balance sheet of the District as part of "cash and cash equivalents".

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 year-end 2005, the carrying amount of the District's deposits was \$216,261. The bank balance of the District's deposits at December 31, 2005 was \$247,146. Of the bank balance at year end 2005, \$100,000 was covered by federal depository insurance and \$147,146 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 Statement No. 3 and subject to custodial credit risk.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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. The following summarizes the market value of investments:

	Market Value	Investment Maturities Less than 1 year
Money Market Funds:		
First American Treasury Obligations – Fund Reserve Shares	\$89,378	\$89,378
First American Treasury Obligations – Class Y	1,592,237	1,592,237
Total Investments	\$1,681,615	\$1,681,615

The District held \$1,681,615 in money market funds, which are considered cash equivalents under GASB Statement No. 9. Money market funds are uncategorized 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. Investments with interest rates that are fixed for longer periods are to be subject to more variability in the fair values as a result of future changes in interest rate. The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has a formal investment policy that limits its investment choices to those allowed by state law. At December 31, 2005, investments in the First American Treasury Obligations Fund Reserve Shares and Class Y both were rated AAAM by Standard & Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments are held in the name of the District.

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 has a formal investment policy that limits the amount that can be invested in a single security type and/or with a single financial institution. Except for U.S. Treasury and STAR Ohio, no more than 25 percent of the District's total portfolio may be invested in a single security type or with a single financial institution. 100 percent of the District's investments are in First American Treasury Obligations money market funds. 5 percent is invested in fund reserve shares, while the remaining 95 percent is in Class Y obligations.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3 - DEBT OBLIGATIONS

Debt outstanding at December 31, 2005, consisted of the following:

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Due in One Year
Water System Revenue Refunding & Improvement Bonds, 4.50%	\$2,060,000	-	\$160,000	\$1,900,000	\$165,000
OPWC Loan, 0.00%	343,408	-	21,303	322,105	21,303
Xerox Lease	5,598	-	1,664	3,934	1,628
Total	<u>\$2,409,006</u>	<u>-</u>	<u>\$182,967</u>	<u>\$2,226,039</u>	<u>\$187,931</u>

The revenue refunding and improvement bonds are special obligations of the District, payable solely from the pledged revenues of its water system and the revenue fund created under the indenture. The bonds were issued to fund capital expenditures to improve the system.

The OPWC loans were issued for the purpose of financing the fairgrounds road waterline and Clarktown Water Tank, respectively. Revenue of the District has been pledged to repay this debt.

The annual requirements to amortize all bonded debt outstanding as of December 31, 2005, including interest payments of \$496,802 are as follows:

Year Ending December 30,	Water Revenue Refunding Bonds		
	Principal	Interest	Total
2006	\$165,000	\$95,195	\$260,195
2007	175,000	87,074	262,074
2008	180,000	78,330	258,330
2009	190,000	68,748	258,748
2010	200,000	58,315	258,315
2011-2014	990,000	109,140	1,099,140
Total	<u>\$1,900,000</u>	<u>\$496,802</u>	<u>\$2,396,802</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3 - DEBT OBLIGATIONS (Continued)

The annual requirements to amortize all loan debt outstanding as of December 31, 2005 are as follows:

Year Ending December 30,	OPWC Loan		
	Principal	Interest	Total
2006	\$21,303	\$ -	\$21,303
2007	21,303	-	21,303
2008	21,303	-	21,303
2009	21,303	-	21,303
2010	21,303	-	21,303
2011-2015	106,515	-	106,515
2016-2020	94,458	-	94,458
2021-2025	14,617	-	14,617
	\$332,105	\$ -	\$332,105

The Water district entered into an agreement to lease a copier during fiscal year 2003. The terms of the agreement provide options to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The capital asset acquired by the lease has been capitalized in the statement of net assets in the amount of \$8,440 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets. Principal payments in fiscal years totaled \$1,664.

The asset acquired through the capital lease is as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Asset: Xerox Copier	\$ 8,440	\$ 4,923	\$ 3,517

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2005:

Year Ending December 31	Xerox Lease
2006	\$2,027
2007	2,027
2008	845
Total Lease Payments	\$4,899
Less: Amount Representing Interest	(965)
Present Value of Minimum Lease Payments	\$3,934

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4 - 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. For fiscal year 2005, the District contracted with Ohio Government Risk Management for real property, building contents, and vehicle insurance coverage.

Coverages provided by the program are as follows:

General Liability	\$5,000,000
Public Officials	\$5,000,000
Automobile	\$5,000,000
Faithful Performance & Employee Bond	\$100,000

Vehicle policies include liability coverage for bodily injury and property damage. Real property and building contents are 80% insured.

Health insurance was provided by a private carrier, Anthem Blue Cross & Blue Shield, for the year.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. The District pays all elected officials' bonds by statute.

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

NOTE 5 - PENSION PLAN

A. Public Employees Retirement System

1. Pension Benefit Obligation

Statement 27 of the Governmental Accounting Standards Board (GASB), *Accounting for Pensions by State and Local Governmental Employers*, requires public employers to provide detailed disclosure of pension information in financial statements and accompanying information.

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

- The Traditional Pension Plan —a cost sharing, multiple-employer defined benefit pension plan.
- The Member-Directed Plan —a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- The Basic Plan —a cost sharing, multiple-employer defined benefit pension plan. Under the Basic Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 5 - PENSION PLAN (Continued)

C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-6701 or 800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2005 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. Public safety division members contributed at 9%.

The 2005 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units, the rate was 13.55% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2005 was 16.7%.

F. The Water District's contributions to the PERS of Ohio for the year ended December 31, 2003, 2004, and 2005 was \$220,477, \$215,176, and \$228,765 respectively which were equal to the total required contributions.

2. Other Post-employment Benefits

Statement 12 of the Governmental Accounting Standards Board (GASB), *Disclosure of Information on Post-employment 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.

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

In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Basic Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Post-employment Benefit (OPEB) as described in GASB Statement 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. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety with separate employee contribution rates and benefits. The 2005 employer contribution rate for state employers was 13.31% of covered payroll, local government employer units contributed at 13.55% of covered payroll, and public safety and law enforcement employer units contributed at 16.70%. The portion of employer contributions of all employers allocated to health care was 4.00%.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement 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, 2004.

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 5 - PENSION PLAN (Continued)

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

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

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

Active Employee Total Payroll—An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 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 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).

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

1. The Traditional Pension and combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287.
2. The rates stated in Section A, above, are the actuarially determined contribution requirements for OPERS. As part of this disclosure, it will be necessary for the employer to disclose the employer contributions actually made to fund post-employment benefits. The District's portion of employer contributions was \$306,124.
3. The amount of \$10.8 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2004.
4. The Actuarial Valuation as of December 31, 2004, reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

E. OPERS Retirement Board adopts a Health Care Preservation Plan

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

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 6 - COMPENSATED ABSENCES

All full-time District employees earn vacation at varying rates based upon length of service. Upon separation from the Water District, the employee (or his estate) is paid for his accumulated unused vacation leave balance. All full-time District employees earn sick leave at the rate of 1.25 days per calendar month of active service. Upon retirement from the District, an employee shall receive monetary compensation for a portion of each day of unused sick leave; the monetary compensation shall be at the hourly rate of the employee at the time of retirement.

District employees who work on holidays and in an occasional overtime status are primarily paid on a current basis. However, in some instances the employees are permitted to accrue compensatory time to be taken as time off or to be paid at a later date. At December 31, 2005, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$88,839.

NOTE 7 -CAPITAL ASSETS

A summary of the District's capital assets as of December 31, 2005, are as follows:

	2004	Additions	Deletions	2005
Capital Assets, Not Being Depreciated				
Land	\$ 160,482	\$ 81,783	\$ -	\$ 242,265
Construction in Progress	298,861	216,625	(164,690)	350,796
Total Capital Assets, Not Being Depreciated	459,343	298,408	(164,690)	593,061
Capital Assets Being Depreciated				
Source of Supply	993,321	-	-	993,321
Water Treatment Plant	3,489,422	97,596	(15,970)	3,571,048
Distribution System	8,136,111	398,595	(49,855)	8,484,851
Transportation Equipment	405,238	66,569	-	471,807
Office Furniture & Equipment	185,484	3,851	-	189,335
Other Equipment	915,687	27,846	(627)	942,906
Total Capital Assets Being Depreciated	14,125,263	594,457	(66,452)	14,653,268
Less Accumulated Depreciation				-
Source of Supply	(644,951)	(34,857)	-	(679,808)
Water Treatment Plant	(2,266,281)	(113,440)	13,659	(2,366,062)
Distribution System	(4,263,502)	(339,224)	33,669	(4,569,057)
Transportation Equipment	(270,777)	(38,864)	-	(309,641)
Office Furniture & Equipment	(119,323)	(19,129)	-	(138,452)
Other Equipment	(612,426)	(75,127)	627	(686,926)
Less Accumulated Depreciation	(8,177,260)	(620,641)	47,955	(8,749,946)
Total Capital Assets Being Depreciated, Net	5,948,003	(26,184)	(18,497)	5,903,322
Total Capital Assets, Net	\$ 6,407,346	\$ 272,224	(\$ 183,187)	\$ 6,496,383

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE
SCIOTO COUNTY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 8 -CONTINGENCIES

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

BALESTRA, HARR & SCHERER, CPAs, INC.

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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
Scioto County Regional Water District
PO Box 310- Robert Lucas Road
Lucasville, Ohio 45648

We have audited the financial statements of the business-type activities of the Scioto County Regional Water District Number One (the District), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 1, 2006, in which we indicated the District implemented Governmental Accounting Standards Board Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

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

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

Balestra, Harr & Scherer, CPAs, Inc.

May 1, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SCIOTO COUNTY REGIONAL WATER DISTRICT NUMBER ONE

SCIOTO 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 13, 2006**