

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY**

**BASIC FINANCIAL STATEMENTS
For the years ended December 31, 2006 and 2005**



Mary Taylor, CPA
Auditor of State

Board of Trustees
Walnut Creek Sewer District
P. O. Box 599
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, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 18, 2009

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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, 2006 and 2005, 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, 2006 and 2005, 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 February 25, 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.
February 25, 2009

much more than an accounting firm

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2006 and 2005
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, 2006 and 2005. 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 2006 are as follows:

- The total net assets of the District increased \$143,437.
- Total operating and nonoperating revenues for 2006 were \$473,047
- Total outstanding debt during the year decreased \$16,553 to \$315,837.
- The overall cash position of the District increased \$8,920.

Key financial highlights for 2005 are as follows:

- The total net assets of the District decreased \$43,149.
- Total operating and nonoperating revenues for 2005 were \$255,752.
- Total outstanding debt during the year decreased \$15,526 to \$332,390.
- The overall cash position of the District increased \$5,528.

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.

The District reports the following fund type:

Proprietary Funds

The District maintains an 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, 2006 and 2005
Unaudited**

STATEMENT OF NET ASSETS

The Table Below provides a summary of the District's net assets for 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Current and Other Assets	\$ 234,414	\$ 216,313	\$ 208,119
Capital Assets	<u>1,503,215</u>	<u>1,379,382</u>	<u>1,450,746</u>
TOTAL ASSETS	<u>1,737,629</u>	<u>1,595,695</u>	<u>1,658,865</u>
LIABILITIES			
Other Liabilities	38,158	40,541	44,018
Long-term liabilities	<u>317,004</u>	<u>316,124</u>	<u>332,668</u>
TOTAL LIABILITIES	<u>355,162</u>	<u>356,665</u>	<u>376,686</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,187,378	1,046,992	1,102,830
Restricted	70,065	89,946	151,346
Unrestricted	<u>125,024</u>	<u>102,092</u>	<u>28,003</u>
TOTAL NET ASSETS	<u>\$ 1,382,467</u>	<u>\$ 1,239,030</u>	<u>\$ 1,282,179</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006 and 2005, the District's assets exceeded liabilities by \$1,382,467 and \$1,239,030, respectively.

Capital assets represent the largest portion of the District's net assets. At year-end, capital assets represented 87% of total assets. Capital assets include land, land easements, land improvements, plant buildings, leasehold improvements, sewer lines and storage, pumps and treatment equipment, office equipment and furniture, and equipment and tools, transportation equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire these assets at December 31, 2006 and 2005, were \$1,187,378 and \$1,046,992, 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, \$70,065 and \$89,946, represent resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$125,024 and \$102,092 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, 2006 and 2005
Unaudited**

The table below shows the changes in net assets for years 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>\$ Change</u>	<u>% Change</u>
OPERATING REVENUES				
Service fees	\$ 236,613	\$ 193,899	42,714	22%
Contract fee revenue	12,304	36,734	(24,430)	-67%
TOTAL OPERATING REVENUES	<u>248,917</u>	<u>230,633</u>	<u>18,284</u>	<u>8%</u>
OPERATING EXPENSES				
Operating expenses (excluding depreciation)	213,449	193,434	20,015	10%
Depreciation	87,616	87,820	(204)	0%
TOTAL OPERATING EXPENSES	<u>301,065</u>	<u>281,254</u>	<u>19,811</u>	<u>7%</u>
OPERATING (LOSS)	<u>(52,148)</u>	<u>(50,621)</u>	<u>(1,527)</u>	<u>3%</u>
Nonoperating revenues (includes capital contributions)	<u>224,130</u>	<u>25,119</u>	<u>199,011</u>	<u>792%</u>
Nonoperating expenses	<u>28,545</u>	<u>17,647</u>	<u>10,898</u>	<u>62%</u>
Change in net assets	<u>143,437</u>	<u>(43,149)</u>	<u>186,586</u>	<u>-432%</u>
Net asses at beginning of year	<u>1,239,030</u>	<u>1,282,179</u>	<u>(43,149)</u>	<u>-3%</u>
Net assets at end of year	<u>\$ 1,382,467</u>	<u>\$ 1,239,030</u>	<u>143,437</u>	<u>12%</u>

Operating revenues increased \$18,284 from 2005 while operating expenses increased \$19,811. The increase in operating revenues is attributed to the District increasing rates during the year. The increase in net assets of \$143,437 is primarily attributed to non-cash capital contributions recorded.

BUDGETING HIGHLIGHTS

Although not 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, 2006 and 2005
Unaudited**

The table below shows the changes in net assets for years 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
OPERATING REVENUES				
Service fees	\$ 193,899	\$ 189,902	3,997	2%
Contract fee revenue	36,734	30,773	5,961	19%
TOTAL OPERATING REVENUES	<u>230,633</u>	<u>220,675</u>	<u>9,958</u>	<u>5%</u>
OPERATING EXPENSES				
Operating expenses (excluding depreciation)	193,434	223,264	(29,830)	-13%
Depreciation	87,820	88,816	(996)	-1%
TOTAL OPERATING EXPENSES	<u>281,254</u>	<u>312,080</u>	<u>(30,826)</u>	<u>-10%</u>
OPERATING (LOSS)	<u>(50,621)</u>	<u>(91,405)</u>	<u>40,784</u>	<u>-45%</u>
Nonoperating revenues (includes capital contributions)	<u>25,119</u>	<u>29,214</u>	<u>(4,095)</u>	<u>-14%</u>
Nonoperating expenses	<u>17,647</u>	<u>17,112</u>	<u>535</u>	<u>3%</u>
Change in net assets	<u>(43,149)</u>	<u>(79,303)</u>	<u>36,154</u>	<u>-46%</u>
Net asses at beginning of year	<u>1,282,179</u>	<u>1,361,482</u>	<u>79,303</u>	<u>6%</u>
Net assets at end of year	<u>\$ 1,239,030</u>	<u>\$ 1,282,179</u>	<u>115,457</u>	<u>9%</u>

Operating revenues increased \$9,958 from 2004 to 2005 while operating expenses decreased \$30,826. The decrease in operating expenses is attributed to the decrease in salaries and payroll taxes and a reduction in repairs and maintenance. The decrease in net assets is primarily attributed to a decrease in non-cash capital contributions.

WALNUT CREEK SEWER DISTRICT
 FAIRFIELD COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
 Years Ended December 31, 2006 and 2005
 Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the District had \$1,503,215 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, and infrastructure. The following table shows fiscal 2006 balances compared to 2005:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 24,276	\$ 24,276	\$ 24,276
Land easements	1,250	1,250	1,250
Construction in progress	227,905	16,456	64,776
Land improvements	80	561	1,043
Plant buildings	136,181	147,053	157,925
Sewer lines and storage	844,547	904,677	900,032
Pumps and treatment equipment	256,069	269,107	282,145
Office equipment and furniture	226	1,596	3,169
Leasehold Improvments	644	741	837
Equipment and tools	12,037	13,665	15,293
TOTAL	<u>\$ 1,503,215</u>	<u>\$ 1,379,382</u>	<u>\$ 1,450,746</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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
USDA Rural Development Bonds	\$ 283,239	\$ 299,239	\$ 314,239
OWDA Loan	32,598	33,151	33,677
Total long-term obligations	<u>315,837</u>	<u>332,390</u>	<u>347,916</u>
Less: Due within one year	<u>(16,280)</u>	<u>(16,266)</u>	<u>(15,248)</u>
Net long-term obligations	<u>\$ 299,557</u>	<u>\$ 316,124</u>	<u>\$ 332,668</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, 2006 and 2005
Unaudited**

ECONOMIC CONDITIONS AND OUTLOOK

The District added a ten dollar (\$10.00) per month maintenance fee to be paid by every residential and commercial unit/user effective for the December 2006 billing period which was to be collected as a revenue in January 2007.

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, 2006 and 2005**

	2006	2005
ASSETS		
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	\$ 122,720	\$ 93,919
Accounts receivable - trade	38,219	29,027
Prepaid items	2,818	2,829
TOTAL CURRENT ASSETS	163,757	125,775
RESTRICTED ASSETS:		
Equity in pooled cash and cash equivalents	70,065	89,946
NONCURRENT ASSETS:		
Other assets	592	592
Capital Assets		
Land and construction in progress	253,431	41,982
Depreciable capital assets, net	1,249,784	1,337,400
TOTAL NONCURRENT ASSETS	1,503,807	1,379,974
TOTAL ASSETS	1,737,629	1,595,695
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable - other government	13,434	1,745
Accrued interest payable	4,695	4,960
Payroll taxes accrued and withheld	681	1,025
Accrued wages and benefits	1,859	1,785
Due to other governments	838	841
Compensated absences	371	-
Bonds payable	16,000	16,000
OWDA loan payable	280	266
TOTAL CURRENT LIABILITIES	38,158	26,622
RESTRICTED LIABILITIES:		
Customer security deposits	16,666	13,919
NONCURRENT LIABILITIES		
Compensated absences	781	-
Bonds payable	267,239	283,239
OWDA loan payable	32,318	32,885
TOTAL NONCURRENT LIABILITIES	300,338	316,124
TOTAL LIABILITIES	355,162	356,665
NET ASSETS		
Invested in capital assets - net of related debt	1,187,378	1,046,992
Restricted for:		
Debt Service	70,065	89,946
Unrestricted net assets	125,024	102,092
NET ASSETS	\$ 1,382,467	\$ 1,239,030

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, 2006 and 2005**

	2006	2005
OPERATING REVENUES		
Service fees	\$ 236,613	\$ 193,899
Contract fee revenue	12,304	36,734
TOTAL OPERATING REVENUES	248,917	230,633
OPERATING EXPENSES		
Salaries and benefits	32,638	31,489
Trustee fees	4,500	5,880
Payroll taxes	1,744	10,472
Workers compensation	778	4,003
Plant chemicals and fuel	-	500
Telephone	5,457	5,072
Utilities	22,501	17,867
Office Supplies	4,974	6,006
Liability insurance	-	6,869
Accounting and legal	7,046	9,667
Consulting fees	11,545	8,077
Employee benefits (OPERS)	-	2,795
Repairs and excavation	-	6,680
Maintenance and supplies	10,502	14,094
Inspection and testing	10,887	1,797
Insurance	9,252	2,047
Rent	4,400	5,200
Transportation expense	185	235
License, dues and subscriptions	1,150	1,488
Advertising	-	509
Independent contractor fees	45,128	43,944
Bank service charges	-	29
Billing fees - BOPA	861	426
Miscellaneous	1,022	5,123
OPWC project account	38,879	3,165
Depreciation	87,616	87,820
TOTAL OPERATING EXPENSES	301,065	281,254
OPERATING LOSS	(52,148)	(50,621)
NON-OPERATING REVENUES (EXPENSES)		
Sewer tap fees	4,680	3,525
Interest income	2,714	2,061
Interest expense	(16,486)	(17,270)
Capital contributions	211,449	16,456
Other nonoperating revenues	5,287	3,077
Other nonoperating expenses	(12,059)	(377)
TOTAL NONOPERATING REVENUES (EXPENSES)	195,585	7,472
CHANGE IN NET ASSETS	143,437	(43,149)
Net assets beginning of year	1,239,030	1,282,179
NET ASSETS END OF YEAR	\$ 1,382,467	\$ 1,239,030

See accompanying notes to the basic financial statements

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2006 and 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 229,737	\$ 198,235
Cash received from contract fee revenue	9,988	29,772
Cash payments to supplies for goods and services	(162,089)	(139,906)
Cash payments for employee services and benefits	(38,791)	(57,075)
NET CASH PROVIDED BY OPERATING ACTIVITIES	38,845	31,026
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer refunds	(4,650)	(1,116)
Customer deposits	7,295	3,077
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,645	1,961
CASH FLOWS FROM PAYMENT OF CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - bonds	\$ (16,000)	\$ (15,000)
Interest payments - bonds	(14,962)	(15,712)
Principal payments - OWDA	(553)	(526)
Interest payments - OWDA	(1,779)	(1,807)
Tap fees	4,680	3,525
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(28,614)	(29,520)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificate of deposit	(6,670)	-
Investment income	2,714	2,061
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(3,956)	2,061
INCREASE IN CASH AND CASH EQUIVALENTS	8,920	5,528
CASH AND CASH EQUIVALENTS, BEGINNING	183,865	178,337
CASH AND CASH EQUIVALENTS, ENDING	\$ 192,785	\$ 183,865
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (52,148)	\$ (50,621)
Adjustments:		
Depreciation	87,616	87,820
Changes in assets and liabilities		
(Increase) in accounts receivable	(9,192)	(2,626)
(Increase) Decrease in prepaid items	11	(40)
(Decrease) in payroll taxes and accrued liabilities	(354)	(1,435)
Increase in accrued waged and benefits	74	882
Increase in compensated absences	1,152	-
Increase (Decrease) in due to other governments	(3)	841
Increase (Decrease) in accounts payable	11,689	(3,795)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 38,845	\$ 31,026

See accompanying notes to the basic financial statements

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2006 and 2005

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, 2006 and 2005

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 2006 and 2005, investments were limited to non-negotiable certificates of deposit which are reported at cost. Interest revenue earned and credited during 2006 and 2005 amounted to \$2,714 and \$2,061.

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, 2006 and 2005

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 2006 and 2005, 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 2006 and 2005 was not material.

All reported capital assets are depreciated, except for land. 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
Pumps and equipment	5-15 years
Equipment and tools	5-15 years
Furniture and equipment	5 years
Vehicles	3-7 years
Leasehold improvements	15-20 years
Infrastructure	40 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, 2006 and 2005

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 2006 or 2005.

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, 2006 and 2005

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 2006 and 2005 was \$192,785 and \$183,865 and the District's bank balance was \$208,624 and \$184,111 of which \$144,059 and \$147,569 was insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining balance of \$64,565 and \$36,542 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 has no 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, 2006 and 2005**

4. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash consists of reserve funds that were established by Board resolutions. At December 31, 2006 and 2005, 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, 2006 and 2005, the District had \$6,045 and \$11,927 in cash and \$30,497 and \$35,770 in a certificate 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 or minimum required to be accumulated in this reserve account is \$30,000. At December 31, 2006 and 2005, this fund had \$16,857 and \$16,343 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, 2006 and 2005, the Customer Security Deposit account had a balance of \$16,666 and \$13,919, 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
2007	\$ 16,000	\$ 14,162	\$ 30,162
2008	17,000	13,362	30,362
2009	18,000	12,512	30,512
2010	19,000	11,612	30,612
Total	70,000	51,648	121,648
Less: Bond and Interest Sinking Fund Balance			(36,542)
			TOTAL \$ 85,106

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, 2006 and 2005

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance 12/31/2005	Additions	Balance 12/31/2006
CAPITAL ASSETS, NOT BEING DEPRECIATED			
Land	\$ 24,276	\$ -	\$ 24,276
Land easements	1,250	-	1,250
Construction in progress	16,456	211,449	227,905
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 41,982	\$ 211,449	\$ 253,431
CAPITAL ASSETS BEING DEPRECIATED			
Land improvements	\$ 9,630	\$ -	\$ 9,630
Plant buildings	420,634	-	420,634
Sewer lines and storage	2,405,237	-	2,405,237
Pumps and treatment equipment	1,131,674	-	1,131,674
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	-	4,079,282
LESS: ACCUMULATED DEPRECIATION			
Land improvements	(9,069)	(481)	(9,550)
Plant buildings	(273,581)	(10,872)	(284,453)
Sewer lines and storage	(1,500,560)	(60,130)	(1,560,690)
Pumps and treatment equipment	(862,567)	(13,038)	(875,605)
Office equipment and furniture	(21,618)	(1,370)	(22,988)
Transportation equipment	(25,163)	-	(25,163)
Leasehold improvements	(853)	(97)	(950)
Furniture and equipment	(48,471)	(1,628)	(50,099)
TOTAL ACCUMULATED DEPRECIATION	(2,741,882)	(87,616)	(2,829,498)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,337,400	(87,616)	1,249,784
TOTAL CAPITAL ASSETS, NET	\$ 1,379,382	\$ 123,833	\$ 1,503,215

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2006 and 2005

6. CAPITAL ASSETS - CONTINUED

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/2004	Additions	Disposals	Balance 12/31/2005
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	\$ 24,276	\$ -	\$ -	\$ 24,276
Land easements	1,250	-	-	1,250
Construction in progress	64,776	16,456	(64,776)	16,456
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 90,302	\$ 16,456	\$ (64,776)	\$ 41,982
CAPITAL ASSETS BEING DEPRECIATED				
Land improvements	\$ 9,630	\$ -	\$ -	\$ 9,630
Plant buildings	420,634	-	-	420,634
Sewer lines and storage	2,340,461	64,776	-	2,405,237
Pumps and treatment equipment	1,131,674	-	-	1,131,674
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	4,014,506	64,776	-	4,079,282
LESS: ACCUMULATED DEPRECIATION				
Land improvements	(8,587)	(482)	-	(9,069)
Plant buildings	(262,709)	(10,872)	-	(273,581)
Sewer lines and storage	(1,440,429)	(60,131)	-	(1,500,560)
Pumps and treatment equipment	(849,529)	(13,038)	-	(862,567)
Office equipment and furniture	(20,045)	(1,573)	-	(21,618)
Transportation equipment	(25,163)	-	-	(25,163)
Leasehold improvements	(757)	(96)	-	(853)
Furniture and equipment	(46,843)	(1,628)	-	(48,471)
TOTAL ACCUMULATED DEPRECIATION	(2,654,062)	(87,820)	-	(2,741,882)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,360,444	(23,044)	-	1,337,400
TOTAL CAPITAL ASSETS, NET	\$ 1,450,746	\$ (6,588)	\$ (64,776)	\$ 1,379,382

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2006 and 2005**

7. LONG-TERM OBLIGATIONS

During the fiscal year 2006, the following changes occurred in the District's long-term obligations:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/05</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>	<u>Amounts Due in One Year</u>
USDA rural development bonds	5.00%	2019	\$ 299,239	\$ (16,000)	\$ 283,239	\$ 16,000
OWDA loan payable	5.16%	2034	33,151	(553)	32,598	280
TOTAL LONG -TERM OBLIGATIONS			<u>\$ 332,390</u>	<u>\$ (16,553)</u>	<u>\$ 315,837</u>	<u>\$ 16,280</u>

During the fiscal year 2005, the following changes occurred in the District's long-term obligations:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/04</u>	<u>Reductions</u>	<u>Balance 12/31/05</u>	<u>Amounts Due in One Year</u>
USDA rural development bonds	5.00%	2019	\$ 314,239	\$ (15,000)	\$ 299,239	\$ 16,000
OWDA loan payable	5.16%	2034	33,677	(526)	33,151	266
TOTAL LONG -TERM OBLIGATIONS			<u>\$ 347,916</u>	<u>\$ (15,526)</u>	<u>\$ 332,390</u>	<u>\$ 16,266</u>

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.

The District also secured a sewer rehabilitation loan through the Ohio Water Development Authority 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 user charges.

Principal and interest requirements to retire the USDA Rural Development Bonds at December 31, 2006 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 16,000	\$ 14,962	\$ 30,962
2008	17,000	14,162	31,162
2009	18,000	13,362	31,362
2010	19,000	11,612	30,612
2011	20,000	10,662	30,662
2012-2016	115,000	37,310	152,310
2017-2019	78,239	6,736	84,975
Total	<u>\$ 283,239</u>	<u>\$ 108,806</u>	<u>\$ 392,045</u>

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2006 and 2005**

7. LONG-TERM OBLIGATIONS - CONTINUED

Principal and interest requirements to retire the OWDA Sewer Rehabilitation Loan at December 31, 2006 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 280	\$ 1,952	\$ 2,232
2008	549	1,683	2,232
2009	571	1,661	2,232
2010-2014	3,512	7,650	11,162
2015-2019	4,531	6,631	11,162
2020-2024	5,845	5,317	11,162
2025-2029	7,541	3,621	11,162
2030-2034	9,769	1,433	11,202
Total	\$ 32,598	\$ 29,948	\$ 62,546

8. BUDGETARY COMPLIANCE

Budgetary activity for the years ended December 31, 2006 and 2005 follows:

<u>Budgeted vs Actual Receipts</u>	<u>2006</u>	<u>2005</u>
Budgeted receipts	\$ 323,250	\$ 450,432
Actual receipts	464,746	250,614
Variance - positive (negative)	<u>\$ 141,496</u>	<u>\$ (199,818)</u>
 <u>Budgeted vs Actual Budgetary Basis Expenses</u>		
Appropriation authority	\$ 232,295	\$ 551,285
Budgetary expenses	305,295	551,285
Variance - positive (negative)	<u>\$ (73,000)</u>	<u>\$ -</u>

9. 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 2006 and 2005. 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 STATEMENTS
 Years Ended December 31, 2006 and 2005

10. OPERATING LEASE

The District leases office space under a 10 year renewable operating lease. The current lease expires October 1, 2007. Current future minimum lease payments are as follows:

Year Ending	Amount
2007	\$ 4,800

11. DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

Plan Description – The District’s employees are eligible to participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans; The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a fixed contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-PERS (7377).

12. POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Funding Policy – The District and covered employees contributed at actuarially determined rates for 2006, 13.7% and 9%, respectively, of covered employee payroll to OPERS. The District’s contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were \$4,253, \$3,465 and \$5,214, respectively. Required contributions are equal to 100% of the dollar amount billed.

Other Postretirement Benefits – OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit, and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available under OPERS. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB). A portion (4.5%) of each employer’s OPERS contribution is set aside for the funding of postretirement health care. The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to OPERS.

Employer contributions are advance-funded on an annually determined basis and are determined by State statute. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,804.

The assumptions and calculations below were based on the System’s latest Actuarial Review performed as of December 31, 2005. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actual gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor. The investment assumption rate for 2005 was 6.5 percent.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
NOTES TO THE FINANCIAL STATEMENT
Years Ended December 31, 2006 and 2005

12. POSTRETIREMENT BENEFIT PLANS - CONTINUED

OPERS (assuming the number of active employees remains constant) assumes an annual increase of 4.00% compounded annually for the base portion of an individual's pay increase. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.3%.

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

As of December 31, 2005, the audited estimated net assets available for OPEB were \$11.1 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Fund (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

13. CHANGE IN ACCOUNTING PRINCIPLES

For 2006, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investments Risk Disclosures*, Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB No. 40 establishes the requirement of the disclosure of certain risks related to deposits and investments. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

14. SUBSEQUENT EVENTS

A. Litigation

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. The penalty was paid in full by December 2008.

B. 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, 2006 and 2005 and have issued our report thereon dated February 25, 2008. 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.

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.

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

much more than an accounting firm

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is noted in the schedule of findings as finding number 2006-4495-001. However we noted a certain matter that we have reported to management of the District in a separate letter dated February 25, 2009.

We noted certain matters that we reported to management of Walnut Creek Sewer District in a separate letter dated February 25, 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.

February 25, 2009

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

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED
TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2006-4495-001

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 research and implement a procedure to certify expenses prior to expenditure that follows the requirements of Ohio Revised Code Section 5705.41 (D).

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-WCSD-001	Segregation of duties over payroll disbursements.	Yes	N/A
2004-WCSD-002	Provide proper expenditure documentation to the Board prior to approval of payment.	Yes	N/A
2004-WCSD-003	Properly certify funds in accordance with Ohio Revised Code Section 5705.41(D).	No	Reissued as Finding 2006-4495-001



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
MAY 28, 2009