JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY
Regular Audit
For the Years Ended December 31, 2009 and 2008

Perry & Associates
Certified Public Accountants, A.C.

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Jefferson Water and Sewer District, Franklin County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 27, 2010

This Page is Intentionally Left Blank.

JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY

TABLE OF CONTENTS

Perry & Associates

Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

INDEPENDENT ACCOUNTANTS' REPORT

June 28, 2010

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

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of the **Jefferson Water and Sewer District, Franklin County, Ohio** (the District), as of and for the years ended December 31, 2009 and 2008, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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, 2009 and 2008, 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 June 28, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Respectfully Submitted,

Perry & Associates CPA's A.C.

Perry & Associates
Certified Public Accountants, A.C.

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

FINANCIAL HIGHLIGHTS

The total assets of the District exceeded total liabilities on December 31, 2009 and 2008 by $11,797,919 and $11,726,279, respectively. The District's net assets increased by $71,640 (0.61%) in 2009 and decreased by $225,531 (-1.89%) in 2008.

The District's operating revenues decreased $346,641 (-7.62%) in 2009 and increased $315,842 (7.47%) in 2008. Operating expenses (excluding depreciation expense) decreased $328,649 (-12.12%) in 2009 and $18,535 (-0.68%) in 2008. Depreciation expense increased $22,790 (2.58%) in 2009 and $33,018 (3.88%) in 2008.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to accounting used by private sector businesses. The basic financial statements are presented using the accrual basis of accounting.

The statements of net assets include all of the District's assets and liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31, 2009 and 2008. The District's net assets are the difference between assets and liabilities.

The statements of revenues, expenses and changes in net assets provide information on the District's operations over the past two years and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

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

STATEMENTS OF NET ASSETS

Table 1 summarizes the statements of net assets of the District. Capital assets are reported less accumulated depreciation. "Invested in capital assets, net of related debt", are capital assets less outstanding debt that was used to acquire those assets.

Table 1

	2009	2008	Change	2007	Change
Current and Other Assets	$4,653,011	$5,233,485	($580,474)	$7,236,130	($2,002,645)
Capital Assets, Net	24,512,374	24,885,440	(373,066)	23,971,644	913,796
Total Assets	29,165,385	30,118,925	(953,540)	31,207,774	(1,088,849)
Long Term Liabilities	15,334,955	16,412,555	(1,077,600)	17,377,920	(965,365)
Current and Other Liabilities	2,032,511	1,980,091	52,420	1,878,044	102,047
Total Liabilities	17,367,466	18,392,646	(1,025,180)	19,255,964	(863,318)
Net Assets					
Invested in Capital Assets,					
Net of Related Debt	8,460,959	8,043,707	417,252	6,505,700	1,538,007
Unrestricted	3,336,960	3,682,572	(345,612)	5,446,110	(1,763,538)
Total Net Assets	$11,797,919	$11,726,279	$71,640	$11,951,810	($225,531)

The District's assets decreased by $953,540 in 2009. The decrease is primarily a result of a decrease in cash and cash equivalents, notes receivable and capital assets. The decrease in cash and cash equivalents was primarily the result of a decrease in cash received from customers, an increase in debt service payments and cash payments for water and sewer construction projects. The decrease in notes receivable is a result of receipt of payments for tap fees. The decrease in capital assets is primarily a result of current year depreciation in excess of additions. Liabilities decreased $1,025,180 in 2009. This decrease is primarily due to a decrease in accounts payable, principal payments on long-term debt and receipt of payments on notes receivable, which was offset to deferred revenue.

Unrestricted net assets decreased by $345,612 in 2009. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Invested in capital assets, net of related debt increased by $417,252 from 2008 to 2009 primarily due to additions in capital assets and payments on debt balances, which was only partially offset by depreciation expense.

The District's assets decreased by $1,088,849 in 2008. The decrease is primarily a result of a decrease in cash and cash equivalents, which resulted from the use of loan proceeds from 2007 during 2008, and notes receivable related to tap in fees. This decrease was partially offset by an increase in capital assets, resulting from additions in excess of current year depreciation. Liabilities decreased $863,318. This decrease is primarily due to principal payments on long-term debt and receipt of payments on notes receivable, which was offset to deferred revenue. This decrease was partially offset by an increase in accrued interest payable.

Unrestricted net assets decreased by $1,763,538 in 2008. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Invested in capital assets, net of related debt increased by $1,538,007 from 2007 to 2008 primarily due to additions in capital assets and payments on debt balances, which was only partially offset by depreciation expense.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Table 2

	2009	2008	Change	2007	Change
Operating Revenues	$4,199,557	$4,546,198	($346,641)	$4,230,356	$315,842
Total Operating Revenues	4,199,557	4,546,198	(346,641)	4,230,356	315,842
Operating Expenses					
(Excluding Depreciation)	2,381,904	2,710,553	(328,649)	2,729,088	(18,535)
Depreciation Expense	905,937	883,147	22,790	850,129	33,018
Total Operating Expenses	3,287,841	3,593,700	(305,859)	3,579,217	14,483
Operating Income	911,716	952,498	(40,782)	651,139	301,359
Non-Operating Revenues	55,982	113,839	(57,857)	243,819	(129,980)
Non-Operating Expenses	(896,058)	(1,291,868)	395,810	(953,296)	(338,572)
Changes in Net Assets	71,640	(225,531)	297,171	(58,338)	(167,193)
Net Assets at Beginning of Year	11,726,279	11,951,810	(225,531)	12,010,148	(58,338)
Net Assets at End of Year	$11,797,919	$11,726,279	$71,640	$11,951,810	($225,531)

Operating revenues decreased by $346,641 from 2008 to 2009 which is primarily due to a decrease in receipts of tap fees.

Operating expenses decreased by $305,859 from 2008 to 2009 primarily due to a decrease in plant operations expenses, salaries and payroll related expenses and general and administrative expenses. These decreases were partially offset by an increase in depreciation expense.

Operating revenues increased by $315,842 from 2007 to 2008 which is due to increases in charges for services which were partially offset by a decrease in miscellaneous revenue.

Operating expenses increased $14,483 from 2007 to 2008 due to increases in salaries and payroll related expenses and depreciation expense. These increases were partially offset by decreases in general and administration expenses and plant operations.

CAPITAL ASSETS

The District had $31,849,102 and $29,641,248 invested in depreciable capital assets (before depreciation) at the end of 2009 and 2008, respectively. This amount is an increase of $2,207,854 (7.5%) from 2008 and $476,717 (1.6%) from 2007. This increase is due to an ongoing Water Plant Expansion project. This project was funded by a USDA loan through 2006 and a commercial bank loan in 2007. For additional information regarding capital assets, please see note 4 to the basic financial statements.

Table 3

	2009	2008	Change	2007	Change
Non-depreciable Capital Assets					
Land and land easements	$627,637	$625,232	$2,405	$624,782	$450
Construction in progress	33,171	1,710,559	(1,677,388)	391,940	1,318,619
Total Non-depreciable Capital Assets	660,808	2,335,791	(1,674,983)	1,016,722	1,319,069
Depreciable Capital Assets					
Buildings and improvements	5,268,802	5,239,812	28,990	5,212,891	26,921
Completed construction	15,134,739	13,007,738	2,127,001	12,680,437	327,301
Furniture and general equipment	2,333,755	2,286,902	46,853	2,224,012	62,890
Vehicles and accessories	172,879	167,869	5,010	108,264	59,605
Donated assets	8,938,927	8,938,927	0	8,938,927	0
Totals Before Accumulated Depreciation	31,849,102	29,641,248	2,207,854	29,164,531	476,717
Accumulated Depreciation	(7,997,536)	(7,091,599)	(905,937)	(6,209,609)	(881,990)
Net Depreciable Capital Assets	23,851,566	22,549,649	1,301,917	22,954,922	(405,273)
Total Capital Assets	$24,512,374	$24,885,440	($373,066)	$23,971,644	$913,796

DEBT

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

Table 4

	2009	2008	Change	2007	Change
Ohio Water Development Authority (OWDA)	$9,972,723	$10,540,820	($568,097)	$11,072,544	($531,724)
Rural Development	4,694,000	4,744,800	(50,800)	4,793,400	(48,600)
National City Loan	1,360,000	1,520,000	(160,000)	1,600,000	(80,000)
Total Long Term Debt	16,026,723	16,805,620	(778,897)	17,465,944	(660,324)
Less: Current Maturities	820,040	778,896	41,144	660,324	118,572
Net Total Long Term Debt	$15,206,683	$16,026,724	($820,041)	$16,805,620	($778,896)

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

CASH

Cash and cash equivalents were $3,196,449 on December 31, 2009 and $3,577,056 on December 31, 2008.

CONTACT INFORMATION

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

Jefferson Water and Sewer District

Statements of Net Assets

As of December 31, 2009 and 2008

	2009	2008
CURRENT ASSETS:		
Cash and cash equivalents	$3,043,470	$3,424,077
Accounts receivable	589,231	633,249
Inventory	29,558	20,250
Prepaid expense	37,438	39,307
Intergovernmental receivable	10,958	12,328
Current portion of notes receivable	0	811
Current portion of notes receivable - tap fees	329,560	211,160
Current portion of deferred expense	0	118
Total Current Assets	4,040,215	4,341,300
RESTRICTED ASSETS:		
Restricted cash and cash equivalents	152,979	152,979
Water assessments receivable	289,880	320,378
Sewer assessments receivable	122,953	41,696
Total Restricted Assets	565,812	515,053
CAPITAL ASSETS:		
Capital assets, not being depreciated	660,808	2,335,791
Capital assets, net of accumulated depreciation	23,851,566	22,549,649
Total Capital Assets	24,512,374	24,885,440
OTHER ASSETS:		
Notes receivable less current portion - tap fees	31,580	361,140
Loan fees - net of amortization	15,404	15,992
Total Other Assets	46,984	377,132
Total Assets	$29,165,385	$30,118,925
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$322,455	$394,064
Accrued wages and benefits and withholding payroll expenses	109,541	105,194
Current portion of capital lease	11,422	11,422
Current portion of long term debt	820,040	778,896
Current portion of deferred revenue - tap fees	329,560	211,160
Accrued interest payable	439,493	479,355
Total Current Liabilities	2,032,511	1,980,091
LONG TERM LIABILITIES:		
Capital lease less current portion	13,270	24,691
Long term debt less current portion	15,206,683	16,026,724
Deferred revenue - tap fees	115,002	361,140
Total Long Term Liabilities	15,334,955	16,412,555
Total Liabilities	17,367,466	18,392,646
NET ASSETS:		
Invested in capital assets, net of related debt	8,460,959	8,043,707
Unrestricted	3,336,960	3,682,572
Total Net Assets	11,797,919	11,726,279
Total Liabilities and Net Assets	$29,165,385	$30,118,925

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

Jefferson Water and Sewer District

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended December 31, 2009 and 2008

	2009	2008
OPERATING REVENUES:		
Charges for services	$3,744,255	$3,767,363
Tap fees	407,179	708,992
Intergovernmental	35,614	39,521
Miscellaneous income	12,509	30,322
Total Operating Revenues	4,199,557	4,546,198
OPERATING EXPENSES:		
Plant operations	1,607,337	1,811,044
Salaries and payroll related expenses	678,105	735,418
General and administration expenses	96,462	164,091
Depreciation	905,937	883,147
Total Operating Expenses	3,287,841	3,593,700
Operating Income	911,716	952,498
OTHER INCOME AND (EXPENSES):		
Proceeds from insurance	5,489	2,000
Loss on disposal of capital assets	(500)	(2,843)
Noncapitalized planning costs	0	(208,875)
Interest income	50,493	111,839
Interest expense	(895,558)	(1,080,150)
Total Other Income (Expenses)	(840,076)	(1,178,029)
Increase (Decrease) In Net Assets	71,640	(225,531)
Net Assets, Beginning of Year	11,726,279	11,951,810
Net Assets, End of Year	$11,797,919	$11,726,279

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

Jefferson Water and Sewer District
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$4,196,040	$4,327,614
Cash received from operating grants	36,984	40,790
Cash received from other operating income	12,509	30,322
Cash payments to suppliers for goods and services	(1,782,729)	(1,732,342)
Cash payments for employee services and benefits	(673,758)	(682,473)
Net Cash Provided From Operating Activities	1,789,046	1,983,911
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Noncapitalized planning costs	0	(208,875)
Proceeds from insurance	5,489	2,000
Interest received on bank accounts	20,756	80,953
Net Cash From Non-Capital Financing Activities	26,245	(125,922)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of water and sewer projects	(533,371)	(1,750,337)
Principal payments on construction loans	(778,897)	(660,324)
Interest payments on construction loans	(933,506)	(945,746)
Special assessment collections - principal	33,475	25,492
Special assessment collections - interest	29,737	30,886
Principal payments on capital lease	(11,422)	(13,336)
Interest payments on capital lease	(1,914)	0
Net Cash From Capital and Related Financing Activities	(2,195,898)	(3,313,365)
Net Increase (Decrease) In Cash and Cash Equivalents	(380,607)	(1,455,376)
Cash and Cash Equivalents, Beginning of the Year	3,577,056	5,032,432
Cash and Cash Equivalents, End of the Year	$3,196,449	$3,577,056
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	$911,716	$952,498
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	905,937	883,147
CHANGES IN NET ASSETS AND LIABILITIES:		
(Increase) decrease in accounts receivable	44,018	(150,162)
(Increase) decrease in intergovernmental receivable	1,370	1,269
(Increase) decrease in prepaid expense	1,869	(2,385)
(Increase) decrease in inventory	(9,308)	61,868
(Increase) decrease in deferred expense	118	124,806
Increase (decrease) in accounts payable (operating)	(71,609)	58,504
Increase (decrease) in accrued wages and benefits and withholding payroll taxes	4,347	52,945
Increase (Decrease) in loan fees - net of amortization	588	1,421
Total Adjustments	877,330	1,031,413
Net Cash Provided by Operating Activities	$1,789,046	$1,983,911
NONCASH TRANSACTIONS		
Proceeds from capital lease	$0	$49,449

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

1. NATURE OF ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Measurement Focus and Basis of Accounting
The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with operations are included on the statement of net assets. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

Budgetary Process
The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2009 and 2008, and passed annual appropriations and resolutions.

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Amortization
Loan fees are being amortized over sixty months beginning with the date of the first payment of each loan. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan fees amortization expense charged to operations for the years ended December 31, 2009 and 2008 were $588 and $1,420, respectively.

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

Investments with a maturity of three months or less at the time they are purchased by the District are considered to be pooled cash and investments and are reported as “cash and cash equivalents” in the accompanying financial statements.

Interest Expense
Interest expense for the years ended December 31, 2009 and 2008 represents the interest portion of construction loan payments to the Ohio Water Development Authority, Rural Development, and National City Bank in the amount of $893,644 and $1,080,150 and the vehicle/equipment lease payments are $1,914 and $0, respectively.

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

Board Designated Cash Fund
The Board of Trustees allocates $1,500 each year, via resolution, for expenditures to be designated by the Trustees. This procedure is in accordance with the Ohio Revised Code. Board discretionary expenditures for the years ended December 31, 2009 and 2008 were $0 and $55 and were approved as bills and paid individually.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Planning Costs – Proposed Projects
The planning costs for proposed projects are comprised of engineering, legal and administrative planning costs which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be included in capital assets and depreciated. If the proposed project does not enter construction, respective planning costs will be deemed impaired assets and written-off. For the year ended December 31, 2008, the District abandoned a well project and wrote off incurred expenses as “noncapitalized planning costs” in the accompanying basic financial statements.

3. RECEIVABLES

Accounts receivable are presented at their net realizable value of $589,231 and $633,249 as of December 31, 2009 and 2008.

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

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

4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2009 was as follows:

	Ending Balance at 12/31/2008	Additions	Deletions	Ending Balance at 12/31/2009
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	$625,232	$2,405	$0	$627,637
	1,710,559	260,897	(1,938,285)	33,171
Total Capital Assets, Not Being Depreciated	2,335,791	263,302	(1,938,285)	660,808
Capital Assets, Being Depreciated				
Buildings and Improvements	5,239,812	28,990	0	5,268,802
Water and Sewer Lines and Related Infrastucture	13,007,738	2,127,001	0	15,134,739
Vehicles and Accessories	167,869	5,010	0	172,879
Furniture and General Equipment	2,286,902	47,353	(500)	2,333,755
Donated Water and Sewer Lines	8,938,927	0	0	8,938,927
Total Capital Assets, Being Depreciated	29,641,248	2,208,354	(500)	31,849,102
Less Accumulated Depreciation:				
Buildings and Improvements	(920,478)	(143,613)	0	(1,064,091)
Water and Sewer Lines and Related Infrastucture	(4,231,133)	(434,643)	0	(4,665,776)
Vehicles and Accessories	(105,871)	(12,314)	0	(118,185)
Furniture and General Equipment	(603,035)	(136,257)	0	(739,292)
Donated Water and Sewer Lines	(1,231,082)	(179,110)	0	(1,410,192)
Total Accumulated Depreciation	(7,091,599)	(905,937)	0	(7,997,536)
Total Capital Assets Being Depreciated, Net	22,549,649	1,302,417	(500)	23,851,566
Total Capital Assets	$24,885,440	$1,565,719	($1,938,785)	$24,512,374

4. CAPITAL ASSETS - CONTINUED

Capital assets activity for the year ended December 31, 2008 was as follows:

	Ending Balance at 12/31/2007	Additions	Deletions	Ending Balance at 12/31/2008
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	$624,782	$450	$0	$625,232
Construction in Progress	391,940	1,668,311	(349,692)	1,710,559
Total Capital Assets, Not Being Depreciated	1,016,722	1,668,761	(349,692)	2,335,791
Capital Assets, Being Depreciated				
Buildings and Improvements	5,212,891	26,921	0	5,239,812
Water and Sewer Lines and Related Infrastucture	12,680,437	331,301	(4,000)	13,007,738
Vehicles and Accessories	108,264	59,605	0	167,869
Furniture and General Equipment	2,224,012	62,890	0	2,286,902
Donated Water and Sewer Lines	8,938,927	0	0	8,938,927
Total Capital Assets, Being Depreciated	29,164,531	480,717	(4,000)	29,641,248
Less Accumulated Depreciation:				
Buildings and Improvements	(776,459)	(144,019)	0	(920,478)
Water and Sewer Lines and Related Infrastucture	(3,815,428)	(416,862)	1,157	(4,231,133)
Vehicles and Accessories	(95,968)	(9,903)	0	(105,871)
Furniture and General Equipment	(469,783)	(133,252)	0	(603,035)
Donated Water and Sewer Lines	(1,051,971)	(179,111)	0	(1,231,082)
Total Accumulated Depreciation	(6,209,609)	(883,147)	1,157	(7,091,599)
Total Capital Assets Being Depreciated, Net	22,954,922	(402,430)	(2,843)	22,549,649
Total Capital Assets	$23,971,644	$1,266,331	($352,535)	$24,885,440

5. NOTE RECEIVABLE - TAP FEES

The District has signed tap agreements under which developers have agreed to purchase water and sewer taps over the next several years. The developers have secured their obligation to purchase these taps by signing irrevocable, unconditional letters-of-credit. The following is the schedule of future tap payments to be made to the District for the years subsequent to December 31, 2009 and 2008:

	2009	2008
2009	$0	$211,160
2010	329,560	329,560
2011	31,580	31,580
	361,140	572,300
Current Portion of Notes Receivable	(329,560)	(211,160)
	$31,580	$361,140

6. LONG-TERM DEBT

Loans payable related to construction of the District's infrastructure consist of the following loans payable to the Ohio Water Development Authority for December 31, 2009 and 2008:

OWDA Loans Payable:	2009	2008
8.05% due in semi-annual payments of $71,302, including interest through July 2015	$658,252	$741,190
8.07% due in semi-annual payments of $134,051, including interest through July 2015	1,236,714	1,392,445
7.50% due in semi-annual payments of $12,431, including interest through July 2015	116,698	131,684
7.50% due in semi-annual payments of $15,361, including interest through July 2015	144,206	162,724
7.21% due in semi-annual payments of $12,396, including interest through July 2018	160,092	172,450
7.14% due in semi-annual payments of $7,170, including interest through July 2018	92,871	100,066
6.51% due in semi-annual payments of $19,856, including interest through January 2022	169,424	177,576
6.18% due in semi-annual payments of $2,367, including interest through July 2022	41,470	43,515
5.88% due in semi-annual payments of $9,785, including interest through January 2023	178,859	187,408
5.66% due in semi-annual payments of $16,119, including interest through January 2025	326,850	339,852
5.56% due in semi-annual payments of $22,440, including interest through January 2025	462,199	480,609
5.77% due in semi-annual payments of $9,067, including interest through January 2025	184,144	191,340
5.85% due in semi-annual payments of $7,797, including interest through January 2021	127,877	135,541
6.72% due in semi-annual payments of $25,478, including interest through January 2021	399,166	421,778
6.16% due in semi-annual payments of $18,861, including interest through January 2020	285,324	304,301
6.41% due in semi-annual payments of $4,667, including interest through January 2027	97,356	100,308
6.39% due in semi-annual payments of $12,930, including interest through January 2027	270,093	278,301
6.39% due in semi-annual payments of $3,383, including interest through July 2027	71,759	73,839
6.39% due in semi-annual payments of $12,877, including interest through January 2027	268,980	277,153
6.03% due in semi-annual payments of $64,884, including interest through January 2027	1,391,132	1,435,020
6.03% due in semi-annual payments of $15,454, including interest through January 2027	331,338	341,792
6.03% due in semi-annual payments of $10,084, including interest through January 2027	216,208	223,029
6.03% due in semi-annual payments of $17,014, including interest through January 2027	364,778	376,287
5.15% due in semi-annual payments of $3,230, including interest through July 2028	77,696	80,063

6. LONG-TERM DEBT - CONTINUED

OWDA Loans Payable:	2009	2008
4.40% due in semi-annual payments of $56,999, including interest through July 2028	$1,457,661	$1,505,923
4.66% due in semi-annual payments of $32,573, including interest through July 2029	841,576	866,626
Total	9,972,723	10,540,820
Less current maturities	(607,040)	(568,096)
Noncurrent OWDA loans payable	$9,365,683	$9,972,724

	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009	Amount Due Within One Year
O.W.D.A.	$10,540,820	$0	$568,097	$9,972,723	$607,040
Rural Development	4,744,800	0	50,800	4,694,000	53,000
National City Loan	1,520,000	0	160,000	1,360,000	160,000
	$16,805,620	$0	$778,897	$16,026,723	$820,040

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008	Amount Due Within One Year
O.W.D.A.	$11,072,544	$0	$531,724	$10,540,820	$568,096
Rural Development	4,793,400	0	48,600	4,744,800	50,800
National City Loan	1,600,000	0	80,000	1,520,000	160,000
	$17,465,944	$0	$660,324	$16,805,620	$778,896

Maturities of the District's debt for the years subsequent to December 31, 2009 are as follows:

	OWDA Loans			Rural Development Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	$607,040	$610,050	$1,217,090	$53,000	$205,363	$258,363
2011	648,740	568,411	1,217,151	55,300	203,044	258,344
2012	693,401	523,750	1,217,151	57,700	200,624	258,324
2013	741,236	475,915	1,217,151	60,200	198,100	258,300
2014	792,477	424,674	1,217,151	62,900	195,466	258,366
2015-2019	2,728,449	1,450,137	4,178,586	358,200	933,572	1,291,772
2020-2024	2,342,026	750,359	3,092,385	443,600	848,063	1,291,663
2025-2029	1,419,354	145,683	1,565,037	549,600	742,137	1,291,737
2030-2034	0	0	0	680,800	610,930	1,291,730
2035-2039	0	0	0	843,300	448,390	1,291,690
2040-2044	0	0	0	1,044,800	247,043	1,291,843
2045-2046	0	0	0	484,600	32,032	516,632
Total	$9,972,723	$4,948,979	$14,921,702	$4,694,000	$4,864,764	$9,558,764

6. LONG-TERM DEBT - CONTINUED

	National City Loan			Total		
	Principal	Interest	Total	Principal	Interest	Total
2010	$160,000	$57,552	$217,552	$820,040	$872,965	$1,693,005
2011	160,000	50,576	210,576	864,040	822,031	1,686,071
2012	160,000	43,600	203,600	911,101	767,974	1,679,075
2013	160,000	36,624	196,624	961,436	710,639	1,672,075
2014	160,000	29,648	189,648	1,015,377	649,788	1,665,165
2015-2019	560,000	48,832	608,832	3,646,649	2,432,541	6,079,190
2020-2024	0	0	0	2,785,626	1,598,422	4,384,049
2025-2029	0	0	0	1,968,954	887,820	2,856,774
2030-2034	0	0	0	680,800	610,930	1,291,730
2035-2039	0	0	0	843,300	448,390	1,291,690
2040-2044	0	0	0	1,044,800	247,043	1,291,843
2045-2046	0	0	0	484,600	32,032	516,632
Total	$1,360,000	$266,832	$1,626,832	$16,026,723	$10,080,575	$26,107,298

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

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

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

In connection with the mortgage revenue bonds and Ohio Water Development Authority loans, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds and loans are payable, through their final maturities, solely from net revenues applicable to its fund. The principal and interest remaining to be paid on these bonds and loans as of December 31, 2009 and 2008 are $9,558,764 and $9,817,149 and $14,921,702 and $16,138,855, respectively. The coverage ratios at December 31, 2009 and 2008 were 1.28 and 1.11, respectively.

7. CAPITAL LEASE OBLIGATIONS

The District entered into an agreement to lease trucks during the fiscal year 2008. The terms of the agreement provide for ownership at the end of the lease term. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases".

The trucks acquired by lease have been capitalized as vehicles in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded as obligations under capital leases on the statement of net assets. Principal payments totaled $11,422 and $13,336 and interest payments totaled $1,914 and $0, respectively during 2009 and 2008.

7. CAPITAL LEASE OBLIGATIONS – CONTINUED

The following is a schedule of the future minimum lease payables under capital lease obligations as of December 31, 2009:

2010	$13,336
2011	13,336
Total Minimum Lease Payments	26,672
Less: Amount Representing Interest	1,980
Present Value of Minimum Lease Payments	$24,692

8. CAPITAL CONTRIBUTIONS

Donated Developer Lines

Donated developer sewer and water lines are shown on the face of the financial statements as capital contributions – donated lines. The District had no capital contributions for 2009 or 2008.

9. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

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

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

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

C. Authority to establish and amend benefits is provided 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, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans.

9. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) - CONTINUED

The member contribution rates were 10.0%, 10.0%, and 9.5% for 2009, 2008, and 2007, respectively, for the District.

The employer contribution rates were 14.0%, 14.0%, and 13.85%, of covered payroll for 2009, 2008, and 2007, respectively, for the District.

The District's contributions to OPERS for the years ended December 31, 2009, 2008, and 2007 were $66,777, $67,904, and $63,266, respectively, which were equal to 100% of the required contributions for each of those years.

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

<u>Ohio Public Employees Retirement System</u>

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment 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 meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interest parties may obtain a copy by writing OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contributions to OPERS is set aside for the funding of post retirement health care benefits.

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2009, 2008, and 2007, the District contributed at 14.0%, 14.0% and 13.85%, respectively, of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

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

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2009, the employer contribution allocated to the health care plan was 7.0% for January through March and 5.5% for April through December. For 2008, the employer contributions allocated to the health care plan was 7.0% of covered payroll. For 2007, these percentages were 5.0% for January through June 2007 and 6.0% for July through December 2007. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

C. The employer contributions that were used to fund post-employment benefits were $28,158 for 2009, $33,952 for 2008, and $25,123 for 2007 which were equal to 100% of the required contributions for each of those years.

D. The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS

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

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

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

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

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

2. Bonds, notes, debentures, or 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;

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – 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 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 (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 5% 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 10% 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 Controller 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 Controller or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

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

The District's deposit bank balances as of December 31, 2009 and 2008 were $1,818,565 and $3,094,730, respectively. The District's balances were either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – CONTINUED

Investments

The District had the following investments at December 31, 2009:

Description	Fair Value	Investment Maturities (in years) Less than 1
ML Institutional Fund	$ 1,317,710	$ 1,317,710
STAR Ohio	50,509	50,509
Total Investments	$ 1,368,219	$ 1,368,219

The District had the following investments at December 31, 2008:

Description	Fair Value	Investment Maturities (in years) Less than 1
ML Institutional Fund	$503,222	$503,222

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no investment policy specifically dealing with interest rate risk. The District manages it exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has no investment policy specifically dealing with credit risk. Investments in money market funds were rated A2 by Moody's. Investments in STAR Ohio were rated AAAm by Standard & Poor's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any on issuer. The District has invested 96% in money market funds and 4% in STAR Ohio as of December 31, 2009 and 100% in money market funds as of December 31, 2008.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy specifically dealing with custodial credit risk. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP).

During 2009 the District contracted with PEP for general liability insurance in the amount of $5,000,000 each occurrence with no aggregate limit, automobile liability in the amount of $5,000,000, blanket building and personal property in the amount of $13,037,000 and boiler and machinery coverage in the amount of $13,037,000.

Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

12. RISK MANAGEMENT – CONTINUED

Casualty Coverage

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

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

Property Coverage

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

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

Financial Position

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2008 and 2007 (the latest information available).

	2008	2007
Assets	$35,769,535	$37,560,071
Liabilities	(15,310,206)	(17,340,825)
Retained Earnings	$20,459,329	$20,219,246

The District made payments to PEP in the amounts of $42,507, $39,884, and $44,080 for the years 2009, 2008, and 2007, respectively.

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

13. DEFERRED EXPENSE

The District is undergoing various sewer line projects in Columbus, Ohio. Before they could tap into the sewer lines, they were required to pay for this in advance. The amount of the payment charged to Jefferson Water and Sewer District was $1,375,250. The District's management estimates that it will take approximately five years to complete these projects. Therefore, rather than absorb the entire cost in June of 2003, the District elected to amortize the cost over the sixty-month period, expensing monthly an amount of $22,921. The total amount expensed for 2008 was $124,806. This deferred expense was fully amortized as of December 31, 2008.

14. NEW ACCOUNTING PRONOUNCEMENTS

For the year ended December 31, 2008, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, GASB Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to basic financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The application of these new standards had no effect on the financial statements, nor did their implementation require a restatement of prior year balances.

15. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2009 and 2008 was as follows:

	Budgeted and Actual Receipts		
	Budget	Actual	Variance
2009	$4,161,854	$4,334,990	$173,136
2008	4,167,093	4,587,507	420,414

	Budgeted and Actual Budgetary Basis Expenditures		
	Budget	Actual	Variance
2009	$5,240,797	$4,715,597	$525,200
2008	6,662,490	6,042,883	619,607

16. SUBSEQUENT EVENT

One of the developers had set up an agreement with the District to pay their tap fees which were in arrears on a monthly basis. In January 2010 they stopped making their monthly payments and have sent a letter of hardship to the District. At this time it is impracticable to determine what effect, if any, this may have on the District's basic financial statements.

Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

June 28, 2010

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the **Jefferson Water and Sewer District, Franklin County, Ohio** (the District), as of and for the years ended December 31, 2009 and 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management and District Trustees. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

Perry & Associates CPA's A.C.

Perry & Associates
Certified Public Accountants, A.C.

JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2008-001	ORC 5705.41(D)	Yes	N/A

Mary Taylor, CPA
Auditor of State

JEFFERSON WATER AND SEWER DISTRICT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 10, 2010