

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY**

**BASIC FINANCIAL STATEMENTS
Years ended December 31, 2008 and 2007**



Mary Taylor, CPA
Auditor of State

Board of Trustees
Walnut Creek Sewer District
P.O. Box 599
102 E. Columbus Street
Pleasantville, Ohio 43148

We have reviewed the *Independent Auditors' Report* of the Walnut Creek Sewer District, Fairfield County, prepared by Jones, Cochenour & Co., for the audit period January 1, 2007 through December 31, 2008. 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 Walnut Creek Sewer District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 26, 2009

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**WALNUT CREEK SEWER DISTRICT
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2 – 7
Basic Financial Statements:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements	11 – 23
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24 – 25
Schedule of Findings	26
Status of Prior Audit Findings	27



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Walnut Creek Sewer District
Pleasantville, Ohio

We have audited the accompanying basic financial statements of Walnut Creek Sewer District, as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Walnut Creek Sewer District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Walnut Creek Sewer District, as of December 31, 2008 and 2007, and the results of its operations and the cash flows of its proprietary funds activities for the years 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 December 9, 2009, on our consideration of Walnut Creek Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Jones, Cochenour & Co.
December 9, 2009

much more than an accounting firm

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2008 and 2007
Unaudited**

The discussion and analysis of the Walnut Creek Sewer District's (the "District") financial performance provides an overall review of the District's financial activities for the years ended December 31, 2008 and 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance. As stated in the notes to the basic financial statements, the financial information contained in this report is presented in conformity with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2008 are as follows:

- The total net assets of the District increased \$79,354.
- Total operating and nonoperating revenues for 2008 were \$411,236.
- Total outstanding loans during the year increased \$93,890 to \$393,225.
- The overall cash position of the District increased \$116,240.

Key financial highlights for 2007 are as follows:

- The total net assets of the District increased \$199,244.
- Total operating and nonoperating revenues for 2007 were \$509,386.
- Total outstanding loans during the year decreased \$16,502 to \$299,335.
- The overall cash position of the District increased \$67,113.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Assets

The statement of net assets includes all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. The statement of net assets report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

Statement of Revenues, Expenses and Changes in Net Assets

This statement provides information on the District's operations over the past year and the success in recovering all costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

Statements of Cash Flows

This statement provides information about the District's cash receipts and cash disbursements. They summarize the net change in cash resulting from operating, noncapital financing, investing, and capital and related financing activities.

Proprietary Fund

The District reports using a Proprietary fund (enterprise fund) to account for its water and sewer functions.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. These notes to the basic financial statements can be found on pages 11-22 of this report.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years Ended December 31, 2008 and 2007
Unaudited**

STATEMENT OF NET ASSETS

The Table Below provides a summary of the District's net assets for 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current and Other Assets	\$ 413,671	\$ 301,122	\$ 234,414
Capital Assets	<u>1,680,439</u>	<u>1,618,588</u>	<u>1,503,215</u>
TOTAL ASSETS	2,094,110	1,919,710	1,737,629
LIABILITIES			
Current and other liabilities	60,094	55,107	54,453
Long-term liabilities	<u>372,951</u>	<u>282,892</u>	<u>300,709</u>
TOTAL LIABILITIES	433,045	337,999	355,162
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,287,214	1,348,143	1,187,378
Restricted	87,803	85,982	70,065
Unrestricted	<u>286,048</u>	<u>147,586</u>	<u>125,024</u>
TOTAL NET ASSETS	<u>\$ 1,661,065</u>	<u>\$ 1,581,711</u>	<u>\$ 1,382,467</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2008 and 2007, the District's assets exceeded liabilities by \$1,661,065 and \$1,581,711, respectively.

Capital assets represent the largest portion of the District's net assets. At year-end for 2008 and 2007, capital assets represented 80% and 84% of total assets, respectively. Capital assets include land, land easements, land improvements, plant buildings, leasehold improvements, sewer lines and storage, pumps and treatment equipment, office equipment and furniture, equipment and tools, transportation equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire these assets at December 31, 2008 and 2007, were \$1,287,214 and \$1,348,143, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$87,803 and \$85,982 for 2008 and 2007, respectively, represent resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$286,048 and \$147,586 may be used to meet the District's ongoing obligations to citizens and creditors.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years Ended December 31, 2008 and 2007
Unaudited**

The table below shows the changes in net assets for years 2008 and 2007.

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
OPERATING REVENUES				
Service fees	\$ 302,874	\$ 309,156	(6,282)	(2)
Contract fee revenue	13,973	14,658	(685)	(5)
TOTAL OPERATING REVENUES	<u>316,847</u>	<u>323,814</u>	<u>(6,967)</u>	<u>(2)</u>
OPERATING EXPENSES				
Operating expenses (excluding depreciation)	215,690	182,092	33,598	18
Depreciation	90,760	108,935	(18,175)	(17)
TOTAL OPERATING EXPENSES	<u>306,450</u>	<u>291,027</u>	<u>15,423</u>	<u>5</u>
NET OPERATING REVENUE	10,397	32,787	(22,390)	(68)
Nonoperating revenues (includes capital contributions)	94,389	185,572	(91,183)	(49)
Nonoperating expenses	<u>(25,432)</u>	<u>(19,115)</u>	<u>(6,317)</u>	<u>33</u>
Change in net assets	79,354	199,244	(119,890)	(60)
Net asses at beginning of year	<u>1,581,711</u>	<u>1,382,467</u>	<u>199,244</u>	<u>14</u>
Net assets at end of year	<u>\$ 1,661,065</u>	<u>\$ 1,581,711</u>	<u>79,354</u>	<u>5</u>

Operating revenues decreased \$6,967 from 2007 while operating expenses increased \$15,423.

BUDGETING HIGHLIGHTS

As required under the Ohio Revised Code, an annual operating budget is adopted for management purposes. Budget information is reported to the management of the Board, and modifications may only be made by resolution of the Board.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years Ended December 31, 2008 and 2007
Unaudited**

The table below shows the changes in net assets for years 2007 and 2006.

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
OPERATING REVENUES				
Service fees	\$ 309,156	\$ 236,613	72,543	31
Contract fee revenue	14,658	12,304	2,354	19
TOTAL OPERATING REVENUES	<u>323,814</u>	<u>248,917</u>	<u>74,897</u>	<u>30</u>
OPERATING EXPENSES				
Operating expenses (excluding depreciation)	182,092	213,449	(31,357)	(15)
Depreciation	108,935	87,616	21,319	24
TOTAL OPERATING EXPENSES	<u>291,027</u>	<u>301,065</u>	<u>(10,038)</u>	<u>(3)</u>
NET OPERATING REVENUE/(LOSS)	32,787	(52,148)	84,935	(163)
Nonoperating revenues (includes capital contributions)	185,572	224,130	(38,558)	(17)
Nonoperating expenses	<u>(19,115)</u>	<u>(28,545)</u>	<u>9,430</u>	<u>(33)</u>
Change in net assets	199,244	143,437	55,807	39
Net asses at beginning of year	<u>1,382,467</u>	<u>1,239,030</u>	<u>143,437</u>	<u>12</u>
Net assets at end of year	<u><u>\$ 1,581,711</u></u>	<u><u>\$ 1,382,467</u></u>	<u><u>199,244</u></u>	<u><u>14</u></u>

Operating revenues increased \$74,897 from 2006 to 2007 while operating expenses decreased \$31,357. The increase in operating revenues is attributed to the District increasing rates effective January 1, 2007. The increase in net assets of \$199,244 is primarily attributed to non-cash capital contributions of \$171,399.

WALNUT CREEK SEWER DISTRICT
 FAIRFIELD COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
 Years Ended December 31, 2008 and 2007
 Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the District had \$1,680,439 (net of accumulated depreciation) invested in capital assets. The following table shows capital assets net of any applicable depreciation at December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 24,276	\$ 24,276	\$ 24,276
Land easements	1,250	1,250	1,250
Construction in progress	164,998	90,356	227,905
Land improvements	-	-	80
Plant buildings	375,502	394,629	136,181
Sewer lines and storage	796,923	784,416	844,547
Pumps and treatment equipment	309,181	313,397	256,069
Office equipment and furniture	-	-	226
Leasehold Improvments	450	547	644
Equipment and tools	7,859	9,717	12,037
TOTAL	<u><u>\$ 1,680,439</u></u>	<u><u>\$ 1,618,588</u></u>	<u><u>\$ 1,503,215</u></u>

The District's largest capital asset category is infrastructure which includes sewer lines. These items are immovable and of value only to the District, however, the annual cost of purchasing these items is quite significant. The net book value of the District's infrastructure (cost less accumulated depreciation) represents approximately 56% of the District's total capital assets.

See Note 6 to the basic financial statements for more detail on the District's capital assets.

Debt Administration

The District had the following long-term obligations outstanding at December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
USDA Rural Development Bonds	\$ 250,239	\$ 267,239	\$ 283,239
OWDA Loans	<u>142,986</u>	<u>32,096</u>	<u>32,598</u>
Total long-term obligations	393,225	299,335	315,837
Less: Due within one year	<u>(21,427)</u>	<u>(17,290)</u>	<u>(16,280)</u>
Net long-term obligations	<u><u>\$ 371,798</u></u>	<u><u>\$ 282,045</u></u>	<u><u>\$ 299,557</u></u>

See Note 7 to the basic financial statements for more detail on the district's long-term debt obligations.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years Ended December 31, 2008 and 2007
Unaudited**

ECONOMIC CONDITIONS AND OUTLOOK

The District will in implementing a 5% annual increase of the sewer rates starting with the March 2009 billing cycle to help with increasing operational costs.

The District continues to seek opportunities for new loans and grants for future development and growth.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Lowell Hite, Clerk/Treasurer, Walnut Creek Sewer District, 102 East Columbus Street, Pleasantville, Ohio 43148.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
STATEMENT OF NET ASSETS
December 31, 2008 and 2007**

	2008	2007
ASSETS		
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	\$ 288,335	\$ 173,916
Accounts receivable - trade	34,853	34,591
Accounts receivable - other	-	3,829
Prepaid items	2,680	2,804
TOTAL CURRENT ASSETS	325,868	215,140
RESTRICTED ASSETS:		
Equity in pooled cash and cash equivalents	87,803	85,982
NONCURRENT ASSETS:		
Capital Assets		
Land and construction in progress	190,524	115,882
Depreciable capital assets, net	1,489,915	1,502,706
TOTAL NONCURRENT ASSETS	1,680,439	1,618,588
TOTAL ASSETS	2,094,110	1,919,710
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	9,909	10,182
Accrued interest payable	4,148	4,430
Payroll taxes accrued and withheld	793	775
Accrued wages and benefits	685	668
Due to other governments	584	1,562
Bonds payable	18,000	17,000
OWDA loans payable	3,427	290
TOTAL CURRENT LIABILITIES	37,546	34,907
RESTRICTED LIABILITIES:		
Customer security deposits	22,548	20,200
NONCURRENT LIABILITIES		
Compensated absences	1,153	847
Bonds payable	232,239	250,239
OWDA loans payable	139,559	31,806
TOTAL NONCURRENT LIABILITIES	372,951	282,892
TOTAL LIABILITIES	433,045	337,999
NET ASSETS		
Invested in capital assets - net of related debt	1,287,214	1,348,143
Restricted for:		
Debt service	87,803	85,982
Unrestricted net assets	286,048	147,586
NET ASSETS	\$ 1,661,065	\$ 1,581,711

See accompanying notes to the basic financial statements

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2008 and 2007**

	2008	2007
OPERATING REVENUES		
Service fees	\$ 302,874	\$ 309,156
Contract fee revenue	13,973	14,658
TOTAL OPERATING REVENUES	316,847	323,814
 OPERATING EXPENSES		
Salaries and benefits	37,816	36,488
Trustee fees	4,980	4,380
Payroll taxes	1,194	2,397
Workers compensation	2,072	1,389
Utilities	28,683	27,766
Meter Readings	761	688
Office expense	11,655	13,754
Accounting and legal	7,367	3,051
Consulting fees	14,469	1,100
Engineering Fees	2,670	979
Maintenance and supplies	23,977	24,312
Inspection and testing	1,799	-
Insurance	8,907	9,188
Transportation expense	614	202
License, dues and subscriptions	400	1,775
Independent contractor fees	50,926	53,735
Billing fees - BOPA	-	72
Miscellaneous	2,400	816
Depreciation	90,760	108,935
Fines	15,000	-
TOTAL OPERATING EXPENSES	306,450	291,027
NET OPERATING REVENUE	10,397	32,787
 NON-OPERATING REVENUES (EXPENSES)		
Sewer tap fees	83,414	3,220
Interest income	3,757	3,626
Interest expense	(13,908)	(15,575)
Capital contributions	-	171,399
Other nonoperating revenues	7,218	7,327
Other nonoperating expenses	(11,524)	(3,540)
TOTAL NONOPERATING REVENUES (EXPENSES)	68,957	166,457
CHANGE IN NET ASSETS	79,354	199,244
 Net assets beginning of year	1,581,711	1,382,467
NET ASSETS END OF YEAR	\$ 1,661,065	\$ 1,581,711

See accompanying notes to the basic financial statements

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2008 and 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from service fees	\$ 302,612	\$ 312,784
Cash received from contract fee revenue	13,973	14,658
Cash payments to supplies for goods and services	(175,735)	(145,003)
Cash payments for employee services and benefits	(40,741)	(40,412)
NET CASH PROVIDED BY OPERATING ACTIVITIES	100,109	142,027
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer refunds	(2,863)	(3,791)
Customer deposits	5,211	7,325
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,348	3,534
CASH FLOWS FROM PAYMENT OF CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - bonds	(17,000)	(16,000)
Interest payments - bonds	(13,362)	(14,162)
Principal payments - OWDA	(290)	(502)
Interest payments - OWDA	(828)	(1,678)
Loan proceeds - OWDA	111,180	-
Acquisition and construction	(152,611)	(52,909)
Tap fees	83,414	3,220
NET CASH PROVIDED BY (USED BY) CAPITAL AND RELATED FINANCING ACTIVITIES	10,503	(82,031)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Other nonoperating revenue	11,047	3,497
Other nonoperating expense	(11,524)	(3,540)
Investment income	3,757	3,626
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,280	3,583
INCREASE IN CASH AND CASH EQUIVALENTS	116,240	67,113
CASH AND CASH EQUIVALENTS, BEGINNING	259,898	192,785
CASH AND CASH EQUIVALENTS, ENDING	\$ 376,138	\$ 259,898
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating revenue	\$ 10,397	\$ 32,787
Adjustments:		
Depreciation	90,760	108,935
(Increase) Decrease in assets		
Accounts receivable	(262)	3,628
Prepaid items	124	607
Increase (Decrease) in liabilities		
Payroll taxes and accrued liabilities	18	94
Accrued wages and benefits	17	(1,191)
Compensated absences	306	(305)
Due to other governments	(978)	724
Accounts payable	(273)	(3,252)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 100,109	\$ 142,027

See accompanying notes to the basic financial statements

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007

1. DESCRIPTION OF THE ENTITY

The Walnut Creek Sewer District, Fairfield County, Ohio (the "District") is organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Fairfield County, Ohio, for the purpose of providing sewer service. The territorial limits were set as the entire corporation limits of the Village of Pleasantville and the Village of Thurston. The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District operates under a six member Board of Trustees who is appointed by the Village Councils of Pleasantville and Thurston. The Board of Trustees is responsible for the fiscal control of the assets and the operating funds of the District.

Management believes the financial statements included in this report represent all of the funds of the District over which management has direct operating control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its enterprise fund, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The most significant of the District's accounting policies are described below.

Reporting Entity

The District's Reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*" as amended by GASB Statement No. 39 "*Determining Whether Certain Organizations Are Component Units.*" A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the District consists of a fund for which the District is accountable.

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 financial deficits of or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget or the issuance of debt. The District has no component units.

Basis of Presentation – Fund Accounting

The District uses fund accounting to segregate cash that is restricted as to use. The operations of this fund are accounted for with a set of self-balancing accounts that are comprised of assets, liabilities, and net assets as appropriate, and revenues and expenses. The following proprietary fund type is used by the District:

Enterprise Fund – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprise. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered through user charges. The following is the District's major enterprise fund:

Water and Sewer Fund – This fund accounts for the provision of water and sewer service to the residents and commercial users located within the District.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's proprietary funds are charges for sales and services. Operating expenses for the proprietary funds include personnel and other expenses related to operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus and Basis of Accounting

The District prepares its financial statements on the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when each exchange takes place. Unbilled service charges receivable are recognized as revenue at year-end. Expenses are recognized at the time they are incurred.

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

Budgetary Data

The District is required by State statute to adopt an annual appropriated cash basis budget. The specific timetable is as follows:

- 1.) Prior to January 15 of the proceeding year, the District prepares a proposed operating budget. The budget includes proposed expenses and the means of financing for all funds.
- 2.) By the beginning of the fiscal year the annual Appropriation Resolution is legally enacted by the Board of Trustees at the fund operating and debt level of expenses, which is the legal level of budgetary control. Resolution appropriations by fund must be within the estimated resources and the total of expenses may not exceed the appropriation total.
- 3.) Any revision that alters the total of any fund appropriation must be approved by the Board of Trustees.
- 4.) Formal budgetary integration is employed as a management control device during the year consistent with the general obligation bond indenture and other statutory provisions.
- 5.) Appropriation amounts are as originally adopted, or as amended by the Board of Trustees through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts.

Cash and Cash Equivalents

Cash balances of the District's enterprise fund are invested in cash and certificates of deposit in order to provide improved cash management. Individual fund integrity is maintained through District records. Cash and certificates of deposit are presented as "Cash and Cash Equivalents" on the balance sheet.

During 2008 and 2007, investments were limited to non-negotiable certificates of deposit which are reported at cost. Interest revenue earned and credited during 2008 and 2007 amounted to \$3,757 and \$3,626.

For purposes of the statement of cash flows and for presentation on the financial statements, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the District's investment account at year-end is provided in Note 3.

Restricted Cash

The District maintains three restricted accounts which consist of cash and certificates of deposit. The Bond and Interest Sinking Fund are presented as a current asset based upon the liability in the current year is greater than the balance in the reserve. The Repair and Replacement Reserve may be used currently upon approval from the Farmers Home Administration. The Customer Security Deposits are held until the Board approves the refund to the respective customer.

WALNUT CREEK SEWER DISTRICT
 FAIRFIELD COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 Years Ended December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During 2008 and 2007, the District maintained a capitalization threshold of \$500. The District's infrastructure consists of sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is also capitalized. Capitalized interest for 2008 and 2007 was not material.

All reported capital assets are depreciated, except for land, easements and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the District's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Plant buildings	15-40 years
Sewer lines and storage	40 years
Pumps and treatment equipment	5-15 years
Office Equipment and furniture	5-15 years
Transportation equipment	5-15 years
Leasehold improvements	15-20 years
Equipment and tools	5 years

Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In conformity with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. District employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in proprietary fund financial statements.

In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Estimates

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

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed in their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Prepaid Items

Payments made to vendors for services that will benefit beyond year-end are recorded as prepaid items. Prepayments are accounted for using the consumption method.

Extraordinary and special items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Trustees and are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2008 or 2007.

3. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies held by the District are classified by the State statute into three categories:

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must 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 may be deposited or invested in the following:

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 or 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;

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007

3. EQUITY IN POOLED CASH AND CASH EQUIVALENTS - CONTINUED

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;
5. 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;
6. The State Treasurer's investment pool (State Treasury Asset Reserve of Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the District's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the District's interim monies available for investment.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the District's carrying amount for 2008 and 2007 was \$376,138 and \$259,898 and the District's bank balance was \$378,413 and \$265,744 of which \$250,000 and \$156,946 was insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining balance of \$128,413 and \$108,798 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposits of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

The District does not have a deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Interest Rate Risk – Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District's investment policy addresses interest rate risk by requiring that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

Concentration of Credit Risk – The District has not established an investment policy dealing with concentration of credit risk beyond the requirements in the State statutes.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007

4. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash consists of reserve funds that were established by Board resolutions. At December 31, 2008 and 2007, the District has the following restricted funds:

Bond and Interest Sinking Fund - Under Bond Resolution No. 9-25-79-2 Section 6B(1) and B(3), the District is required to make monthly deposits into reserve cash accounts which may be invested at the discretion of the Board. At December 31, 2008 and 2007, the District had \$13,217 and \$15,969 in cash and \$33,498 and \$32,080 in certificates of deposit, respectively.

Repair and Replacement Fund – Monthly deposits into the Reserve and Repair Account are required if there is sufficient income and revenue to meet operational expenses and bond and interest sinking deposit requirements. The total maximum required to be accumulated in this reserve account is \$30,000. At December 31, 2008 and 2007, this fund had \$18,540 and \$17,733 in a certificate of deposit, respectively.

Customer Security Deposits – The Customer Security Deposit account is restricted for customers opening new accounts. Upon termination of the account, monies are refunded if all required conditions are met. At December 31, 2008 and 2007, the Customer Security Deposit account had a balance of \$22,548 and \$20,200, respectively.

Monthly deposits into the Revenue Bond and Interest Sinking Reserve Account are required based on 1/12 of the ensuing principal and interest payments. Payments required in the Bond and Interest Sinking Funds for the succeeding years is as follows:

Year Ending	Principal	Interest	Total
2009	\$ 18,000	\$ 12,512	\$ 30,512
2010	19,000	11,612	30,612
2011	20,000	10,662	30,662
2012	21,000	9,662	30,662
2013	22,000	8,612	30,612
2014-2018	126,000	25,560	151,560
2019	24,239	1,212	25,451
Total	250,239	79,832	330,071
Less: Bond and Interest Sinking Fund Balance			(46,715)
TOTAL			\$ 283,356

5. ACCOUNTS RECEIVABLE

Management considers all accounts receivable to be collected in full and may periodically allocate portions of the allowance for specific problem accounts, with the whole allowance available for any debts that occur. An account is charged-off by management as a loss when deemed uncollectible, although most delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Receivables are presented at gross on the balance sheet.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007**

6. CAPITAL ASSETS

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

	Balance 12/31/2007	Additions	Disposals	Balance 12/31/2008
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	\$ 24,276	\$ -	\$ -	\$ 24,276
Land easements	1,250	-	-	1,250
Construction in progress	90,356	144,276	(69,634)	164,998
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	115,882	144,276	(69,634)	190,524
CAPITAL ASSETS BEING DEPRECIATED				
Land improvements	9,630	-	-	9,630
Plant buildings	693,099	-	-	693,099
Sewer lines and storage	2,405,237	72,790	-	2,478,027
Pumps and treatment equipment	1,221,066	5,179	-	1,226,245
Office equipment and furniture	23,214	-	-	23,214
Transportation equipment	25,163	-	-	25,163
Leasehold improvements	1,594	-	-	1,594
Furniture and equipment	62,136	-	-	62,136
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	4,441,139	77,969	-	4,519,108
LESS: ACCUMULATED DEPRECIATION				
Land improvements	(9,630)	-	-	(9,630)
Plant buildings	(298,470)	(19,127)	-	(317,597)
Sewer lines and storage	(1,620,821)	(60,283)	-	(1,681,104)
Pumps and treatment equipment	(907,669)	(9,395)	-	(917,064)
Office equipment and furniture	(23,214)	-	-	(23,214)
Transportation equipment	(25,163)	-	-	(25,163)
Leasehold improvements	(1,047)	(97)	-	(1,144)
Equipment and tools	(52,419)	(1,858)	-	(54,277)
TOTAL ACCUMULATED DEPRECIATION	(2,938,433)	(90,760)	-	(3,029,193)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,502,706	(12,791)	-	1,489,915
TOTAL CAPITAL ASSETS, NET	\$ 1,618,588	\$ 131,485	\$ (69,634)	\$ 1,680,439

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007**

6. CAPITAL ASSETS - CONTINUED

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance 12/31/2006	Additions	Disposals	Balance 12/31/2007
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	\$ 24,276	\$ -	\$ -	\$ 24,276
Land easements	1,250	-	-	1,250
Construction in progress	227,905	90,356	(227,905)	90,356
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	253,431	90,356	(227,905)	115,882
CAPITAL ASSETS BEING DEPRECIATED				
Land improvements	9,630	-	-	9,630
Plant buildings	420,634	272,465	-	693,099
Sewer lines and storage	2,405,237	-	-	2,405,237
Pumps and treatment equipment	1,131,674	89,392	-	1,221,066
Office equipment and furniture	23,214	-	-	23,214
Transportation equipment	25,163	-	-	25,163
Leasehold improvements	1,594	-	-	1,594
Furniture and equipment	62,136	-	-	62,136
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	4,079,282	361,857	-	4,441,139
LESS: ACCUMULATED DEPRECIATION				
Land improvements	(9,550)	(80)	-	(9,630)
Plant buildings	(284,453)	(14,017)	-	(298,470)
Sewer lines and storage	(1,560,690)	(60,131)	-	(1,620,821)
Pumps and treatment equipment	(875,605)	(32,064)	-	(907,669)
Office equipment and furniture	(22,988)	(226)	-	(23,214)
Transportation equipment	(25,163)	-	-	(25,163)
Leasehold improvements	(950)	(97)	-	(1,047)
Equipment and tools	(50,099)	(2,320)	-	(52,419)
TOTAL ACCUMULATED DEPRECIATION	(2,829,498)	(108,935)	-	(2,938,433)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,249,784	252,922	\$ -	1,502,706
TOTAL CAPITAL ASSETS, NET	\$ 1,503,215	\$ 343,278	\$ (227,905)	\$ 1,618,588

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007**

7. LONG-TERM OBLIGATIONS

During the fiscal year 2008, the following changes occurred in the District's long-term obligations:

	Interest Rate	Maturity Date	Balance 12/31/07	Additions	Reductions	Balance 12/31/08	Amounts Due in One Year
USDA rural development bonds	5.00%	2019	\$ 267,239	-	\$ (17,000)	\$ 250,239	\$ 18,000
OWDA loan payable #4060	5.16%	2034	32,096	-	(290)	31,806	602
OWDA loan payable #4853	4.95%	NA	-	111,180	-	111,180	2,825
TOTAL LONG -TERM OBLIGATIONS			\$ 299,335	\$ 111,180	\$ (17,290)	\$ 393,225	\$ 21,427

During the fiscal year 2007, the following changes occurred in the District's long-term obligations:

	Interest Rate	Maturity Date	Balance 12/31/06	Additions	Reductions	Balance 12/31/07	Amounts Due in One Year
USDA rural development bonds	5.00%	2019	\$ 283,239	-	\$ (16,000)	\$ 267,239	\$ 17,000
OWDA loan payable #4060	5.16%	2034	32,598	-	(502)	32,096	290
TOTAL LONG -TERM OBLIGATIONS			\$ 315,837	-	\$ (16,502)	\$ 299,335	\$ 17,290

Outstanding debt consisted of 1995 Water Resource Revenue Bonds with the Farmers Home Administration. These bonds were issued in \$1,000 denominations, bearing interest at 5% per annum, with principal and interest payments due annually on September 1. The final bonds are due September 1, 2019. The bonds are collateralized by the collection of user charges.

In 2004, the District also secured a sewer rehabilitation loan through the Ohio Water Development Authority (Loan #4060) in the amount of \$35,404, bearing interest at 5.16%. Principal and interest payments are due semiannually at \$1,166 with final payment due July 1, 2034. The loan is collateralized by the collection of sewer user charges.

In 2008, the District obtained an additional loan from the Ohio Water Development Authority (Loan # 4853) to finance engineering costs for a project in the amount of \$116,888, bearing interest at 4.95%. The engineering fees relate to the study and evaluation of inflow and infiltration in the District's existing sewer system as required by Ohio EPA. The district is under Administrative Orders to eliminate excess flows in the system. At December 31, \$111,180 of the \$116,888 available funds had been drawn. Payments are due semiannually in the amount of \$2,825 with a balloon payment after 5 years. The loan is collateralized by the collection of sewer user charges.

Principal and interest requirements to retire the USDA Rural Development Bonds at December 31, 2008 are as follows:

Year Ending	Principal	Interest	Total
2009	\$ 18,000	\$ 12,512	\$ 30,512
2010	19,000	11,612	30,612
2011	20,000	10,662	30,612
2012	21,000	9,662	30,662
2013	22,000	8,612	30,612
2014-2018	126,000	25,560	151,560
2019-2023	24,239	1,212	25,451
Total	\$ 250,239	\$ 79,832	\$ 330,071

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2008 and 2007**

7. LONG-TERM OBLIGATIONS - CONTINUED

Principal and interest requirements to retire the OWDA Sewer Rehabilitation Loan #4060 at December 31, 2008 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 602	\$ 1,634	\$ 2,236
2010	634	1,602	2,236
2011	667	1,569	2,236
2012	701	1,535	2,236
2013	738	1,497	2,235
2014-2018	4,312	6,866	11,178
2019-2023	5,563	5,695	11,258
2024-2028	7,179	4,001	11,180
2029-2033	9,260	1,351	10,611
2034	2,150	84	2,234
Total	\$ 31,806	\$ 25,834	\$ 57,640

Principal and interest requirements to retire the OWDA Loan #4853 at December 31, 2008 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,825	\$ 2,682	\$ 5,507
2010	5,650	5,154	10,804
2011	5,650	4,874	10,524
2012	5,650	4,594	10,244
2013	5,650	4,314	9,964
2014	85,755	2,123	87,878
Total	\$ 111,180	\$ 23,741	\$ 134,921

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, or damage/destruction of assets, errors and omissions, injuries to employees and natural disasters. The District continues to carry commercial insurance for other risks of loss, including employee health insurance. The District contracted with private carriers for property and fleet insurance, general liability insurance, and various other coverages. The coverage insures up to \$1,000,000 for each occurrence and \$2,000,000 for an aggregate total.

The District also pays an annual premium to the State Workers' Compensation System based on employee compensation at a predetermined rate. This rate is calculated based on accident history and administrative costs.

There were no significant reductions in insurance coverages during the fiscal year 2008 and 2007. Settled claims have not exceeded commercial excess coverages in any of the past three years.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENT
Years Ended December 31, 2008 and 2007**

9. OPERATING LEASE

The District leases office space under a 10 year renewable operating lease. The current lease expires October 1, 2017. Current future minimum lease payments are as follows:

Year Ending	Amount
2009	\$ 4,800
2010	4,800
2011	4,800
2012	4,800
2013	4,800
2014-2017	19,200
Total	\$ 43,200

10. POST-EMPLOYMENT BENEFITS

A. Plan Description

Public Employees Retirement of Ohio (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 Traditional Pension and the Combined 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 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 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, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

B. Funding Policy

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 2008, state and local employers contributed at a rate of 14.00% of covered payroll, and public safety and law enforcement employers contributed at 17.40%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB plan.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENT
Years Ended December 31, 2008 and 2007

10. POST-EMPLOYMENT BENEFITS - CONTINUED

C. Information from employer's records

The rates stated in Section B, above, are the contractually required contribution rates for OPERS. As part of the disclosure, it will be necessary for the employer to disclose the employer contributions actually made to fund post-employment benefits can be approximated by multiplying actual employer contributions for January 1 through December 31, 2008 b 0.500 for state and local employers and 0.4023 for both law enforcement and public safety employers.

D. OPERS Retirement Board Implements its Health Care Preservation Plan

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

11. POSTRETIREMENT BENEFIT PLANS

Ohio Public Employees Retirement System (OPERS)

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

- 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's contributions are expressed as a percentage of the covered payroll of active members. In 2008, the District contributed at 14.0% 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.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENT
Years Ended December 31, 2008 and 2007**

11. POSTRETIREMENT BENEFIT PLANS - 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 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. For 2006, this percentage was 4.5%. 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 \$8,217 for 2008, \$7,523 for 2007, and \$4,253 for 2006.
- 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.

12. CONTINGENCIES

The District was involved in litigation in 2006 with the State of Ohio Environmental Protection Agency for violation of sewer permit limits at the treatment plant. The litigation was settled in January 2008 and the District was assessed a civil penalty of \$30,000. As of December 31, 2008, the District has paid \$9,000, and \$6,000 is included in accounts payable for total payments of \$15,000. In lieu of paying the remaining \$15,000, the District must spend a minimum of \$15,000 to perform fieldwork to determine sources of I & I in its sanitary sewer system and/or for construction of Phase 1 of a remediation plan. The Ohio EPA orders will terminate when the District has performed all obligations required by the EPA.

13. SUBSEQUENT EVENTS – FISCAL AGENT

The District acted in a fiscal agent capacity for the Village of Pleasantville in relation to its water service. The District billed, collected, and deposited the Village of Pleasantville's water revenue and at the end of the month issued a check for the total received. As of February 1, 2009, the Village of Pleasantville took over its billing from the District.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Walnut Creek Sewer District
Pleasantville, Ohio

We have audited the financial statements of the Walnut Creek Sewer District, Fairfield County (the "District") as of and for the years ended December 31, 2007 and 2008 and have issued our report thereon dated December 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that if more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings as Finding 2008-4495-003 to be a significant deficiency in internal control over financial reporting.

much more than an accounting firm

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as Finding 2008-4495-03 also is a material weakness in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are noted in the schedule of findings as finding numbers 2008-4495-001 and 002.

We noted certain noncompliance or other matters that we reported to management of Walnut Creek Sewer District in a separate letter dated December 9, 2009.

Walnut Creek Sewer District's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Walnut Creek Sewer District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Jones, Cochenour & Co.
December 9, 2009

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-4495-001

Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that the District did not utilize purchase orders or similar documentation to certify monies allowable prior to disbursement.

Without timely certification, the District may expend more funds than available in the treasury, in the process of collection of the funds appropriated or may not be for a proper public purpose.

We recommend that the District implement a policy and procedure for expenditures involving the disbursement of money be timely certified to insure that all monies expended are lawfully appropriated and available in the treasury or in process of collection. The District should issue approved purchase orders and consider using blanket and super blanket purchase orders and/or "Then" and "Now" certificates where applicable.

Response: The District will review this finding in an upcoming meeting and adopt an appropriate plan of action to avoid non-compliance in the future.

FINDING NUMBER 2008-4495-002 - Material Noncompliance

Ohio Revised Code Section 5705.28 requires that the District adopt an operating budget prior to July 15 of the preceding year. The operating budget for 2007 was not adopted until September 28, 2006. The operating budget for 2008 was not adopted until December 20, 2007. We recommend the District have its operating budget adopted by July 15 each year to avoid noncompliance and to have a policy in place to minimize the chance of future occurrences.

Response: Future budgets starting with the 2011 budget will be prepared prior to July 15, 2010.

FINDING NUMBER 2008-4495-003 – Significant Deficiency – Material Weakness

Material misstatements and reclassifications to the financial statements were identified by the Auditors, which should have been prevented or detected by the District's internal controls over financial reporting. The accompanying financial statements have been adjusted to reflect the correction of the material misstatements. We recommend that the District implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Response: The Board members of Walnut Creek Sewer District will monitor this and review ways of preventing future misstatements and reclassification to the financial statements in the future.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-4495-001	Properly certify funds in accordance with Ohio Revised Code Section 5705.41(D).	No	Reissued as Finding 2008-4495-001



Mary Taylor, CPA
Auditor of State

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD 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
MARCH 11, 2010**