WALNUT CREEK SEWER DISTRICT

FAIRFIELD COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2010 and 2009

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants

Dave Yost · Auditor of State

Walnut Creek Sewer District
P.O. Box 599
Pleasantville, Ohio 43148

We have reviewed the *Report of Independent Accountants* of the Walnut Creek Sewer District, Fairfield County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2009 through December 31, 2010. 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.

Dave Yost

Dave Yost
Auditor of State

November 7, 2011

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WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY

AUDIT REPORT
FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009

TABLE OF CONTENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

Walnut Creek Sewer District
P.O. Box 599
Pleasantville, Ohio 43148

To the Board:

We have audited the accompanying basic financial statements of Walnut Creek Sewer District (the District), as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2010 and 2009, and the results of its operations and 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 September 8, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on pages 3 to 8 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. 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.

Charles E. Harris & Associates

Charles E. Harris & Associates, Inc.
September 8, 2011

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2010 and 2009
Unaudited

The discussion and analysis of the Walnut Creek Sewer District (the District) financial performance provides an overall review of the District's financial activities for the years ended December 31, 2010 and December 31, 2009. 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.

Financial Highlights

Key financial highlights for 2010 are as follows:

- The total net assets of the District increased $900,856.
- Total operating and nonoperating revenues for 2010 were $1,195,281.
- Total outstanding debt during the year increased $380,997 to $1,147,130.
- The overall cash position of the District increased $45,482.

Key financial highlights for 2009 are as follows:

- The total net assets of the District increased $145,364.
- Total operating and nonoperating revenues for 2009 were $561,323.
- Total outstanding debt during the year increased $371,248 to $766,133.
- The overall cash position of the District increased $67,878.

Using this Annual Financial 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.

The statement of net assets and statement of revenues, expenses, and changes in net assets provide information about the activities of the District as a whole, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2010 and 2009?" These statements present all assets and liabilities both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private – sector companies. The accrual basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

These two statements 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.

Reporting the District's Most Significant Fund

Proprietary Funds

The District maintains one proprietary fund, an enterprise fund. The District uses its enterprise fund to account for its 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.

Summary of Net Assets

The table below provides a summary of the District's net assets for 2010 and 2009:

	2010	2009	(restated) 2008
Assets			
Current and other assets	$ 509,698	$ 465,249	$ 414,274
Capital assets	3,371,966	2,212,194	1,682,269
Total assets	3,881,664	2,677,443	2,096,543
Liabilities			
Current liabilities	67,429	109,467	37,546
Noncurrent liabilities	1,106,780	761,377	397,762
Total liabilities	1,174,209	870,844	435,308
Net Assets			
Invested in capital assets, net of related debt	2,224,836	1,446,061	1,287,384
Restricted	84,623	84,711	87,803
Unrestricted	397,996	275,827	286,048
Total net assets	$ 2,707,455	$ 1,806,599	$ 1,661,235

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2010 and 2009, the District's assets exceeded liabilities by $2,707,455 and $1,806,599, respectively.

Capital assets represent the largest portion of the District's net assets. At year-end 2010 and 2009, capital assets represented 87% and 83% of total assets, respectively. Capital assets include land, land improvements, plant buildings, leasehold and leasehold improvements, sewer pumps and storage, sewer lines office equipment and furniture, and equipment and tools. Capital assets, net of related debt to acquire these assets at December 31, 2010 and 2009, were $2,224,836 and $1,446,061, 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, $84,623 and $84,711 for 2010 and 2009, respectively, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of $397,996 and $275,827 for 2010 and 2009, respectively, may be used to meet the District's ongoing obligations.

The table below shows the changes in net assets for years 2010 and 2009.

	2010	2009	Change
Operating Revenues:			
Service fees	$ 331,687	$ 258,451	$ 73,236
Contract fee revenue	3,215	5,391	(2,176)
Total operating revenues	334,902	263,842	71,060
Operating Expenses:			
Operating expenses (excluding depreciation)	168,235	190,462	(22,227)
Depreciation	113,551	110,211	3,340
Total expenses	281,786	300,673	(18,887)
Operating (loss) income	53,116	(36,831)	89,947
Nonoperating revenues (includes capital contributions)	860,379	297,481	562,898
Nonoperating expenses	(12,639)	(115,286)	102,647
Change in net assets	900,856	145,364	755,492
Net assets at beginning of year	1,806,599	1,661,235	145,364
Net assets at end of year	$2,707,455	$1,806,599	$900,856

Operating revenues increased $71,060 from 2009 while operating expenses decreased. The increase in net assets of $900,856 is primarily attributed to nonoperating revenues which includes capital contributions and tap fees.

	2009	(Restated) 2008	Change
Operating Revenues:			
Service fees	$ 258,451	$ 302,874	$ (44,423)
Contract fee revenue	5,391	13,973	(8,582)
Total operating revenues	263,842	316,847	(53,005)
Operating Expenses:			
Operating expenses (excluding depreciation)	190,462	215,690	(25,228)
Depreciation	110,211	88,930	21,281
Total expenses	300,673	304,620	(3,947)
Operating (loss) income	(36,831)	12,227	(49,058)
Nonoperating revenues (includes capital contributions)	297,481	94,389	203,092
Nonoperating expenses	(115,286)	(25,432)	(89,854)
Change in net assets	145,364	81,184	64,180
Net assets at beginning of year	1,661,235	1,580,051	81,184
Net assets at end of year	$1,806,599	$1,661,235	$145,364

Operating revenues decreased $53,005 from 2008 while operating expenses decreased. The increase in net assets of $145,364 is primarily attributed to non-cash capital contributions and intergovernmental revenue received.

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.

Capital Assets and Debt Administration

Capital Assets

At the end of 2010, the District had $3,371,966 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, and infrastructure. The following table shows 2010 balances compared to 2009:

Capital Assets at December 31
(Net of Depreciation)

	2010	2009	(Restated) 2008
Land	$ 24,276	$ 24,276	$ 24,276
Land easements	1,250	1,250	1,250
Construction in progress	1,951,426	757,881	164,998
Land improvements	5,550	5,850	-
Plant buildings	341,965	359,648	377,332
Sewer lines and storage	743,326	734,972	796,923
Pumps and treatment equipment	286,574	306,363	309,181
Transportation equipment	13,200	15,600	-
Leasehold improvements	256	353	450
Equipment and tools	4,143	6,001	7,859
Totals	$ 3,371,966	$ 2,212,194	$ 1,682,269

The District's largest capital asset category is construction in progress and infrastructure which includes sewer lines. Sewer lines 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 22% of the District's total capital assets while construction in progress represents 58%. 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, 2010 and 2009:

	2010	2009	2008
USDA Rural Development Bonds	$ 213,239	$ 232,239	$ 250,239
OPWC Loan	787,598	387,280	-
OWDA Loan	146,293	146,614	144,646
Total long-term obligations	1,147,130	766,133	394,885
Less: Due within one year	(56,233)	(19,321)	(21,427)
Net long-term obligations	$ 1,090,897	$ 746,812	$ 373,458

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

Economic Conditions and Outlook

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, 2010 and 2009

	2010	2009
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	$ 404,875	$ 359,305
Accounts receivable	18,028	18,611
Prepayments	2,172	2,622
Total current assets	425,075	380,538
Restricted assets:		
Equity in pooled cash and cash equivalents	84,623	84,711
Noncurrent assets:		
Capital assets:		
Land and construction in progress	1,976,952	783,407
Depreciable capital assets, net	1,395,014	1,428,787
Total noncurrent assets	3,371,966	2,212,194
Total assets	3,881,664	2,677,443
Liabilities:		
Current liabilities:		
Accounts payable	4,051	4,587
Contracts payable	-	78,605
Accrued interest payable	3,535	3,850
Payroll taxes accrued and withheld	1,024	1,024
Accrued wages and benefits	1,435	998
Due to other governments	681	670
Compensated absences	470	412
Bonds payable	20,000	19,000
OPWC payable	19,430	-
OWDA loan payable	16,803	321
Total current liabilities	67,429	109,467
Restricted liabilities:		
Customer security deposits	15,883	13,660
Noncurrent liabilities:		
Compensated absences	-	905
Bonds payable	193,239	213,239
OPWC loan payable	768,168	387,280
OWDA loan payable	129,490	146,293
Total noncurrent liabilities	1,090,897	747,717
Total liabilities	1,174,209	870,844
Net Assets:		
Invested in capital assets, net of related debt	2,224,836	1,446,061
Restricted for:		
Debt service	84,623	84,711
Unrestricted	397,996	275,827
Total net assets	$ 2,707,455	$ 1,806,599

See accompanying notes to the basic financial statements.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenues:		
Service fees	$ 331,687	$ 258,451
Contract fee revenue	3,215	5,391
Total operating revenues	334,902	263,842
Operating expenses:		
Salaries and benefits	32,067	35,489
Trustee fees	3,900	4,740
Payroll taxes	-	2,992
Workers compensation	721	856
Office expenses	11,648	13,652
Utilities	34,204	33,767
Engineering fees	350	-
Accounting and legal	4,278	9,007
Consulting fees	-	8,877
Maintenance and supplies	25,845	9,022
Inspection and testing	2,012	1,086
Insurance	9,245	8,894
Meter readings	858	443
Transportation expense	136	135
License, dues and subscriptions	1,550	1,578
Independent contractor fees	40,022	53,072
Billing fees - BOPA	1,399	483
Miscellaneous	-	6,369
Depreciation	113,551	110,211
Total operating expenses	281,786	300,673
Operating income	53,116	(36,831)
Nonoperating revenues (expenses):		
Sewer tap fees	1,500	1,500
Interest income	2,243	4,477
Interest expense	(12,094)	(14,652)
Capital contributions	851,914	273,462
Intergovernmental	-	18,042
Other nonoperating revenues	4,722	-
Other nonoperating expenses	(545)	(100,634)
Total nonoperating revenues (expenses)	847,740	182,195
Change in net assets	900,856	145,364
Net assets at beginning of year (restated Note 14)	1,806,599	1,661,235
Net assets at end of year	$ 2,707,455	$ 1,806,599

See accompanying notes to the basic financial statements.

WALNUT CREEK SEWER DISRICT
FAIRFIELD COUNTY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 324,201	$ 273,503
Cash received from contract fee revenue	11,284	6,581
Cash payments to supplies for goods and services	(131,633)	(73,208)
Cash payments for employee services and benefits	(36,240)	(43,283)
Net cash provided by operating activities	167,612	163,593
Cash flows from noncapital financing activities:		
Intergovernmental	-	18,037
Customer refunds	(375)	(9,850)
Customer deposits	5,928	497
Net cash provided by noncapital financing activities	5,553	8,684
Cash flows from capital and related financing activities:		
Cash received from tap-in fees	1,500	1,500
Principal payments - bonds	(19,000)	(18,000)
Interest payments - bonds	(11,612)	(12,511)
Principal payments - OWDA	(321)	(192,360)
Interest payments - OWDA	(797)	(2,439)
Acquisition and construction	(1,273,323)	(640,136)
Loan proceeds - OPWC	400,318	387,280
Loan proceeds - OWDA	-	194,328
Capital contributions	773,309	273,462
Net cash used in capital and related financing activities	(129,926)	(8,876)
Cash flows from investing activities:		
Purchase of certificate of deposit	-	(100,000)
Interest received	2,243	4,477
Net cash used in investing activities	2,243	(95,523)
Net increase in cash and cash equivalents	45,482	67,878
Cash and cash equivalents at beginning of year	444,016	376,138
Cash and cash equivalents at end of year	$ 489,498	$ 444,016
Reconciliation of operating income to net cash provided by operating activites:		
Operating income (loss)	$ 53,116	$ (36,831)
Adjustments:		
Depreciation	113,551	110,211
Changes in assets and liabilities:		
Decrease in accounts receivable	583	16,242
Decrease in prepaid items	450	58
Increase in payroll taxes and accrued liabilities	-	231
Increase in accrued wages and benefits	437	313
Increase in contracts payable	-	78,605
Increase in due to other governments	11	86
Decrease in accounts payable	(536)	(5,322)
Net cash provided by operating activities	$ 167,612	$ 163,593

See accompanying notes to the basic financial statements.

NOTE 1 - DESCRIPTION OF THE DISTRICT

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.

NOTE 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.

A. 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 finance 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. BASIS OF PRESENTATION – FUND ACCOUNTING

The District's basic financial statements are maintained on the basis of fund accounting. 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 enterprises. 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:

> *Sewer Fund* - This fund accounts for the provision of sewer services 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.

C. 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 the 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.

D. BUDGETARY DATA

Although not required under the Ohio Revised Code, an annual operating budget, which lapses as of the end of the year, is adopted for management purposes. The budget is adopted on a budgetary accounting basis in which purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures (encumbrances). Budgetary control is exercised at the fund and function level. Budget information is reported to the Board of Trustees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. 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 2010 and 2009, investments were limited to non-negotiable certificates of deposit which are reported at cost. Interest revenue earned and credited during 2010 and 2009 amounted to $2,243 and $4,477, respectively.

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.

F. RESTRICTED CASH

The District maintains 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 customers.

G. 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 2010, 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 not. Interest incurred during the construction of capital assets is also capitalized. Capitalized interest for 2010 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:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Description	Estimated Lives
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

H. 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.

I. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

J. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. 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.

L. 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 on 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. None of the District's reported net assets are restricted by enabling legislation.

M. 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.

N. 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 that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2010 or 2009.

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies held by the District are classified by 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 in 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;

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.

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

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 2010 and 2009 was $489,498 and $444,016 and the District's bank balance was $323,247 and $429,589 of which $250,000 and $413,455 was insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining balance of $73,247 and $16,134 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 to 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 one hundred five 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 state statutes.

Custodial Credit Risk - The District has no investment policy dealing with investment custodial risk beyond the requirements in the Ohio Revised Code Section 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash consists of reserve funds that were established by Board resolutions. At December 31, 2010 and 2009, the District had 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 of which may be invested at the discretion of the Board. At December 31, 2009 the District had $17,763 in cash and $34,211 in a certificate of deposit.

Repair and Replacement Fund: Monthly deposits into the Repair and Replacement Reserve 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, 2009 this fund had $19,077 in a certificate of deposit.

The District consolidated the Bond and Interest Sinking Fund and Repair and Replacement Fund investments during 2010. The District reported $14,680 in cash and $54,060 in a certificate of deposit.

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, 2010 and 2009, the Customer Security Deposit account had a balance of $15,883 and $13,660, 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 as follows:

Year Ending	Principal	Interest	Total
2011	$ 20,000	$ 10,662	$ 30,662
2012	21,000	9,662	30,662
2013	22,000	8,612	30,612
2014	23,000	7,512	30,512
2015	24,000	6,362	30,362
2016-2019	103,239	12,898	116,137
Total	$ 213,239	$ 55,708	268,947
Less: Bond and Interest Sinking Fund Balance - 12/31/10			(54,623)
		Total	$ 214,324

NOTE 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.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010, was as follows:

	Balance 12/31/09	Additions	Disposals	Balance 12/31/10
Capital assets, not being depreciated:				
Land	$ 24,276	$ -	$ -	$ 24,276
Land easements	1,250	-	-	1,250
Construction in progress	757,881	1,193,545	-	1,951,426
Total capital assets, not being depreciated	783,407	1,193,545	-	1,976,952
Capital assets, being depreciated:				
Land improvements	15,630	-	-	15,630
Plant buildings	693,099	-	-	693,099
Sewer lines and storage	2,478,027	71,195	-	2,549,222
Pumps and treatment equipment	1,250,698	8,583	-	1,259,281
Office equipment and furniture	23,214	-	-	23,214
Transportation equipment	41,963	-	-	41,963
Leasehold improvements	1,594	-	-	1,594
Equipment and tools	62,136	-	-	62,136
Total capital assets, being depreciated	4,566,361	79,778	-	4,646,139
Less: accumulated depreciation:				
Land improvements	(9,780)	(300)	-	(10,080)
Plant buildings	(333,451)	(17,683)	-	(351,134)
Sewer lines and storage	(1,743,055)	(62,841)	-	(1,805,896)
Pumps and treatment equipment	(944,335)	(28,372)	-	(972,707)
Office equipment and furniture	(23,214)	-	-	(23,214)
Transportation equipment	(26,363)	(2,400)	-	(28,763)
Leasehold improvements	(1,241)	(97)	-	(1,338)
Equipment and tools	(56,135)	(1,858)	-	(57,993)
Total accumulated depreciation	(3,137,574)	(113,551)	-	(3,251,125)
Total capital assets, being depreciated, net	1,428,787	(33,773)	-	1,395,014
Total capital assets, net	$ 2,212,194	$ 1,159,772	$ -	$ 3,371,966

NOTE 6 - CAPITAL ASSETS – (Continued)

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

	(Restated) Balance 12/31/08	Additions	Disposals	Balance 12/31/09
Capital assets, not being depreciated:				
Land	$ 24,276	$ -	$ -	$ 24,276
Land easements	1,250	-	-	1,250
Construction in progress	164,998	592,883	-	757,881
Total capital assets, not being depreciated	190,524	592,883	-	783,407
Capital assets, being depreciated:				
Land improvements	9,630	6,000	-	15,630
Plant buildings	693,099	-	-	693,099
Sewer lines and storage	2,478,027	-	-	2,478,027
Pumps and treatment equipment	1,226,245	24,453	-	1,250,698
Office equipment and furniture	23,214	-	-	23,214
Transportation equipment	25,163	16,800	-	41,963
Leasehold improvements	1,594	-	-	1,594
Equipment and tools	62,136	-	-	62,136
Total capital assets, being depreciated	4,519,108	47,253	-	4,566,361
Less: accumulated depreciation:				
Land improvements	(9,630)	(150)	-	(9,780)
Plant buildings	(315,767)	(17,684)	-	(333,451)
Sewer lines and storage	(1,681,104)	(61,951)	-	(1,743,055)
Pumps and treatment equipment	(917,064)	(27,271)	-	(944,335)
Office equipment and furniture	(23,214)	-	-	(23,214)
Transportation equipment	(25,163)	(1,200)	-	(26,363)
Leasehold improvements	(1,144)	(97)	-	(1,241)
Equipment and tools	(54,277)	(1,858)	-	(56,135)
Total accumulated depreciation	(3,027,363)	(110,211)	-	(3,137,574)
Total capital assets, being depreciated, net	1,491,745	(62,958)	-	1,428,787
Total capital assets, net	$ 1,682,269	$ 529,925	$ -	$ 2,212,194

NOTE 7 - LONG-TERM OBLIGATIONS

During the fiscal year 2010, the following changes occurred in the District's long-term obligations:

	Interest Rate	Maturity Date	Balance 12/31/09	Additions	Reductions	Balance 12/31/10	Amounts Due in One Year
USDA rural development bonds	5.00%	2019	$ 232,239	$ -	$ (19,000)	$ 213,239	$ 20,000
OWDA loan payable #4060	5.16%	2034	30,891	-	(321)	30,570	667
OWDA loan payable #5194	0.00%	2030	115,723	-	-	115,723	16,136
OPWC Loan CQ28L	0.00%	NA	44,017	160,681	-	204,698	-
OPWC Loan CQ29M	0.00%	NA	343,263	239,637	-	582,900	19,430
Compensated absences	NA	NA	1,317	1,531	(2,378)	470	470
Total long-term liabilities			$ 767,450	$ 401,849	$ (21,699)	$ 1,147,600	$ 56,703

During the fiscal year 2009, the following changes occurred in the District's long-term obligations:

	Interest Rate	Maturity Date	(Restated) Balance 12/31/08	Additions	Reductions	Balance 12/31/09	Amounts Due in One Year
USDA rural development bonds	5.00%	2019	$ 250,239	$ -	$ (18,000)	$ 232,239	$ 19,000
OWDA loan payable #4060	5.16%	2034	31,806	-	(915)	30,891	321
OWDA loan payable #5194	0.00%	2030	-	188,620	(72,897)	115,723	-
OWDA loan payable #4853	4.95%	NA	112,840	5,708	(118,548)	-	-
OPWC Loan CQ28L	0.00%	NA	-	44,017	-	44,017	-
OPWC Loan CQ29M	0.00%	NA	-	343,263	-	343,263	-
Compensated absences	NA	NA	1,153	1,185	(1,021)	1,317	412
Total long-term liabilities			$ 396,038	$ 582,793	$ (211,381)	$ 767,450	$ 19,733

Outstanding debt consisted of 1995 Water Resource Revenue Bonds with the Farmers Home Administration bonds 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 charges for service receipts.

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 with final payment due July 1, 2034. The loan is collateralized by charges for service receipts.

During 2008, the District entered into a loan agreement with the Ohio Water Development Authority for improvements to the District's sewer plant and lines. The principal amount of the loan is $116,888 bearing an interest rate of 4.95% with principal and interest payments due July 1 and January 1, respectively. This loan was retired and consolidated by the issuance of the OWDA loan secured for the District's Wastewater

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Treatment Plant Improvements.

During 2009 the District entered into a loan agreement with the Ohio water Development Authority for Wastewater Treatment Plant Improvements. This loan totaled $1,602,389 and was comprised of Water Pollution Control Loan State and American Reinvestment Recovery Act (ARRA) Funds in the amounts of $645,429 and $956,960. This loan bears an interest rate of 0.0% and is collateralized by charges for service receipts. Once the loan is finalized an amortization schedule will be finalized by Ohio Water Development Authority.

The District has pledged future charges for service revenues to repay $787,598 borrowed from the Ohio Public Works Commission. Proceeds from these loans will be used for Wastewater Treatment Plant Equalization Basin and the Phase II project undertaken by the District. Both loans were issued interest free and an amortization schedule will be finalized once final terms have been approved for loan CQ28L.

A principal and interest requirement to retire the District's outstanding debt at December 31, 2010 is as follows:

	USDA Rural Development Bonds			OWDA Loan #4060		
Year	Principal	Interest	Total	Principal	Interest	Total
2011	$ 20,000	$ 10,662	$ 30,662	$ 667	$ 1,569	$ 2,236
2012	21,000	9,662	30,662	702	1,534	2,236
2013	22,000	8,612	30,612	738	1,497	2,235
2014	23,000	7,512	30,512	777	1,459	2,236
2015	24,000	6,362	30,362	817	1,418	2,235
2016-2020	103,239	12,898	116,137	4,775	6,404	11,179
2021-2025	-	-	-	6,160	5,019	11,179
2026-2030	-	-	-	7,947	3,232	11,179
2031-2035	-	-	-	7,987	955	8,942
Total	$ 213,239	$ 55,708	$ 268,947	$ 30,570	$ 23,087	$ 53,657

	OPWC Loan CQ29M		
Year	Principal	Interest	Total
2011	$ 19,430	$ -	$ 19,430
2012	19,430	-	19,430
2013	19,430	-	19,430
2014	19,430	-	19,430
2015	19,430	-	19,430
2016-2020	97,150	-	97,150
2021-2025	97,150	-	97,150
2026-2030	97,150	-	97,150
2031-2035	97,150	-	97,150
2036-2040	97,150	-	97,150
Total	$ 582,900	$ -	$ 582,900

NOTE 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 coverage. 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 have been no significant reductions in insurance coverage during the fiscal year 2010. Settled claims have not exceeded commercial excess coverage in any of the past three years.

NOTE 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
2011	$ 4,800
2012	4,800
2013	4,800
2014	4,800
2015	4,800
2016-2017	9,600
Total	$ 33,600

NOTE 10 – DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the members, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

supplementary information. This report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, OH 43215-4642.

For the year ended December 31, 2010, state statute required employers to contribute 14% of their gross salaries and for employees to contribute 10% of their gross salaries. The Board contributed $8,718, $8,464, and $8,217 for 2010, 2009, and 2008. Required contributions are equal to 100% of the dollar amount billed.

The District recognizes the disbursement for employer contributions to the Ohio Public Employees Retirement System (OPERS) when they are paid. The Ohio Revised Code prescribes contribution rates.

NOTE 11 – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription rug program, and Medicare Park B premium reimbursement, 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.

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 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.

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 2010, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not exceed 14.00% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5%

NOTE 11 – POSTEMPLOYMENT BENEFITS (Continued)

from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees 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. Payments amounts vary depending on the number of covered dependents and the coverage selected. The District contributed $268 toward postemployment benefits for the period January 1 through February 28, 2010 and $1,196 for the period March 1 through December 31, 2010.

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 for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

NOTE 12 - CONTINGENCIES

The District is currently involved in litigation. It is the opinion of the District's management that the ultimate settlement of such litigation will not result in a material adverse effect on the District's financial position and results of operations.

NOTE 13 – FISCAL AGENT

During 2009, 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 each month issued a check for the total received.

NOTE 14 – RESTATEMENT OF NET ASSETS

Beginning net assets were restated from $1,661,065 to $1,661,235 to account for changes in depreciation expense and also outstanding debt balances with the Ohio Water Development Authority.

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

Walnut Creek Sewer District
P.O. Box 599
Pleasantville, Ohio 43148

To the Board:

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, 2010 and 2009, and have issued our report thereon dated September 8, 2011. 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 Controls Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is noted in the schedule of findings as finding number 2010-001.

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

We intend this report solely for the information and use of management, members of the Board, and others within the District. We intend it for no one other than these specified parties.

Charles E. Harris & Associates

Charles E. Harris & Associates, Inc.
September 8, 2011

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

FINDING NUMBER 2010-001
Noncompliance Citation

Ohio Revised Code Section 5705.41 (D) requires, in part, that no subdivision or taxing unit shall make any contract or order any expenditure unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement state above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

> "Then and Now" Certificate – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by resolution.
>
> Amounts of less than $3,000 may be paid by the fiscal officer without a resolution upon completion of the "then and now" certificate provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditure by the District.
>
> Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (Continued)

FINDING NUMBER 2010-001
(Continued)

Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predicable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

In our testing of 2010 and 2009 expenditures, we noted that 65% did not have purchase orders or similar documentation to certify the availability of monies to cover said purchases.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the District Office Administrator certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which Section 570.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The District's Office Administrator should sign the certification at the time the District incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The District's Office Administrator should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

District Response:

The Office Administrator is currently exploring the use of Blanket Certificates and Super Blanket Certificates.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY
DECEMBER 31, 2010 AND 2009

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2008-4495-001	Contrary to Ohio Rev. Code Section 5705.41(D), District did not certify the availability of funds before contracting to procure goods and services.	No	Not Corrected: This is repeated in the Schedule of Findings as item 2010-001.
2008-4495-002	Contrary to Ohio Rev. Code Section 5705.28, District did not adopt an operating budget prior to July 15, 2007 and 2006.	Yes	Finding no longer valid
2008-4495-003	The District had material misstatements and reclassifications to the financial statements that were identified by the Auditors.	Yes	Finding no longer valid

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Dave Yost • 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
NOVEMBER 17, 2011

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