

Southern Perry County Water District
Perry County, Ohio

Regular Audit

January 1, 2008 through December 31, 2009

Year Audited Under GAGAS: 2008 and 2009



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Members of the Board
Southern Perry County Water District
P.O. Box 335
Corning, Ohio 43730-0335

We have reviewed the *Independent Auditor's Report* of the Southern Perry County Water District, Perry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2008 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 Southern Perry County Water District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 17, 2010

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SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

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Independent Auditor's Report

Members of the Board
Southern Perry County Water District
P.O. Box 335
Corning, Ohio 43730-0335

We have audited the accompanying financial statements of the business-type activities of the Southern Perry County Water District, Perry 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 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 Southern Perry County Water District, Perry County, Ohio, as of December 31, 2009 and 20078, and the respective changes in financial position and cash flows, thereof, for the years ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 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 result 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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer".

Balestra, Harr & Scherer, CPAs, Inc.
June 11, 2010

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008

This discussion and analysis, along with the accompanying financial report, of Southern Perry County Water District Inc., ("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 exceed liabilities on December 31, 2009 and 2008 by \$1.9 million. The District's net assets decreased \$26 thousand (-1%) in 2009 and increased \$25 thousand (1%) in 2008.

The District's Operating Revenues decreased \$64 thousand (-8%) during 2009 and increased \$55 thousand (7%) during 2008. Operating Expenses decreased \$36 thousand (-5%) during 2009 and increased \$23 thousand (3%) during 2008.

The District issued additional long term debt of \$23 thousand and \$558 thousand during 2009 and 2008, respectively.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. 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. The District's net assets (equity) 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 of its costs through service charges, tap fees, 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. It summarizes the net changes in cash resulting from operating, investing, and financing activities.

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008

NET ASSETS

Table 1 summarizes the Net Assets of the District. Capital Assets are reported less accumulated depreciation. The line "Invested in Capital, Net of Debt" is Capital Assets, less outstanding debt that was used to acquire those assets.

TABLE 1

	2009	2008	Change	2007	Change
Current & Other Assets	\$443,682	\$474,153	\$-30,471	\$515,259	\$-41,106
Capital Assets, Net	3,898,424	3,965,216	-66,792	3,431,816	533,400
Total Assets	4,342,106	4,439,369	-97,263	3,947,075	492,294
Long term liabilities	2,281,953	2,338,765	-56,812	1,884,176	454,589
Current and Other liabilities	132,645	146,839	-14,194	133,923	12,916
Total liabilities	2,414,598	2,485,604	-71,006	2,018,099	467,505
Net assets					
Invested in capital, net of debt	1,536,899	1,530,190	6,709	1,485,585	44,605
Restricted	186,308	181,495	4,813	173,683	7,812
Unrestricted	204,301	242,080	-37,779	269,708	-27,628
Total net assets	\$1,927,508	\$1,953,765	\$-26,257	\$1,928,976	\$24,789

The District's Net Assets decreased \$26 thousand (-1%) in 2009 and increased \$25 thousand (1%) in 2008.

Restricted net assets increased by \$5 thousand and \$8 thousand, respectively for 2009 and 2008. This increase was 3% for 2009 and 4% for 2008, and resulted from interest earned. Restricted assets are cash that is limited in use as part of the District's loan covenants with the United States Department of Agriculture – Rural Development.

Unrestricted assets decreased \$38 thousand during 2009 (-16%) and decreased \$28 thousand during 2008 (-10%). Unrestricted assets may be used without constraints established by loan covenants, and as provided by the adopted budget. Cash and Cash Equivalents decreased \$33 thousand during 2009 and decreased \$53 thousand during 2008.

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Table 2 summarizes the changes in Revenues and Expenses and the resulting change in Net Assets.

TABLE 2

	2009	2008	Change	2007	Change
Total operating revenues	\$755,890	\$819,578	\$-63,688	\$764,370	\$55,208
Purchased water	263,841	297,156	-33,315	305,759	-8,603
Wages and fringe benefits	183,902	178,874	5,028	165,272	13,602
Maintenance and operations	90,920	99,690	-8,770	87,875	11,815
Office expenses and operation	17,295	19,068	-1,773	16,106	2,962
Engineering, legal, audit & accounting fees	19,255	31,912	-12,657	33,909	-1,997
Depreciation	136,832	121,542	15,290	116,426	5,116
Total operating expenses	712,045	748,242	-36,197	725,347	22,895
Operating income	43,845	71,336	-27,491	39,023	32,313
Non-operating revenues	5,949	22,406	-16,457	23,205	-799
Non-operating expenses	-76,051	-68,953	-7,098	-67,037	-1,916
Changes in net assets	-26,257	24,789	-51,046	-4,809	29,598
Net assets at beginning of year	1,953,765	1,928,976	24,789	1,933,785	-4,809
Net assets at end of year	\$1,927,508	\$1,953,765	\$-26,257	\$1,928,976	\$24,789

Operating revenues decreased in 2009 by \$64 thousand as a result of less water sold due to the loss of a municipal customer. Operating revenues increased during 2008 by \$55 thousand, due to customer growth.

Operating expenses decreased \$36 thousand (-5%) in 2009, due mainly to a decrease in the purchase of water, and also decreases in maintenance and operations expenses as well as professional fees. During 2008, operating expenses increased by \$23 thousand (3%), as expenses increases in most categories.

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008

CAPITAL ASSETS

The District had \$6 million invested in Capital Assets (before depreciation) at the end of 2009. This amount is an increase of \$68 thousand (1%) from the previous year. The District had \$5.9 million invested in Capital Assets (before depreciation) at the end of 2008, and this amount is an increase of \$644 thousand (12%) from the previous year.

TABLE 3

	2009	2008	Change	2007	Change
Land	\$19,968	\$19,968	\$ 0	\$19,968	\$ 0
Water lines and buildings	5,256,573	5,220,372	36,201	4,606,793	613,579
DNR tap fees	503,516	503,516	0	503,516	0
Transportation, tools, & equipment	210,914	178,949	31,965	148,586	30,363
Total before depreciation	5,990,971	5,922,805	68,166	5,278,863	643,942
Accumulated depreciation	-2,092,547	-1,957,589	-134,958	-1,847,047	-110,542
Total net capital assets	\$3,898,424	\$3,965,216	\$-66,792	\$3,431,816	\$533,400

For additional information regarding capital assets, please see Note 4 to the Basic Financial Statements.

DEBT

The District issues long term debt to finance much of its construction and to purchase vehicles and equipment.

TABLE 4

	2009	2008	Change	2007	Change
Farmer' Home Administration Revenue Bonds	\$1,100,275	\$1,132,292	\$-32,017	\$1,162,412	\$-30,120
Ohio Public Works Commission Issue II Loan	206,428	224,900	-18,472	243,008	-18,108
Ohio Water Development Authority Loans	993,127	1,023,182	-30,055	540,811	482,371
Bank Installment Loans	61,695	54,652	7,043	0	54,652
Total long term debt	2,361,525	2,435,026	-73,501	1,946,231	488,795
Less current maturities	-79,572	-96,261	16,689	-62,055	-34,206
Net total long term debt	\$2,281,953	\$2,338,765	\$-56,812	\$1,884,176	\$454,589

For additional information regarding debt, please see Note 5 to the Basic Financial Statements.

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008

CASH

Cash and cash equivalents on December 31, 2009 and 2008, were \$227 thousand and \$260 thousand, respectively. Not included in these totals are an additional \$186 thousand and \$181 thousand, as of December 31, 2009 and 2008, respectively, of cash and cash equivalents that are restricted as debt service reserves.

ECONOMIC FACTORS AND 2010 BUDGET

The District has adopted a budget for 2010 that has less than a 7% decrease from 2009. The District has lost a municipal customer, and the region in which the District operates has been experiencing economic downturns. The District is committed to supplying water to the region at the most affordable rates, while maintaining and improving the District as needed.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to James Palmer, President of the Board of Trustees, Southern Perry Water District, Inc., PO Box 335, Corning, Ohio 43170, or 740-347-9030.

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Net Assets
as of December 31, 2009 and 2008

	2009	2008
Current assets		
Cash and cash equivalents	\$ 227,161	\$ 260,249
Accounts receivable - customers	23,399	25,595
Inventories	6,814	6,814
Total current assets	257,374	292,658
Noncurrent assets		
Reserve account for debt payment	186,308	181,495
Total noncurrent assets	186,308	181,495
Capital assets		
Land	19,968	19,968
Water system	5,760,089	5,723,888
Transportation, equipment, and tools	210,914	178,949
Total capital assets	5,990,971	5,922,805
Less: Accumulated depreciation	2,092,547	1,957,589
Net capital assets	3,898,424	3,965,216
Total assets	4,342,106	4,439,369
Current liabilities		
Accounts payable	28,774	26,155
Current portion of USDA-RD bonds	33,031	32,017
Current portion other loans	46,541	64,244
Payroll taxes and OPERS payable	4,393	3,999
Interest payable USDA-RD	19,826	20,424
Interest payable-other	80	-
Total current liabilities	132,645	146,839
Noncurrent liabilities		
Bonds payable USDA-RD	1,100,275	1,132,292
Other loans payable	1,261,250	1,302,734
Less current portion shown above	(79,572)	(96,261)
Total noncurrent liabilities	2,281,953	2,338,765
Total liabilities	2,414,598	2,485,604
Net assets		
Invested in capital assets, net of related debt	1,536,899	1,530,190
Restricted	186,308	181,495
Unrestricted	204,301	242,080
Total net assets	1,927,508	1,953,765
Total liabilities and net assets	\$ 4,342,106	\$ 4,439,369

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

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Water sales	\$ 712,863	\$ 740,965
Tap fees	18,225	55,125
Turn on fees	2,250	1,800
Late penalty charges	21,279	20,769
Miscellaneous income	1,273	919
Total operating revenues	<u>755,890</u>	<u>819,578</u>
 Operating expenses		
Purchased water	263,841	297,156
Salaries, payroll taxes, & employers share OPERS	143,613	146,176
Directors fees	6,375	5,925
Employee health and life insurance	31,560	24,545
Workers compensation	2,354	2,228
Utilities	35,136	31,560
Maintenance and operations	55,784	68,130
Office expenses and operation	17,295	19,068
Professional fees	19,255	31,912
Depreciation	136,832	121,542
Total operating expenses	<u>712,045</u>	<u>748,242</u>
 Operating income	<u>43,845</u>	<u>71,336</u>
 Nonoperating revenues (expenses)		
Interest revenue	5,949	15,406
Gain on sale of asset	-	7,000
Interest expense USDA-RD	(53,679)	(55,178)
Interest expense other	(22,372)	(13,775)
 Total nonoperating revenues (expenses)	<u>(70,102)</u>	<u>(46,547)</u>
 Increase (decrease) in net assets	<u>(26,257)</u>	<u>24,789</u>
 Net assets - beginning of period	<u>1,953,765</u>	<u>1,928,976</u>
 Net assets - end of period	<u>\$ 1,927,508</u>	<u>\$ 1,953,765</u>

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

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flow from Operating Activities:		
Receipts from customers	\$ 758,086	\$ 796,543
Payments to suppliers	(448,660)	(502,682)
Payments to employees	(123,540)	(125,821)
	<u>185,886</u>	<u>168,040</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of debt	22,761	558,041
Acquisitions of capital assets	(70,040)	(654,942)
Principal paid on capital debt	(96,262)	(69,246)
Interest paid on debt	(76,569)	(69,515)
Proceeds from Sale of Assets	-	7,000
	<u>(220,110)</u>	<u>(228,662)</u>
Cash flows from investing activities		
Interest	5,949	15,406
	<u>5,949</u>	<u>15,406</u>
Net increase (decrease) in cash and cash equivalents	(28,275)	(45,216)
Balances - beginning of year	<u>441,744</u>	<u>486,960</u>
Balances - end of year	<u>\$ 413,469</u>	<u>\$ 441,744</u>
Reconciliation of operating income to net cash Provided by operating activities		
Operating income	\$ 43,845	\$ 71,336
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	136,832	121,542
Changes in net assets and liabilities:		
(Increase) Decrease in Accounts Receivables, net	2,196	(4,110)
Increase (Decrease) in Accounts payable	2,619	(1,535)
Increase (Decrease) in Deferred revenue	-	(18,925)
Increase (Decrease) in Payroll Taxes and PERS payable	394	(268)
	<u>185,886</u>	<u>168,040</u>
Reconciliation of cash to the balance sheet:		
Cash and cash equivalents	227,161	260,249
Cash equivalents - restricted	186,308	181,495
Total cash and cash equivalents	<u>\$ 413,469</u>	<u>\$ 441,744</u>

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

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Southern Perry County Water District (the District) is a water district organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Perry County on February 11, 1975. The District operates under the direction of a seven member board of trustees. The staff, consisting of an appointed Board Treasurer, a distribution superintendent, and an office manager, is responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users and business use. The District serves all or parts of the following political subdivisions in Perry County:

Bearfield Township
Coal Township
Harrison Township
Jackson Township
Monroe Township
Pike Township
Pleasant Township
Saltlick Township
Village of Rendville

B. BASIS OF ACCOUNTING

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 Southern Perry County Water District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Un-billed water utility service receivables are recorded at year end.

Expenses are recognized under the accrual basis of accounting when the liability is incurred.

Under the guidelines of Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the District has elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its proprietary activities.

C. BUDGETARY PROCESS

The Ohio Revised Code requires the District to adopt an annual budget.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations, 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.

A summary of 2009 and 2008 budgetary activity appears in Note 3.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. CASH & CASH EQUIVALENTS

Cash in the District's operating account, certificates of deposit, and the District's participation in the State Treasurer's Investment Pool (STAROhio) are treated as cash and cash equivalents for the purposes of the Statement of Cash Flows.

E. INVENTORY

The inventory is valued at cost, which approximates market, utilizing the first-in, first-out (FIFO) method. The inventory of the District consists of expendable materials and supplies. The cost is recorded as an expense at the time individual inventory items are used.

F. RESTRICTED ASSETS

Restricted assets represent monies legally restricted for payment of bond issues. All of the District's restricted investments are invested in certificates of deposit at December 31, 2009 and 2008, and are listed in the noncurrent assets section of the balance sheet.

G. PROPERTY, PLANT, AND EQUIPMENT (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:

Department of Natural Resources Tap Fees	40 years
Water Lines	50 years
Water Tanks	50 years
Water Meters and Installation	50 years
Transportation Equipment	5 to 10 years
Equipment and Tools	2 to 5 years

H. COMPENSATED ABSENCES

GASB Statement 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. Compensated absence is earned on the basis of services already performed by employees.
2. It is probable that the compensated absence will be paid in a future period.

The District does not record compensated absences in accordance with GASB 16, as the District feels that any liability would be immaterial to the basic financial statements as a whole.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. PENSIONS

The provisions for pension costs are recorded when the related payroll is accrued and the obligation is incurred.

J. ESTIMATES

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

NOTE 2 - CASH AND CASH EQUIVALENTS

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

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

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

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

Interim monies can 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. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and,
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

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

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

Deposits - Custodial credit risk for deposits is the risk that in the event of bank failure, 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.

At December 31, 2009, the District's bank balance of \$249,138 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above. At December 31, 2008, the District's bank balance of \$240,164 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above.

Investments - The District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the years ended December 31, 2009 and 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2009 and 2007. The District's investments in STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

	2009		2008	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$164,380	0	\$204,768	0
Total Fair Value	<u>\$164,380</u>		<u>\$204,768</u>	

Interest rate risk – In accordance with the investment policy, the District manages its exposure to declines in fair values by investing exclusively in STAR Ohio.

Credit risk – In accordance with the investment policy, the District limits its investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of credit risk – The District’s investment policy allows investments in STAR Ohio, Repurchase Agreements, Certificates of Deposit or with financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% in investments in STAR Ohio.

Custodial credit risk – 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. In accordance with the investment policy, 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.

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity, which is accounted for on the cash basis of accounting, is as following for the year ended December 31, 2009 and 2008:

Budgeted vs. Actual Receipts		
	2009	2008
Budgeted Receipts	\$ 1,250,000	\$ 1,220,500
Actual Receipts	<u>796,463</u>	<u>814,059</u>
Variance	<u>\$ 453,537</u>	<u>\$ 406,441</u>

Budgeted vs. Actual Budgetary Basis Expenditures		
	2009	2008
Appropriation Authority	\$ 1,250,000	\$ 1,220,500
Budgetary Expenditures	<u>792,554</u>	<u>856,961</u>
Variance	<u>\$ 457,446</u>	<u>\$ 363,539</u>

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2009 AND 2008

NOTE 4 - CAPITAL ASSETS

Capital Assets activity for the fiscal year ended December 31, 2009 is as follows:

	Beginning Balance 1/1/2009	Additions	Deletions	Ending Balance 12/31/2009
Capital Assets, Not Being Depreciated				
Land	\$ 19,968	\$ -	\$ -	\$ 19,968
Total Capital Assets, Not Being Depreciated	<u>19,968</u>	<u>-</u>	<u>-</u>	<u>19,968</u>
Capital Assets Being Depreciated				
Water Lines and Buildings	5,220,372	36,201	-	5,256,573
DNR Tap Fees	503,516	-	-	503,516
Transportation Equipment	149,801	30,292	59,143 *	120,950
Furniture and Equipment	29,148	62,690	1,874	89,964
Total Capital Assets Being Depreciated	<u>5,902,837</u>	<u>129,183</u>	<u>61,017</u>	<u>5,971,003</u>
Less Accumulated Depreciation				
Water Lines and Buildings	(1,476,267)	(110,098)	-	(1,586,365)
DNR Tap Fees	(374,669)	(12,588)	-	(387,257)
Transportation Equipment	(80,990)	(6,497)	-	(87,487)
Furniture and Equipment	(25,663)	(7,649)	(1,874)	(31,438)
Total Accumulated Depreciation	<u>(1,957,589)</u>	<u>(136,832)</u>	<u>(1,874)</u>	<u>(2,092,547)</u>
Total Capital Assets Being Depreciated, Net	<u>3,945,248</u>	<u>(7,649)</u>	<u>59,143</u>	<u>3,878,456</u>
Total Capital Assets, Net	<u>\$3,965,216</u>	<u>(\$7,649)</u>	<u>\$59,143</u>	<u>\$3,898,424</u>

* - This deletion of \$59,143 is a transfer from transportation equipment to furniture and equipment during 2009 and is not an addition to furniture and equipment nor a disposition in transportation equipment.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 4 - CAPITAL ASSETS (Continued)

Capital Assets activity for the fiscal year ended December 31, 2008 is as follows:

	Beginning Balance 1/1/2008	Additions	Deletions	Ending Balance 12/31/2008
Capital Assets, Not Being Depreciated				
Land	\$ 19,968	\$ -	\$ -	\$ 19,968
Total Capital Assets, Not Being Depreciated	<u>19,968</u>			<u>19,968</u>
Capital Assets Being Depreciated				
Water Lines and Buildings*	4,634,374	585,998	-	5,220,372
DNR Tap Fees	503,516	-	-	503,516
Transportation Equipment	87,857	61,944	-	149,801
Furniture and Equipment*	33,148	7,000	11,000	29,148
Total Capital Assets Being Depreciated	<u>5,258,895</u>	<u>654,942</u>	<u>11,000</u>	<u>5,902,837</u>
Less Accumulated Depreciation				
Water Lines and Buildings*	(1,377,768)	(98,499)	-	(1,476,267)
DNR Tap Fees	(362,081)	(12,588)	-	(374,669)
Transportation Equipment	(75,608)	(5,382)	-	(80,990)
Furniture and Equipment*	(31,590)	(5,073)	(11,000)	(25,663)
Total Accumulated Depreciation	<u>(1,847,047)</u>	<u>(121,542)</u>	<u>(11,000)</u>	<u>(1,957,589)</u>
Total Capital Assets Being Depreciated, Net	<u>3,411,848</u>	<u>533,400</u>	<u>0</u>	<u>3,945,248</u>
Total Capital Assets, Net	<u>\$3,431,816</u>	<u>\$533,400</u>	<u>\$0</u>	<u>\$3,965,216</u>

*As Restated due to misclassification in prior year

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2009 AND 2008

NOTE 5 – CURRENT AND LONG-TERM DEBT

Long-Term debt obligations and the related transactions for the years ending December 31, 2009 and 2008 are summarized below:

	Balance 1/1/2008	Additions	Reductions	Balance 12/31/2008	Due Within One Year
O.W.D.A.	\$ 540,811	\$ 498,898	\$ 16,527	\$ 1,023,182	\$ 30,055
O.P.W.C.	243,008	-	18,108	224,900	18,472
USDA Revenue Bonds	1,162,412	-	30,120	1,132,292	32,017
North Valley Bank	-	59,143	4,491	54,652	15,717
	<u>\$ 1,946,231</u>	<u>\$ 558,041</u>	<u>\$ 69,246</u>	<u>\$ 2,435,026</u>	<u>\$ 96,261</u>

	Balance 1/1/2009	Additions	Reductions	Balance 12/31/2009	Due Within One Year
O.W.D.A.	\$ 1,023,182	\$ -	\$ 30,055	\$ 993,127	\$ 15,197
O.P.W.C.	224,900	-	18,472	206,428	9,707
USDA Revenue Bonds	1,132,292	-	32,017	1,100,275	33,031
North Valley Bank	54,652	22,761	15,718	61,695	21,637
	<u>\$ 2,435,026</u>	<u>\$ 22,761</u>	<u>\$ 96,262</u>	<u>\$ 2,361,525</u>	<u>\$ 79,572</u>

A. USDA revenue bonds

The USDA outstanding revenue bonds were issued for the acquisition and construction of Phase I, II, and III of the water resource expansion project. Revenue of the District has been pledged to repay these debts.

Future principal and interest payments on all USDA Revenue Bonds are as follows:

Year Ending December 31,	USDA Revenue Bonds		
	Principal	Interest	Total
2010	33,031	52,723	85,754
2011	35,065	51,119	86,184
2012	37,218	49,417	86,635
2013	38,391	47,608	85,999
2014	40,592	45,744	86,336
2015-2019	218,062	196,963	415,025
2020-2024	193,527	148,323	341,850
2025-2029	244,572	97,313	341,885
2030-2034	230,875	34,720	265,595
2035	28,942	1,302	30,244
	<u>\$1,100,275</u>	<u>\$ 725,232</u>	<u>\$1,825,507</u>

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$1,487,000 in water revenue bonds issued in 1978, 1992, and 1996. Proceeds from the bonds provided financing for the construction of the Water Resource Extension Plant. The bonds are payable solely from water customer net revenues and are payable through 2035. Annual principal and interest payments remaining on the bonds are expected to require approximately 55 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,825,507.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 5 – CURRENT AND LONG-TERM DEBT (continued)

B. Ohio Public Works Commission Issue II loans:

The outstanding Issue II loan was issued by Perry County. The District has assumed this debt because the water improvements are to be turned over to the District.

Future principal and interest payments on all OPWC loans are as follows:

Year Ending December 31,	OPWC		
	Principal	Interest	Total
2010	9,707	1,732	11,439
2011	19,058	3,821	22,879
2012	19,448	3,431	22,879
2013	20,203	2,676	22,879
2014	20,609	2,269	22,878
2015-2019	107,696	6,696	114,392
2020	9,707	1,732	11,439
	<u>\$ 206,428</u>	<u>\$ 22,357</u>	<u>\$ 228,785</u>

C. Ohio Water Development Authority (OWDA) loans

The OWDA loans were used for a water booster station and an elevated storage tank.

Future principal and interest payments on all O.W.D.A. loans are as follows:

Year Ending December 31,	OWDA Loans		
	Principal	Interest	Total
2010	15,197	7,448	22,645
2011	30,736	14,554	45,290
2012	31,199	14,091	45,290
2013	31,669	13,622	45,291
2014	32,146	13,145	45,291
2015-2019	168,136	58,317	226,453
2020-2024	181,180	45,272	226,452
2025-2029	195,237	31,216	226,453
2030-2034	190,207	16,273	206,480
2035-2039	117,420	4,236	121,656
	<u>\$ 993,127</u>	<u>\$ 218,174</u>	<u>\$ 1,211,301</u>

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$1,090,898 in water revenue bonds issued in 2002, 2004, 2006 and 2008. Proceeds from the bonds provided financing for the construction of the Water Booster Station and Elevated Storage Tank. The bonds are payable solely from water customer net revenues and are payable through 2039. The total principal and interest remaining to be paid on the bonds is \$1,211,301.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2009 AND 2008

NOTE 5 – CURRENT AND LONG-TERM DEBT (continued)

D. North Valley Bank Installment Loans:

The North Valley Bank installment loans were used to purchase a loader backhoe and a truck.

Future principal and interest payments on all North Valley Bank installment loans are as follows:

Year Ending December 31,	<u>North Valley Bank Installment Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	21,637	2,805	24,442
2011	23,394	1,048	24,442
2012	16,664	310	16,974
	<u>\$ 61,695</u>	<u>\$ 4,163</u>	<u>\$ 65,858</u>

NOTE 6 - RISK MANAGEMENT

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years and there has not been any significant reductions in insurance coverage from the prior year.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

The District also provides health care insurance coverage for its full-time employees.

NOTE 7 – DEFINED BENEFIT RETIREMENT PLAN

Ohio Public Employees Retirement System

- 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, survivor and death benefits and annual cost-of-living adjustments to 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.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 7 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Ohio Public Employees Retirement System (Continued)

- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009 and 2008, member and employer contribution rates were consistent across all three plans.

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

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

The District's contributions to OPERS for the years ended December 31, 2009, 2008, and 2007 were \$18,188, \$18,444, and \$16,638, respectively, which were equal to the required contributions for those years.

NOTE 8 – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

- 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-retirement 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. Interested 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.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 8 – POSTEMPLOYMENT BENEFITS (Continued)

Ohio Public Employees Retirement System (Continued)

- 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 contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009 and 2008, the District contributed at 14% of covered payroll. In 2007, the District contributed at 13.85% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered 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 and 2008, the employer contributions allocated to the health care plan was 7.0% of covered payroll. For 2007, the employer contributions allocated to the health care plan from January 1 through June 30, 2007 and July 1, 2007 through December 31, 2007 was 5.0% and 6.0%, respectively. 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 \$9,094 for 2009, \$9,222 for 2008, and \$6,536 for 2007.
- 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, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by
*Government Auditing Standards***

Members of the Board
Southern Perry County Water District
P.O. Box 335
Corning, Ohio 43730-0335

We have audited the financial statements of the business-type activities of Southern Perry County Water District, Perry County, Ohio, (the District) as of and for the years ended December 31, 2009 and 20078, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 11, 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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

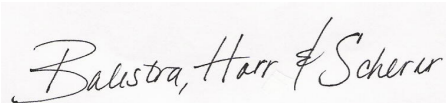
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies 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 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 the management and the board of trustees. We intend it for no one other than these specified parties.

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

Balestra, Harr & Scherer, CPAs, Inc.
June 11, 2010



Mary Taylor, CPA
Auditor of State

SOUTHERN PERRY COUNTY WATER DISTRICT

PERRY 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
SEPTEMBER 30, 2010**