

**WALNUT CREEK
SEWER DISTRICT**

GENERAL PURPOSE FINANCIAL STATEMENTS

(Audited)
For The Years Ended

December 31, 2002 and 2001

LOWELL HITE, CLERK/TREASURER



**Auditor of State
Betty Montgomery**

Board of Trustees
Walnut Creek Sewer District
P.O. Box 599
Pleasantville, OH 43148

We have reviewed the Independent Auditor's Report of the Walnut Creek Sewer District, Fairfield County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2001 through December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 21, 2003

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WALNUT CREEK SEWER DISTRICT

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TRIMBLE, JULIAN & GRUBE, INC.

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Independent Auditor’s Report

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

We have audited the accompanying general purpose financial statements of the Walnut Creek Sewer District, Fairfield County, Ohio, (the “District”), as of and for the years ended December 31, 2002 and 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the District’s management. Our responsibility is to express an opinion on these general purpose 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 opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Walnut Creek Sewer District, Fairfield County, as of December 31, 2002 and 2001, and the results of its operations and the cash flows 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 June 25, 2003 on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Trimble, Julian & Grube, Inc.
June 25, 2003

WALNUT CREEK SEWER DISTRICT

BALANCE SHEET
DECEMBER 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 46,248	\$ 44,645
Accounts receivable	25,024	26,552
Due from Other Governments	18,000	-
Prepaid expenses	2,976	3,711
TOTAL CURRENT ASSETS	<u>92,248</u>	<u>74,908</u>
RESTRICTED ASSETS		
Cash and cash equivalents	<u>144,582</u>	<u>112,008</u>
PROPERTY, PLANT AND EQUIPMENT		
Land	24,276	24,276
Land easements	1,250	1,250
Land improvements	9,630	9,630
Plant buildings	420,634	420,634
Sewer lines and storage	2,340,461	2,340,461
Pumps and treatment equipment	832,956	829,411
Office equipment and furniture	23,214	16,074
Transportation equipment	25,163	25,163
Leasehold improvements	1,594	1,594
Equipment and tools	62,136	62,136
Construction in Progress	227,993	16,915
	<u>3,969,307</u>	<u>3,747,544</u>
Less: Accumulated depreciation	<u>(2,483,574)</u>	<u>(2,405,772)</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>1,485,733</u>	<u>1,341,772</u>
OTHER ASSETS		
Industrial commission deposit	<u>592</u>	<u>592</u>
TOTAL ASSETS	<u>\$ 1,723,155</u>	<u>\$ 1,529,280</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Bonds payable	\$ 13,000	\$ 13,000
Accounts payable	4,072	2,568
Contracts payable	18,000	-
Customer security deposits	17,534	15,425
Accrued wages	1,291	1,626
Accrued compensated absences	568	3,777
Accrued interest	5,656	5,904
Payroll taxes accrued and withheld	1,531	2,277
TOTAL CURRENT LIABILITIES	<u>61,652</u>	<u>44,577</u>
LONG-TERM LIABILITIES		
Bonds payable	<u>328,239</u>	<u>341,239</u>
FUND EQUITY		
Contributed capital - grants	3,303,596	3,303,596
Accumulated deficit	<u>(1,970,332)</u>	<u>(2,160,132)</u>
TOTAL FUND EQUITY	<u>1,333,264</u>	<u>1,143,464</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,723,155</u>	<u>\$ 1,529,280</u>

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

WALNUT CREEK SEWER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES		
Service fees	\$ 197,001	\$ 178,168
Contract fee revenue	32,380	26,762
Total operating revenues	<u>229,381</u>	<u>204,930</u>
OPERATING EXPENSE		
Salaries	57,775	77,019
Trustee fees	5,400	4,800
Payroll taxes	1,392	921
Workers' compensation	2,466	944
Plant chemicals and fuel	884	3,001
Telephone	4,914	5,934
Electric	11,271	11,420
Office supplies	8,612	4,024
Insurance	8,019	7,917
Accounting and legal	11,498	21,479
Consulting fees	7,510	1,628
Employee benefits (OPERS)	9,118	11,127
Repairs and excavation	624	3,561
Maintenance and supplies	7,629	11,510
Inspection and testing	1,138	1,236
Health insurance	11,664	8,863
Rent	4,800	4,800
Transportation expense	1,215	1,631
License, dues and subscriptions	4,861	389
Advertising	1,041	755
Sludge removal	8,100	17,910
Bank service charges	42	49
OPWC project account	-	280
Bad debt	391	55
Independent contractor fees	-	24
Training	275	-
Billing Fees - BOPA	1,508	-
Depreciation	77,802	77,936
Miscellaneous	5,005	2,083
Total operating expenses	<u>254,954</u>	<u>281,296</u>
Net loss from operations	<u>(25,573)</u>	<u>(76,366)</u>
OTHER INCOME (EXPENSE)		
Sewer tap fees	15,610	12,800
Permit fees	80	-
Interest income	4,924	5,719
Non-operating grants	50,733	-
Donated sewer lines	152,384	16,915
Interest expense	(17,553)	(18,112)
Miscellaneous income	9,195	6,656
Net other income (expense)	<u>215,373</u>	<u>23,978</u>
Net income (loss)	189,800	(52,388)
Accumulated deficit, beginning of period	<u>(2,160,132)</u>	<u>(2,107,744)</u>
Accumulated deficit, end of period	<u>\$ (1,970,332)</u>	<u>\$ (2,160,132)</u>

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

WALNUT CREEK SEWER DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 198,529	\$ 191,149
Cash received from contract fee revenues	32,380	26,762
Cash received for customer deposits	2,109	2,010
Cash payments to suppliers for goods and services	(86,707)	(100,676)
Cash payments for employee services and benefits	(92,105)	(110,955)
Net cash provided by operating activities	<u>54,206</u>	<u>8,290</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other income	<u>9,195</u>	<u>6,656</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	15,610	12,800
Principal payments	(13,000)	(12,000)
Grants Received	50,733	-
Purchase of capital assets	(69,690)	-
Interest expense	(17,801)	(18,314)
Net cash used for capital and related financing activities	<u>(34,148)</u>	<u>(17,514)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	<u>4,924</u>	<u>5,719</u>
Net increase in cash and cash equivalents	34,177	3,151
Cash and cash equivalents, beginning of year	<u>156,653</u>	<u>153,502</u>
Cash and cash equivalents, end of year	<u>\$ 190,830</u>	<u>\$ 156,653</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (25,573)	\$ (76,366)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Bad Debt expense	391	55
Depreciation	77,802	77,936
Changes in assets and liabilities:		
Decrease in accounts receivable	1,528	12,871
(Increase)/Decrease in prepaids	735	(430)
Increase in customer deposits	2,109	2,010
Increase/(Decrease) in accounts payable	1,504	(505)
(Decrease) in accrued wages and benefits	(4,290)	(7,281)
Total adjustments	<u>79,779</u>	<u>84,656</u>
Net cash provided by operating activities	<u>\$ 54,206</u>	<u>\$ 8,290</u>

Non-cash transactions: During 2002 and 2001, the Walnut Creek Sewer District received grants of \$107,808 and \$16,915, respectively, from the Ohio Public Works Commission paid on their behalf. In addition, the Walnut Creek Sewer District received grant monies of \$44,576 paid on their behalf by Fairfield County in 2002.

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

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 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 (O.R.C.) by the Common Pleas Court of Fairfield County, Ohio, for the purpose of providing public 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 financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the District follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Interpretations, Accounting Principles Board Opinions (APBO), and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

A. REPORTING ENTITY

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The GPFS includes the fund for which the District is "accountable". Accountability as described in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the District and whether exclusion would cause the District's GPFS to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the District.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

Based on the foregoing criteria, there were no PCU's for the years reported on in the GPFS in accordance with GASB Statement No. 14

B. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the District 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 its assets, liabilities, fund equity or accumulated deficit, as appropriate, and revenues and expenses. The following fund type is used by the District:

PROPRIETARY FUND TYPE:

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 primarily through user charges.

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 accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the balance sheet. This measurement focus emphasizes the determination of net income.

Fund equity (i.e., net total assets) is segregated into contributed capital and accumulated deficit components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

D. BUDGETS

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

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

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. The District's fund completed the audit period within the amount of their legally authorized cash basis appropriations.
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. Supplemental appropriations were legally enacted by the Board during the years ended December 31, 2002 and 2001.

E. CASH AND CASH EQUIVALENTS

Cash balances of the District's enterprise fund are invested in cash and certificates of deposit and presented as "Cash and Cash Equivalents" on the balance sheet. During the audit period, investments were limited to certificates of deposit, which are reported at cost. Interest income earned by the District totaled \$4,924 and \$5,719, respectively, for the years ended December 31, 2002 and 2001.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with maturities of three months or less are considered cash equivalents.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

F. RESTRICTED CASH

The District maintains four 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 Replace Reserve Fund may be used currently upon approval from the Farmers Home Administration. The Vacation Fund is accumulating monies for future payouts of compensated absences. The Customer Security Deposits are held until Board approves the refund to the respective customers.

G. PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

Fixed assets acquired or constructed for the general use of the District in providing service are stated at cost (or estimated historical cost) and updated for the cost of additions and disposals during the years. Contributed fixed assets are recorded at their fair market values as of the date donated. The District capitalizes any asset with a cost greater than \$500 and a useful of life of 3 years or more. Depreciation and amortization have been provided on a straight-line basis ranging from 3 to 40 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency are capitalized at cost and depreciated, if applicable, over the remaining useful lives of the related fixed assets.

The District's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investment on debt proceeds. Capitalized interest is amortized utilizing the straight line basis over the estimated useful life of the asset. There was no capitalized interest for the audit period.

H. COMPENSATED ABSENCES

Compensated absences of the District consist of vacation and sick time to the extent that payment to the employees 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 its employees.

CITY OF GRANDVIEW HEIGHTS, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

In accordance with provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

Unused sick pay is recorded as a liability with employees being entitled to 4.6 hours of sick leave for each completed 80 hours up to a maximum of 960 hours and are entitled to a lump sum payment of 1/3 of accumulated sick pay upon retirement or termination if they have more than ten years of service. At December 31, 2002 and 2001, accrued sick and vacation pay totaled \$568 and \$3,777, respectively, and is recorded as a current liability on the balance sheet.

I. EQUITY

Contributed capital is recorded by the District for receipts of capital grants or contributions from developers and customers. All of the District's contributed capital has been received from customers and Farmer's Home Administration and Ohio Public Works Commission grants. Depreciation on assets acquired or constructed with contributed resources is expensed and closed to accumulated deficit at year end. There were no changes to contributed capital during December 31, 2002 and 2001 due to the implementation of GASB Statement No. 33. Reserved fund equity represents monies reserved by the District for repair and replacement in accordance with bond indenture requirements.

J. PREPAID EXPENSES

Payments made to vendors for services that will benefit periods beyond the balance sheet date are recorded as prepaid items using the consumption method. A current asset for prepaid amounts is recorded at the time of payment, and an expense is reported at the time the services are consumed.

K. ACCOUNTS RECEIVABLE

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Increases to the allowance are recorded by a provision for bad debt expense. The allowance is maintained by management at a level considered adequate to cover possible losses that are currently anticipated based on past experience, general economic conditions, information about specific account situations, and other factors and estimates which are subject to change over time.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

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.

L. ESTIMATES

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

M. LONG TERM OBLIGATIONS

The District records fund obligations not expected to be financed within one year by available financial resources as long-term debt, which consisted of United States Rural Development Bonds.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

During 2001, the District implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement 36, *Reporting for Certain Shared Nonexchange Revenues*. The implementation of GASB Statements 33 and 36 had no effect on equity.

NOTE 4 - 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.

CITY OF GRANDVIEW HEIGHTS, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Inactive deposits are public deposits that the District has identified as not required for use within the current two 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 (STAR 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

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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.

The District may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons;
3. Obligations of the District.

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 Clerk/Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

DEPOSITS

For the years ended December 31, 2002 and 2001, the carrying amount of the District's deposits were \$190,830 and \$156,653, respectively, and the bank balances were \$186,950 and \$164,915, respectively. Of the bank balances both years, \$100,000 was covered by federal depository insurance and the remaining balances of \$86,950 and \$64,915 were covered by collateral held by third party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions for December 31, 2002 and 2001, respectively.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Specifically, a designated public depository may pledge a single pool of eligible securities to secure the repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

NOTE 5 - BUDGETARY COMPLIANCE

Budgetary activity for the years ending December 31, 2002 and 2001, follows:

<u>Budgeted vs. Actual Receipts</u>	<u>2002</u>	<u>2001</u>
Budgeted Receipts	\$ 383,850	\$ 425,940
Actual Receipts	<u>255,187</u>	<u>227,179</u>
Variance	<u>\$ (128,663)</u>	<u>\$ (198,761)</u>
<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>	<u>2002</u>	<u>2001</u>
	<u>Budget</u>	<u>Actual</u>
Appropriation Authority:	\$ 502,030	\$ 425,940
Budgetary Expenditures	<u>225,584</u>	<u>318,278</u>
Variance	<u>\$ 276,446</u>	<u>\$ 107,662</u>

NOTE 6 - RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash consists of reserve funds that were established by Board resolutions. The Repair and Replacement Reserve may be used currently upon approval from the USDA/Rural Development. Reserve funds consist of the following:

2002	<u>Restricted</u>		
<u>Account</u>	<u>Certificates of Deposit</u>	<u>Cash</u>	<u>Total</u>
Bond and Interest Sinking Fund	\$ 10,464	\$ 32,482	\$ 42,946
Repair and Replacement Reserve	40,117	12,363	52,480
Vacation	32,303	-	32,303
Customer Security Deposits	<u>16,853</u>	<u>-</u>	<u>16,853</u>
Total Restricted Cash and Cash Equivalents	<u>\$ 99,737</u>	<u>\$ 44,845</u>	<u>\$ 144,582</u>

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 6 - RESTRICTED CASH AND CASH EQUIVALENTS - (Continued)

2001	Restricted		
	Certificates of Deposit	Cash	Total
<u>Account</u>			
Bond and Interest Sinking Fund	\$ 10,347	\$ 31,040	\$ 41,387
Repair and Replacement Reserve	40,725	11,956	52,681
Vacation	2,393	-	2,393
Customer Security Deposits	<u>15,547</u>	<u>-</u>	<u>15,547</u>
Total Restricted Cash and Cash Equivalents	<u>\$ 69,012</u>	<u>\$ 42,996</u>	<u>\$ 112,008</u>

NOTE 7 - RESERVE FUNDS

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.

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 next five years are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 13,000	\$ 17,062	\$ 30,062
2004	14,000	16,412	30,412
2005	15,000	15,712	30,712
2006	16,000	14,962	30,962
2007	<u>16,000</u>	<u>14,162</u>	<u>30,162</u>
Total	<u>\$ 74,000</u>	<u>\$ 78,310</u>	<u>152,310</u>
Less: Balance in Bond and Interest Sinking Fund at December 31, 2002			<u>42,946</u>
Total			<u>\$ 109,364</u>

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 required to be accumulated in this reserve account is \$30,000.

**WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO**
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 7 - RESERVE FUNDS- (Continued)

The Repair and Replacement Reserve account balance at December 31, 2002 and 2001, was \$52,480 and \$97,326, respectively.

The Vacation Fund Account is reserved for vacation earned and required to be paid to any employee that terminates employment with WCSD. The balance was \$32,303 and \$2,933 at December 31, 2002 and 2001, respectively.

NOTE 8 - LONG-TERM DEBT

At December 31, long-term bonds payable consisted of the following issuances:

<u>Description</u>	<u>Balance at December 31, 2002</u>	<u>Balance at December 31, 2001</u>
1995 Water Resource Revenue Bonds with Farmers Home Administration with denominations of \$1,000 each, bearing interest at 5% per annum, principal and interest payments are due annually on September 1, final bonds are due September 1, 2019.	\$ 328,239	\$ 341,239
Total Long-Term Bonds Payable	<u>\$ 328,239</u>	<u>\$ 341,239</u>

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2002, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 13,000	\$ 17,062	\$ 30,062
2004	14,000	16,412	30,412
2005	15,000	15,712	30,712
2006	16,000	14,962	30,962
2007	16,000	14,162	30,162
2008 - 2012	95,000	57,810	152,810
2013 - 2017	120,000	31,560	151,560
2018 - 2019	<u>52,239</u>	<u>3,824</u>	<u>56,063</u>
Totals	<u>\$ 341,239</u>	<u>\$ 171,504</u>	<u>\$ 512,743</u>

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 9 - DEFINED BENEFIT PENSION PLAN

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

All District full-time employees participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The Ohio Revised Code provides statutory authority to establish and amend benefits as well as provide for employee and employer contributions. The employee contribution rates are 8.5% for employees. The 2002 employer contribution rate for local government employer units was 13.55% of covered payroll. The District's contributions to OPERS for the year ended December 31, 2002 were \$9,118. For 2001, the Retirement Board instituted a temporary employer contribution rate. The rate rollback was 20% while the employer contribution rate was 10.84% of covered payroll. The District's contributions to OPERS for the year ended December 31, 2001 were \$8,902.

The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

B. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. The 2001 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 9 - DEFINED BENEFIT PENSION PLAN – (Continued)

OPEB is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

As of December 31, 2001 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively, at December 31, 2001 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2001 (the latest information available) was 402,041.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2002, Comprehensive Annual Financial Report.

WALNUT CREEK SEWER DISTRICT
FAIRFIELD COUNTY, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 10 - 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:

<u>Year</u>	<u>Amount</u>
2003	\$ 4,800
2004	4,800
2005	4,800
2006	4,800
2007	<u>4,800</u>
Total	<u>\$ 24,000</u>

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss; related torts; theft of, damage to, and 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 Trimmer Insurance for commercial general liability insurance. The coverage insures up to \$1,000,000 for each occurrence and \$2,000,000 for an aggregate total. The Trimmer Insurance Agency provides the public liability insurance.

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

NOTE 12 - AGENT CAPACITY

The District acts in an agency capacity for the Village of Pleasantville (the "Village") in relation to its water service. The District bills, collects and deposits the Village's water revenue and at the end of each month issues a check for the total received. The District's receipts and disbursements to the Village totaled \$81,652 and \$81,556, respectively, for the years ended December 31, 2002 and 2001.

NOTE 13 - CONTINGENT LIABILITY

LITIGATION

The District is currently not involved in litigation that the management or its legal counsel anticipates a loss.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report On Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the general purpose financial statements of Walnut Creek Sewer District, Fairfield County, Ohio, (the “District”) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 25, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the District’s general purpose financial statements are free of material misstatement, we performed tests of its’ compliance with certain provisions of laws, regulations, contracts and grants, 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 test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a matter that we have communicated to the management of the District in a separate letter dated June 25, 2003.

Walnut Creek Sewer District
Board of Trustees

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the District in a separate letter dated June 25, 2003.

This report is intended for the information and use of the Board of Trustees and its management, and is not intended to be and should not be used by anyone other than these specified parties.

Trimble, Julian & Grube, Inc.
June 25, 2003



**Auditor of State
Betty Montgomery**

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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
AUGUST 12, 2003**