

**WALNUT CREEK  
SEWER DISTRICT**

**BASIC FINANCIAL STATEMENTS**

(Audited)  
For The Year Ended

December 31, 2004

**LOWELL HITE, CLERK/TREASURER**





# Mary Taylor, CPA

## Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Walnut Creek Sewer District, Fairfield County, prepared by Julian & Grube, Inc., for the audit period January 1, 2004 through December 31, 2004. 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.

### Finding for Recovery:

Ohio Revised Code Section 149.351 states, in part, that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

The following expenditures were made on the District's credit card by Kristi Shook, former administrative assistant, and were not supported by an invoice or do not appear to be for a proper public purpose. The District Board of Trustees did not issue prior approval of these expenditures demonstrating what public purpose such expenditures served, nor did the Board of Trustees have a policy addressing these types of expenditures.

Check Date	Check Number	Amount	Vendor	Description
2/12/2003	11530	\$ 5.98	Quill	mints-5.98
3/27/2003	11582	37.85	Sam's Club	fixodent-6.83, candy-6.86, sheet set-32.56, Wet Jet-29.87, coke-5.86, variety pack-4.87, Turbotax-33.74, State Tax-24.86, calculators-14.74, puffs- 7.84-\$130.18 repaid by Ms. Shook
6/17/2003	11705	106.69	Quill	paper trimmer-14.99, cutting tools-61.75, cutter-14.96, scotch tape-14.99
9/17/2003	11818	89.97	Quill	3 surge protectors unaccounted for-89.97
11/6/2003	11890	28.99	Quill	coffee-28.99
11/6/2003	11898	40.43	Bank One Visa	cold medicine-3.97 & 6.49, cough drops-1.29, food-28.68

12/12/2003	11963	163.65	Sam's Club	Entire invoice appears to be personal items - 163.65
1/5/2004	11994	360.88	Bank One Visa	sweeper-48.33, Big Lots invoice-32.02, Meijer-47.74, Harriet Carter-151.75, Valvoline-55.47 As Seen on TV- 25.57
2/3/2004	12039	331.30	Bank One Visa	sweeper-32.44, Kroger invoice-59.14, Harriet Carter-18.82 & (45.98-19.98), Best Software SB, Inc.-194.90
3/3/2004	12079	32.44	Bank One Visa	sweeper-32.44
3/17/2004	12105	358.73	Sam's Club	Entire invoice appears to be personal items - 358.73
4/1/2004	12126	184.53	Bank One Visa	sweeper-32.44, Harriet Carter-83.92 & 11.83, Kroger invoice-56.34
7/20/2004	12290	34.82	Sam's Club	dryer sheets-6.97, food-17.61, chinnet plates-10.24
8/2/2004	12314	356.80	Bank One Visa	Radio shack invoice-26.74, Sears invoice-38.50, Office max invoice-80.75 & 105.98, Lowe's invoice-15.97, entire Target invoice appears to be personal items-88.86
		<u>\$2,133.06</u>		

Certain expenditures were not supported with detailed invoices or receipts to indicate each of the items purchased. Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose, such as the purchase of alcohol. The failure to maintain adequate support for expenditures could result in a loss of accountability over the District's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex.rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Additionally, Section 2 of District Ordinance 3-21-85 states, "Each full-time employee, including full-time hourly rate employees after service of one year with the district shall have earned and will be due upon the attainment of the first year's employment and annually thereafter, eighty hours of vacation leave with full pay. Such vacation shall accrue to the employee for each of the first five years at the rate of 3.1 hours for each bi-weekly period." Balestra, Harr & Scherer, CPAs, Inc. conducted an independent review of the District records for the period February 1, 2002 to March 30, 2005. Their report indicates Kristi Shook was overpaid for vacation leave of 158.7 hours at a rate of \$10.50 per hour for an overpayment of \$1,666.35.

Furthermore, Systematic Corporation issued a rebate check to the District for \$30.00 on August 14, 2004, which was cashed on September 1, 2004. There is no evidence that the \$30.00 was recorded on the books of the District which constitutes money collected, but unaccounted for.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended and for monies collected but unaccounted for is hereby issued against Kristi Shook, former administrative assistant, in the amount of \$3,829.41 and in favor of the Walnut Creek Sewer District's general fund.

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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

June 11, 2008

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# WALNUT CREEK SEWER DISTRICT

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# JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Rd. West  
Westerville, Ohio 43082

Telephone 614.846.1899  
Facsimile 614.846.2799

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Walnut Creek Sewer District, Fairfield County, Ohio, (the “District”), as of and for the year ended December 31, 2004, which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

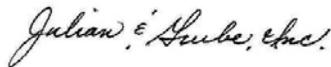
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Walnut Creek Sewer District, Fairfield County, as of December 31, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the year ended December 31, 2004.

Independent Auditor's Report  
Walnut Creek Sewer District  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Julian & Grube, Inc.  
July 21, 2005

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

The discussion and analysis of the Walnut Creek Sewer District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance. As stated in the notes to the basic financial statements, the financial information contained in this report is presented in conformity with accounting principles generally accepted in the United States of America (GAAP).

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- The total net assets of the District decreased \$79,303.
- The District's operating revenues decreased \$346 and expenses (including depreciation) increased \$35,486.

**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.

**Reporting the District as a Whole**

*Statement of Net Assets*

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

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

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

*Statement of Cash Flows*

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

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

The District reports the following fund type:

***Proprietary Funds***

The District maintains an enterprise fund to account for its water and sewer functions.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. These notes to the basic financial statements can be found on pages 10-26 of this report.

**Statement of Net Assets**

The table below provides a summary of the District's net assets for 2004 and 2003:

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>Change</u>
<u>Assets</u>				
Current and restricted assets	\$ 208,119	\$ 251,783	\$ (43,664)	-17%
Capital assets	<u>1,450,746</u>	<u>1,504,287</u>	<u>(53,541)</u>	-4%
Total assets	<u>1,658,865</u>	<u>1,756,070</u>	<u>(97,205)</u>	-6%
<u>Liabilities</u>				
Current and restricted liabilities	44,018	80,349	(36,331)	-45%
Long-term liabilities	<u>332,668</u>	<u>314,239</u>	<u>18,429</u>	6%
Total liabilities	<u>376,686</u>	<u>394,588</u>	<u>(17,902)</u>	-39%
<u>Net Assets</u>				
Invested in capital assets, net of related debt	1,102,830	1,176,048	(73,218)	-6%
Restricted	151,346	100,198	51,148	51%
Unrestricted	<u>28,003</u>	<u>85,236</u>	<u>(57,233)</u>	-67%
Total net assets	<u>\$ 1,282,179</u>	<u>\$ 1,361,482</u>	<u>\$ (79,303)</u>	-22%

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the District's assets exceeded liabilities by \$1,282,179.

Capital assets represent the largest portion of the District's net assets. At year-end, capital assets represented 87.45% of total assets. Capital assets include land, land easements, land improvements, plant buildings, sewer lines and storage, pumps and treatment equipment, office equipment and furniture, transportation equipment, leasehold improvements, equipment and tools, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$1,102,830. 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.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

A portion of the District's net assets, \$151,346, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$28,003 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for years 2004 and 2003.

	Business-type Activities <u>2004</u>	Business-type Activities <u>2003</u>	<u>Change</u>	<u>% Change</u>
<b>Operating Revenues</b>				
Service fees	\$ 189,902	\$ 182,461	\$ 7,441	4%
Contract fee revenue	<u>30,773</u>	<u>38,560</u>	<u>(7,787)</u>	-20%
Total operating revenues	<u>220,675</u>	<u>221,021</u>	<u>(346)</u>	0%
<b>Operating Expenses:</b>				
Operating expenses (excluding depreciation)	223,264	194,910	28,354	15%
Depreciation	<u>88,816</u>	<u>81,684</u>	<u>7,132</u>	9%
Total operating expenses	<u>312,080</u>	<u>276,594</u>	<u>35,486</u>	13%
Operating Loss	(91,405)	(55,573)	(35,832)	64%
Nonoperating revenues (including capital contributions)	<u>29,214</u>	<u>99,004</u>	<u>(69,790)</u>	-70%
Nonoperating expenses	<u>17,112</u>	<u>16,874</u>	<u>238</u>	1%
Change in net assets	(79,303)	26,557	(105,860)	-6%
Net assets at beginning of year	<u>1,361,482</u>	<u>(1,976,811)</u>	<u>3,338,293</u>	-169%
Net assets at end of year	<u>\$ 1,282,179</u>	<u>\$ (1,950,254)</u>	<u>\$ 3,232,433</u>	-175%

Operating revenues decreased slightly from 2003 to 2004 while operating expenses increased \$35,486. The increase in operating expenses is primarily attributed to increased repairs and maintenance expense between years. Nonoperating revenues decreased between 2003 and 2004, which was primarily attributed to decrease in capital contributions from \$82,130 to \$6,803.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2004, the District had \$1,450,746 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, and infrastructure. See Note 7 for additional detail regarding capital assets. The following table shows 2004 balances compared to 2003:

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Business-Type Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 24,276	\$ 24,276
Land easements	1,250	1,250
Construction in progress	64,776	29,501
Land improvements	1,043	1,525
Plant buildings	157,925	168,797
Sewer lines and storage	900,032	958,544
Pumps and treatment equipment	282,145	295,183
Office equipment and furniture	3,169	5,078
Transportation equipment	-	1,780
Leasehold improvements	837	934
Equipment and tools	<u>15,293</u>	<u>17,419</u>
Total	<u>\$ 1,450,746</u>	<u>\$ 1,504,287</u>

The District's largest capital asset category is sewer lines and storage which primarily includes sewer lines. These items are immovable and of value only to the District, however, the annual cost of purchasing these items is quite significant. The net book value of the District's sewer lines (cost less accumulated depreciation) represents approximately 62.04% of the District's total capital assets.

***Debt Administration***

The District had the following long-term obligations outstanding at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
USDA Revenue Bonds	\$ 314,239	\$ 328,239
OWDA Loan	<u>33,677</u>	<u>-</u>
Total long-term obligations	<u>347,916</u>	<u>328,239</u>
Less: Amount due within one year	<u>15,248</u>	<u>14,000</u>
Net long-term obligations	<u><u>\$ 332,668</u></u>	<u><u>\$ 314,239</u></u>

See Note 8 to the basic financial statements for more detail on the District's long-term debt obligations.

**Contacting the City'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, P.O. Box 599, Pleasantville, Ohio 43148.

**BASIC  
FINANCIAL STATEMENTS**

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**WALNUT CREEK SEWER DISTRICT**  
**FAIRFIELD COUNTY**  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

	<b>Business-Type Activities</b>
<b>Assets:</b>	
<b>Current assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 26,991
Receivables:	
Accounts . . . . .	26,401
Prepayments . . . . .	2,789
Total current assets . . . . .	56,181
<b>Restricted assets:</b>	
Equity in pooled cash and cash equivalents. . .	151,346
<b>Noncurrent assets:</b>	
Other assets . . . . .	592
Capital assets:	
Land and construction in progress . . . . .	90,302
Depreciable capital assets, net . . . . .	1,360,444
Total capital assets, net . . . . .	1,450,746
Total noncurrent assets . . . . .	1,451,338
Total assets. . . . .	1,658,865
<b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable . . . . .	5,540
Accrued interest payable . . . . .	5,209
Payroll taxes accrued and withheld . . . . .	2,460
Accrued wages and benefits. . . . .	903
Bonds payable . . . . .	15,000
OWDA loan payable . . . . .	248
Total current liabilities . . . . .	29,360
<b>Restricted liabilities:</b>	
Customer security deposits . . . . .	14,658
<b>Noncurrent liabilities:</b>	
Bonds payable . . . . .	299,239
OWDA loan payable . . . . .	33,429
Total noncurrent liabilities . . . . .	332,668
Total liabilities . . . . .	376,686
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	1,102,830
Restricted for:	
Debt service. . . . .	104,375
Other purposes . . . . .	46,971
Unrestricted . . . . .	28,003
Total net assets . . . . .	\$ 1,282,179

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WALNUT CREEK SEWER DISTRICT**  
**FAIRFIELD COUNTY**  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Business-Type Activities</b>
<b>Operating revenues:</b>	
Service fees . . . . .	\$ 189,902
Contract fee revenue . . . . .	30,773
	220,675
<b>Operating expenses:</b>	
Salaries . . . . .	49,800
Trustee fees . . . . .	6,600
Payroll taxes . . . . .	664
Workers compensation . . . . .	1,564
Plant chemicals and fuel . . . . .	1,812
Telephone . . . . .	5,988
Electric . . . . .	20,200
Office Supplies . . . . .	16,798
Insurance . . . . .	7,725
Accounting and legal . . . . .	7,890
Consulting fees . . . . .	19,600
Employee benefits (OPERS) . . . . .	5,225
Repairs and excavation . . . . .	21,382
Maintenance and supplies . . . . .	26,361
Inspection and testing . . . . .	2,862
Health insurance . . . . .	11,376
Rent . . . . .	4,800
Transportation expense . . . . .	1,446
License, dues and subscriptions . . . . .	2,162
Advertising . . . . .	1,016
Sludge removal . . . . .	2,781
Bank service charges . . . . .	107
Training . . . . .	977
Small tools . . . . .	1,044
Billing fees - BOPA . . . . .	1,645
Miscellaneous . . . . .	1,439
Depreciation . . . . .	88,816
	312,080
Total operating expenses . . . . .	312,080
Operating loss . . . . .	(91,405)
<b>Nonoperating revenues (expenses):</b>	
Sewer tap fees . . . . .	14,637
Permit fees . . . . .	30
Interest Income . . . . .	2,814
Interest expense . . . . .	(17,112)
Capital contributions . . . . .	6,803
Miscellaneous . . . . .	4,930
	12,102
Total nonoperating revenues . . . . .	12,102
Change in net assets . . . . .	(79,303)
<b>Net assets at beginning of year . . . . .</b>	<b>1,361,482</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 1,282,179</b>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**WALNUT CREEK SEWER DISTRICT**  
**FAIRFIELD COUNTY**  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Business-Type Activities</b>
<b>Cash flows from operating activities:</b>	
Cash received from customers . . . . .	\$ 190,413
Cash received from contract fee revenue . . . . .	30,773
Cash payments to supplies for goods and services . . . . .	(148,720)
Cash payments for employee services and benefits . . . . .	(77,490)
	(5,024)
Net cash used in operating activities . . . . .	(5,024)
<b>Cash flows from noncapital financing activities:</b>	
Customer deposits . . . . .	4,439
Other nonoperating revenues . . . . .	4,930
Cash received from grants and subsidies . . . . .	13,741
	23,110
Net cash provided by noncapital financing activities . . . . .	23,110
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(67,743)
Principal payments - bonds . . . . .	(14,000)
Interest payments - bonds . . . . .	(16,431)
Principal payments - OWDA loan . . . . .	(253)
Interest payments - OWDA loan . . . . .	(953)
Tap fees . . . . .	14,637
Proceeds of OWDA loan . . . . .	33,930
	(50,813)
Net cash used in capital and related financing activities . . . . .	(50,813)
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	2,814
	2,814
Net cash provided by investing activities . . . . .	2,814
Net decrease in cash and cash equivalents . . . . .	(29,913)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>208,250</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 178,337</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (91,405)
Adjustments:	
Depreciation . . . . .	88,816
Changes in assets and liabilities:	
(Increase) in accounts receivable . . . . .	(765)
Decrease in prepayments . . . . .	774
(Decrease) in accrued wages and benefits . . . . .	(985)
(Decrease) in accounts payable . . . . .	(1,459)
	(1,459)
Net cash used in operating activities . . . . .	\$ (5,024)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**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 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.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

**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". The Basic Financial Statements (BFS) 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 BFS 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.

Based on the foregoing criteria, there were no PCU's for the years reported on in the BFS 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, and net assets, 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.

**WALNUT CREEK SEWER DISTRICT**  
**FAIRFIELD COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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.

**D. BUDGETS**

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

1. Prior to January 15 of the proceeding year, the District prepares a proposed operating budget. The budget includes proposed expenses and the means of financing for all funds.
2. By the beginning of the fiscal year the annual Appropriation Resolution is legally enacted by the Board of Trustees at the fund operating and debt level of expenses, which is the legal level of budgetary control. Resolution appropriations by fund must be within the estimated resources and the total of expenses may not exceed the appropriation total.
3. Any revision that alters the total of any fund appropriation must be approved by the Board of Trustees.
4. Formal budgetary integration is employed as a management control device during the year consistent with the general obligation bond indenture and other statutory provisions.
5. Appropriation amounts are as originally adopted, or as amended by the Board of Trustees through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. Supplemental appropriations were legally enacted by the Board during the year ended December 31, 2004.

**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 \$2,814 for the year ended December 31, 2004.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

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.

**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. CAPITAL ASSETS**

Capital 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 capital 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 capital asset.

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 year ended December 31, 2004.

**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.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**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. The liability is calculated using pay rates in effect at December 31, 2004.

I. 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 borrowings 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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. PREPAID ITEMS

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

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

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

L. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America which 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 and OWDA Loans.

**NOTE 3 - ACCOUNTABILITY**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2004, there was no effect on the statement of net assets for the implementation of these new accounting principles.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 3 - ACCOUNTABILITY - (Continued)**

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**B. Compliance**

The District did not properly certify all funds contrary to Ohio Revised Code Section 5705.41(D).

**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.

Inactive deposits are public deposits that the District 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;

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 4 - CASH AND CASH EQUIVALENTS - (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (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
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.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 4 - CASH AND CASH EQUIVALENTS - (Continued)**

DEPOSITS

For the year ended December 31, 2004, the carrying amount of the District's deposits was \$127,692 and the bank balance was \$166,616. Of the bank balance, \$100,000 was covered by federal deposit insurance and the remaining balance of \$66,616 was uninsured and uncollateralized. Although the pledging banks have investment and securities pools used to collaborate all public deposits which are held in the financial institution's name, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

INVESTMENTS

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires the District to categorize investments to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent, but not in the District's name.

The classification of Cash and Cash Equivalents, and Investments on the basic Financial Statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting". A reconciliation between the classifications of cash and investments on the Basic Financial Statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash <u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 178,337	\$ -
Certificate of Deposit	(50,645)	50,645
GASB Statement No. 3	\$ 127,692	\$ 50,645

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 5 - BUDGETARY COMPLIANCE**

Budgetary activity for the year ending December 31, 2004, follows:

<u>Budgeted vs. Actual Receipts</u>	<u>2004</u>
Budgeted Receipts	\$ 273,400
Actual Receipts	<u>298,041</u>
Variance - positive/(negative)	<u>\$ 24,641</u>
 <u>Budgeted vs. Actual Budgetary Basis Expenses</u>	
	<u>Actual</u>
Appropriation Authority	\$ 446,545
Budgetary Expenses	<u>337,418</u>
Variance - positive/(negative)	<u>\$ 109,127</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. Restricted funds consist of the following:

<b>2004</b>	<b>Restricted</b>		
<u>Account</u>	<u>Certificates of Deposit</u>	<u>Cash</u>	<u>Total</u>
Bond and Interest Sinking Fund	\$ 34,811	\$ 12,574	\$ 47,385
Repair and Replacement Reserve	15,834	41,156	56,990
Vacation	-	33,864	33,864
Customer Security Deposits	<u>-</u>	<u>13,107</u>	<u>13,107</u>
Total Restricted Cash and Cash Equivalents	<u>\$ 50,645</u>	<u>\$ 100,701</u>	<u>\$ 151,346</u>

*Bond and Interest:* 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.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

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:

Year Ending <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 15,000	\$ 15,712	\$ 30,712
2006	16,000	14,962	30,962
2007	16,000	14,162	30,162
2008	17,000	13,362	30,362
2009	<u>18,000</u>	<u>12,512</u>	<u>30,512</u>
Total	<u>\$ 82,000</u>	<u>\$ 70,710</u>	<u>\$ 152,710</u>
Less: Balance in Bond and Interest Sinking Fund at December			<u>(47,385)</u>
Total			<u>\$ 105,325</u>

*Repair and Replacement:* 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.

The Repair and Replacement account balance at December 31, 2004, was \$56,990.

*Vacation:* 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 \$33,864 at December 31, 2004.

*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.

**WALNUT CREEK SEWER DISTRICT**  
**FAIRFIELD COUNTY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 7 - CAPITAL ASSETS**

Changes in capital assets at December 31 consisted of the following:

	<u>Balance at</u> <u>12/31/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12/31/2004</u>
<b>Description</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 24,276	\$ -	\$ -	\$ 24,276
Land easements	1,250	-	-	1,250
Construction in progress	<u>29,501</u>	<u>35,275</u>	<u>-</u>	<u>64,776</u>
Total Capital Assets Being Depreciated	<u>55,027</u>	<u>35,275</u>	<u>-</u>	<u>90,302</u>
Capital Assets Being Depreciated				
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	1,131,674	-	-	1,131,674
Office equipment and furniture	23,214	-	-	23,214
Transportation equipment	25,163	-	-	25,163
Leasehold improvements	1,594	-	-	1,594
Equipment and tools	<u>62,136</u>	<u>-</u>	<u>-</u>	<u>62,136</u>
Total Capital Assets, Being Depreciated	<u>4,014,506</u>	<u>-</u>	<u>-</u>	<u>4,014,506</u>
Less Accumulated Depreciation				
Land Improvements	(8,105)	(482)	-	(8,587)
Plant buildings	(251,837)	(10,872)	-	(262,709)
Sewer lines and storage	(1,381,917)	(58,512)	-	(1,440,429)
Pumps and treatment equipment	(836,491)	(13,038)	-	(849,529)
Office equipment and furniture	(18,136)	(1,909)	-	(20,045)
Transportation equipment	(23,383)	(1,780)	-	(25,163)
Leasehold improvements	(660)	(97)	-	(757)
Equipment and tools	<u>(44,717)</u>	<u>(2,126)</u>	<u>-</u>	<u>(46,843)</u>
Total Accumulated Depreciation	<u>(2,565,246)</u>	<u>(88,816)</u>	<u>-</u>	<u>(2,654,062)</u>
Total Capital Assets being depreciated, Net	<u>1,449,260</u>	<u>(88,816)</u>	<u>-</u>	<u>1,360,444</u>
Total Capital Assets, Net	<u>\$ 1,504,287</u>	<u>\$ (53,541)</u>	<u>\$ -</u>	<u>\$ 1,450,746</u>

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 8 - LONG TERM DEBT**

The changes in the District's long-term obligations during the year consist of the following:

	<u>Balance</u> <u>12/31/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2004</u>	<u>Amounts due in</u> <u>One Year</u>
USDA rural development	\$ 328,239	\$ -	\$ (14,000)	\$ 314,239	\$ 15,000
OWDA loan payable	<u>-</u>	<u>33,930</u>	<u>(253)</u>	<u>33,677</u>	<u>248</u>
Total long-term liabilities	<u>\$ 328,239</u>	<u>\$ 33,930</u>	<u>\$ (14,253)</u>	<u>\$ 347,916</u>	<u>\$ 15,248</u>

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

The District also secured a sewer rehabilitation loan through the Ohio Water Development Authority in the amount of \$33,930, bearing interest at 5.16%. Principal and interest payments are due semiannually at \$1,166 with final payment due July 1, 2034. The loan is collateralized by charges for services.

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2004, are as follows:

	<b><u>Rural Development Bonds</u></b>		
<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 15,000	\$ 15,712	\$ 30,712
2006	16,000	14,962	30,962
2007	16,000	14,162	30,162
2008	17,000	13,362	30,362
2009	18,000	12,512	30,512
2010 - 2014	105,000	48,060	153,060
2015 - 2019	<u>127,239</u>	<u>19,260</u>	<u>146,499</u>
Totals	<u>\$ 314,239</u>	<u>\$ 138,030</u>	<u>\$ 452,269</u>

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 8 - LONG TERM DEBT - (Continued)**

<b><u>OWDA Sewer Rehabilitation Loan</u></b>			
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 248	\$ 868	\$ 1,116
2006	516	1,716	2,232
2007	543	1,689	2,232
2008	571	1,661	2,232
2009	601	1,631	2,232
2010 - 2014	3,512	7,650	11,162
2015 - 2019	4,531	6,631	11,162
2020-2024	5,845	5,317	11,162
2025-2029	7,541	3,621	11,162
2030-2034	<u>9,769</u>	<u>1,433</u>	<u>11,202</u>
Totals	<u>\$ 33,677</u>	<u>\$ 32,217</u>	<u>\$ 65,894</u>

**NOTE 9 - DEFINED BENEFIT PENSION PLAN**

**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**

All District full-time employees other than uniformed 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 basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.5% for employees. The employer contribution rate for employees was 13.55% of covered payroll and 9.55% was the portion used to fund pension obligations for 2004. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The District's contributions to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$5,214, \$5,287, and \$9,118, respectively.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 10 - POST RETIREMENT BENEFIT PLANS**

**Ohio Public Employees Retirement System**

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 Post employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post employment 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 2004 employer contribution rate for local government employers was 13.55% of covered payroll and 4.00% was the portion that was 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.

OPEB are 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, 2003 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.9 billion and \$16.4 billion, respectively, at December 31, 2003 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2003 (the latest information available) was 364,881.

In December 2002, 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.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 10 - POST RETIREMENT BENEFIT PLANS - (Continued)**

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, 2003, Comprehensive Annual Financial Report.

**NOTE 11 - 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>
2005	\$ 4,800
2006	4,800
2007	<u>4,800</u>
Total	<u>\$ 14,400</u>

**NOTE 12 - 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.

There were no significant reductions in insurance coverage during the year in any category of risk. Settled claims did not exceed insurance coverage in each of the past three years.

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 13 - 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 \$30,773 for the year ended December 31, 2004.

**NOTE 14 - CONTINGENT LIABILITY**

LITIGATION

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

# JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Rd. West  
Westerville, Ohio 43082

Telephone 614.846.1899  
Facsimile 614.846.1899

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the Walnut Creek Sewer District, Fairfield County (the “District”) as of and for the year ended December 31, 2004, which collectively comprise the District’s basic financial statements and have issued our report thereon dated July 21, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the year ended December 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-WCSD-001 and 2004-WCSD-002.

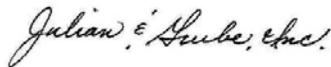
Walnut Creek Sewer District  
Board of Trustees

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not be necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated July 21, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2004-WCSD-003. We also noted matters that we have communicated to the management of the District in a separate letter dated July 21, 2005.

This report is intended solely 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.



Julian & Grube, Inc.  
July 21, 2005

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

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004**

<b>1. FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	2004-WCSD-001
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**Payroll Disbursements Segregation of Duties**

Based on the size of the District, one individual is responsible for all processing of payroll, which includes entering hourly rates and hours worked into the computer system and determining proper accrual and use of leave time. It was noted during the audit that the Board does not monitor and scrutinize payroll transactions on a routine basis to determine that payroll appears reasonable and proper. We recommend the Board review the information generated from the payroll system on a bi-weekly basis to determine that all payroll information is correct, current, and corresponds to information that is approved by the Board. Review procedures should include determining that correct pay rates are in accordance with the Board approved salary schedules, all changes made to payroll information is properly entered into the system, and the accrual and usage of leave is based on Board Policy.

*Client Response:* The Board will increase the level of monitoring over payroll disbursements.

Finding Number	2004-WCSD-002
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**Proper Expenditure Documentation**

It was noted during the audit that the administrative assistant is responsible for processing non-payroll disbursements and matching the check to be paid with supporting documentation. The District's Clerk/Treasurer will then sign the check evidencing no discrepancies exist. It was noted during the audit that checks paid by the District did not always have detailed information supporting what the expenditure was for and items purchased were not always for a proper public purpose. We recommend the District increase the level of scrutiny prior to authorizing the check for payment. This will help ensure that expenditures relate to a proper public purpose and that proper supporting detail exists prior to payment.

*Client Response:* The Board will scrutinize all expenditures prior to approval for payment.

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

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004**

<b>1. FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>
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Finding Number	2004-WCSD-003
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

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

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

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

*Client Response:* The District will certify expenses prior to expenditure.

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

**STATUS OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2004**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2003-WCSD-001	Segregation of duties over payroll disbursements.	No	Re-issued as finding 2004-WCSD-001.
2003-WCSD-002	Provide proper expenditure documentation to the Board prior to approval of payment.	No	Re-issued as finding 2004-WCSD-002.
2003-WCSD-003	Properly certify funds in accordance with Ohio Revised Code Section 5705.41(D).	No	Re-issued as finding 2004-WCSD-003.
2003-WCSD-004	Expenditures exceeded appropriations contrary to Ohio Revised Code Section 5705.41(B).	Yes	N/A.



**Mary Taylor, CPA**  
Auditor of State

**WALNUT CREEK SEWER DISTRICT  
FAIRFIELD COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 24, 2008**