JEFFERSON
WATER AND SEWER DISTRICT
FRANKLIN COUNTY
Regular Audit
For the Years Ended December 31, 2008 and 2007

Perry & Associates
Certified Public Accountants, A.C.

Mary Taylor, CPA
Auditor of State

Board of Trustees
Jefferson Water and Sewer District
6455 Taylor Road
Blacklick, Ohio 43004

We have reviewed the *Independent Accountants' Report* of the Jefferson Water and Sewer District, Franklin County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor, CPA
Auditor of State

October 14, 2009

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JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

August 31, 2009

Board of Trustees
Jefferson Water and Sewer District
6455 Taylor Road
Blacklick, Ohio 43004

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of the **Jefferson Water and Sewer District, Franklin County, Ohio** (the District), as of and for the year ended December 31, 2008, 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. The financial statements of Jefferson Water and Sewer District as of December 31, 2007, were audited by other auditors whose report dated August 31, 2008, expressed an unqualified opinion on those statements.

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 2008 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2008, and the respective changes in financial position and cash flows thereof, for the year 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 August 31, 2009 on our consideration of the Government'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 14 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and GASB Statement No. 50*, Pension Disclosures-an amendment of GASB Statements No 25 and No 27.*

Respectfully Submitted,

Perry & Associates CPA's A.C.

Perry & Associates
Certified Public Accountants, A.C.

This discussion and analysis, along with the accompanying financial reports, of Jefferson Water and Sewer District (the District) is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets of the District exceeded total liabilities on December 31, 2008 and 2007 by $11,726,279 and $11,951,810, respectively. The District's net assets decreased by $225,531 (-1.89%) in 2008 and $58,338 (-0.49%) in 2007.

The District's operating revenues increased $315,842 (7.47%) in 2008 and $659,010 (18.45%) in 2007. Operating and maintenance expenses (excluding depreciation expense) decreased $18,535 (-0.68%) in 2008 and increased $85,146 (3.22%) in 2007. Depreciation expense increased $33,018 (3.88%) in 2008 and $76,129 (9.84%) in 2007.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to accounting used by private sector businesses. The basic financial statements are presented using the accrual basis of accounting.

The statements of net assets include all of the District's assets and liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31, 2008 and 2007. The District's net assets are the difference between assets and liabilities.

The statements of revenues, expenses and changes in net assets provide information on the District's operations over the past two years and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The statements of cash flows provide information about the District's cash receipts and cash disbursements. They summarize the net changes in cash resulting from operating, investing and financing activities.

STATEMENTS OF NET ASSETS

Table 1 summarizes the statements of net assets of the District. Capital assets are reported less accumulated depreciation. "Invested in capital assets, net of related debt", are capital assets less outstanding debt that was used to acquire those assets.

Table 1

	2008	2007	Change	2006	Change
Current and Other Assets	$5,233,485	$7,236,130	($2,002,645)	$6,944,259	$291,871
Capital Assets	24,885,440	23,971,644	913,796	23,955,816	15,828
Total Assets	30,118,925	31,207,774	(1,088,849)	30,900,075	307,699
Long Term Liabilities	16,412,555	17,377,920	(965,365)	16,923,918	454,002
Current and Other Liabilities	1,980,091	1,878,044	102,047	1,966,009	(87,965)
Total Liabilities	18,392,646	19,255,964	(863,318)	18,889,927	366,037
Net Assets					
Invested in Capital Assets, Net of Related Debt	8,043,707	6,505,700	1,538,007	7,535,212	(1,029,512)
Unrestricted	3,682,572	5,446,110	(1,763,538)	4,474,936	971,174
Total Net Assets	$11,726,279	$11,951,810	($225,531)	$12,010,148	($58,338)

The District's assets decreased by $1,088,849 in 2008. The decrease is primarily a result of a decrease in cash and cash equivalents, which resulted from the use of loan proceeds from 2007 during 2008, and notes receivable related to tap in fees. This decrease was partially offset by an increase in capital assets, resulting from additions in excess of current year depreciation. Liabilities decreased $863,318. This decrease is primarily due to principal payments on long-term debt and receipt of payments on notes receivable, which was offset to deferred revenue. This decrease was partially offset by an increase in accrued interest payable.

Unrestricted net assets decreased by $1,763,538 in 2008. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Invested in capital assets, net of related debt increased by $1,538,007 from 2007 to 2008 primarily due to additions in capital assets and payments on debt balances, which was only partially offset by depreciation expense.

The District's net assets decreased by $58,338 in 2007. The 2007 decrease is primarily a result of an increase in long-term liabilities, which was partially offset by an increase in cash.

Unrestricted net assets increased by $971,174 in 2007. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Invested in capital assets, net of related debt decreased by $1,029,512 from 2006 to 2007 primarily due to net increases of debt of $1,055,650 and depreciation expense of $814,953, offset by net additions of capital assets of $830,781.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 below summarizes the changes in revenues, expenses and net assets.

Table 2

	2008	2007	Change	2006	Change
Operating Revenues	$4,546,198	$4,230,356	$315,842	$3,571,346	$659,010
Total Operating Revenues	4,546,198	4,230,356	315,842	3,571,346	659,010
Operating Expenses					
(Excluding Depreciation)	2,710,553	2,729,088	(18,535)	2,643,942	85,146
Depreciation Expense	883,147	850,129	33,018	774,000	76,129
Total Operating Expenses	3,593,700	3,579,217	14,483	3,417,942	161,275
Operating Income	952,498	651,139	301,359	153,404	497,735
Non-Operating Revenues	113,839	243,819	(129,980)	158,042	85,777
Non-Operating Expenses	(1,291,868)	(953,296)	(338,572)	(720,708)	(232,588)
Capital Contributions	0	0	0	3,015,155	(3,015,155)
Changes in Net Assets	(225,531)	(58,338)	(167,193)	2,605,893	(2,664,231)
Net Assets at Beginning of Year	11,951,810	12,010,148	(58,338)	9,404,255	2,605,893
Net Assets at End of Year	$11,726,279	$11,951,810	($225,531)	$12,010,148	($58,338)

Operating revenues increased by $315,842 from 2007 to 2008 which is due to increases in charges for services which were partially offset by a decrease in miscellaneous revenue.

Operating expenses increased $14,483 from 2007 to 2008 due to increases in salaries and payroll related expenses and depreciation expense. These increases were partially offset by decreases in general and administration expenses and plant operations.

Operating revenues increased by $659,010 from 2006 to 2007 which is due to increases in charges for services and miscellaneous revenue which were partially offset by a decrease in tap fees.

Operating expenses increased $161,275 from 2006 to 2007 due to increases in plant operations, salaries and payroll related expenses and depreciation expense. These increases were partially offset by a decrease in general and administration expenses.

The District received capital contributions during 2006 equivalent to $3,015,155. The capital contributions represent sewer and water lines received from developers. No capital contributions were received during 2007 or 2008.

CAPITAL ASSETS

The District had $29,641,248 and $29,164,531 invested in depreciable capital assets (before depreciation) at the end of 2008 and 2007, respectively. This amount is an increase of $476,717 (1.6%) from 2007 and $656,544 (2.3%) from 2006. This increase is due to an ongoing Water Plant Expansion project. This project was funded by a USDA loan through 2006 and a commercial bank loan in 2007. For additional information regarding capital assets, please see note 4 to the basic financial statements.

Table 3

	2008	2007	Change	2006	Change
Non-depreciable Capital Assets					
Land and land easements	$625,232	$624,782	$450	$623,724	$1,058
Construction in progress	1,710,559	391,940	1,318,619	218,761	173,179
Total Non-depreciable Capital Assets	2,335,791	1,016,722	1,319,069	842,485	174,237
Depreciable Capital Assets					
Buildings and improvements	5,239,812	5,212,891	26,921	5,133,414	79,477
Completed construction	13,007,738	12,680,437	327,301	12,467,474	212,963
Furniture and general equipment	2,286,902	2,224,012	62,890	1,859,908	364,104
Vehicles and accessories	167,869	108,264	59,605	108,264	0
Donated assets	8,938,927	8,938,927	0	8,938,927	0
Totals Before Accumulated Depreciation	29,641,248	29,164,531	476,717	28,507,987	656,544
Accumulated Depreciation	(7,091,599)	(6,209,609)	(881,990)	(5,394,656)	(814,953)
Net Depreciable Capital Assets	22,549,649	22,954,922	(405,273)	23,113,331	(158,409)
Total Capital Assets	$24,885,440	$23,971,644	$913,796	$23,955,816	$15,828

DEBT

The District issues long term debt to finance much of its construction. With the exception of the Rural Development bonds and the National City loan, the Ohio Water Development Authority (OWDA) loans were used to finance most general improvement projects.

Table 4

	2008	2007	Change	2006	Change
Ohio Water Development Authority (OWDA)	$10,540,820	$11,072,544	($531,724)	$11,570,294	($497,750)
Rural Development	4,744,800	4,793,400	(48,600)	4,840,000	(46,600)
National City Loan	1,520,000	1,600,000	(80,000)	0	1,600,000
Total Long Term Debt	16,805,620	17,465,944	(660,324)	16,410,294	1,055,650
Less: Current Maturities	778,896	660,324	118,572	544,350	115,974
Net Total Long Term Debt	$16,026,724	$16,805,620	($778,896)	$15,865,944	$939,676

The District's debt is paid from operating revenues generated by the District. For additional information regarding debt, please see note 6 to the basic financial statements.

CASH

Cash and cash equivalents were $3,577,056 on December 31, 2008 and $5,032,432 on December 31, 2007.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Mark Williams, Jefferson Water and Sewer District, 6455 Taylor Rd., Blacklick, Ohio 43004 or (614) 864-0740.

Jefferson Water and Sewer District
Statements of Net Assets
As of December 31, 2008 and 2007

	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents	$3,424,077	$4,879,453
Accounts receivable	633,249	483,087
Inventory	20,250	82,118
Prepaid expense	39,307	36,922
Intergovernmental receivable	12,328	13,597
Current portion of notes receivable	811	811
Current portion of notes receivable - tap fees	211,160	484,960
Current portion of deferred expense	118	124,924
Total Current Assets	4,341,300	6,105,872
RESTRICTED ASSETS:		
Restricted cash and cash equivalents	152,979	152,979
Water assessments receivable	320,378	339,891
Sewer assessments receivable	41,696	47,675
Total Restricted Assets	515,053	540,545
CAPITAL ASSETS:		
Capital assets, not being depreciated	2,335,791	1,016,722
Capital assets, net of accumulated depreciation	22,549,649	22,954,922
Total Capital Assets	24,885,440	23,971,644
OTHER ASSETS:		
Notes receivable less current portion - tap fees	361,140	572,300
Loan fees - net of amortization	15,992	17,413
Total Other Assets	377,132	589,713
Total Assets	$30,118,925	$31,207,774
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$394,064	$335,560
Accrued wages and benefits and withholding payroll expenses	105,194	52,249
Current portion of capital lease	11,422	0
Current portion of long term debt	778,896	660,324
Current portion of deferred revenue - tap fees	211,160	484,960
Accrued interest payable	479,355	344,951
Total Current Liabilities	1,980,091	1,878,044
LONG TERM LIABILITIES:		
Capital lease less current portion	24,691	0
Long term debt less current portion	16,026,724	16,805,620
Deferred revenue - tap fees	361,140	572,300
Total Long Term Liabilities	16,412,555	17,377,920
Total Liabilities	18,392,646	19,255,964
NET ASSETS:		
Invested in capital assets, net of related debt	8,043,707	6,505,700
Unrestricted	3,682,572	5,446,110
Total Net Assets	11,726,279	11,951,810
Total Liabilities and Net Assets	$30,118,925	$31,207,774

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

Jefferson Water and Sewer District

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING REVENUES:		
Charges for services	$3,767,363	$3,456,547
Tap fees	708,992	634,205
Intergovernmental	39,521	43,139
Miscellaneous income	30,322	96,465
Total Operating Revenues	4,546,198	4,230,356
OPERATING EXPENSES:		
Plant operations	1,811,044	1,867,790
Salaries and payroll related expenses	735,418	641,093
General and administration expenses	164,091	220,205
Depreciation	883,147	850,129
Total Operating Expenses	3,593,700	3,579,217
Operating Income	952,498	651,139
OTHER INCOME AND (EXPENSES):		
Proceeds from insurance	2,000	62,380
Loss on disposal of capital assets	(2,843)	(27,204)
Noncapitalized planning costs	(208,875)	0
Interest income	111,839	181,439
Interest expense	(1,080,150)	(926,092)
Total Other Income (Expenses)	(1,178,029)	(709,477)
Increase (Decrease) In Net Assets	(225,531)	(58,338)
Net Assets, Beginning of Year	11,951,810	12,010,148
Net Assets, End of Year	$11,726,279	$11,951,810

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

Jefferson Water and Sewer District
Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$4,327,614	$4,026,398
Cash received from operating grants	40,790	29,542
Cash received from other operating income	30,322	96,465
Cash payments to suppliers for goods and services	(1,732,342)	(1,783,399)
Cash payments for employee services and benefits	(682,473)	(648,370)
Net Cash Provided From Operating Activities	1,983,911	1,720,636
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Noncapitalized planning costs	(208,875)	0
Proceeds from insurance	2,000	62,380
Interest received on bank accounts	80,953	148,273
Net Cash From Non-Capital Financing Activities	(125,922)	210,653
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction of water and sewer projects	(1,750,337)	(893,161)
Proceeds from construction loans	0	1,600,000
Principal payments on construction loans	(660,324)	(544,350)
Interest payments on construction loans	(945,746)	(942,552)
Special assessment collections - principal	25,492	24,013
Special assessment collections - interest	30,886	33,166
Principal payments on capital lease	(13,336)	(10,310)
Interest payments on capital lease	0	(403)
Net Cash From Capital and Related Financing Activities	(3,313,365)	(733,597)
Net Increase (Decrease) In Cash and Cash Equivalents	(1,455,376)	1,197,692
Cash and Cash Equivalents, Beginning of the Year	5,032,432	3,834,740
Cash and Cash Equivalents, End of the Year	$3,577,056	$5,032,432
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	$952,498	$651,139
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	883,147	850,129
CHANGES IN NET ASSETS AND LIABILITIES:		
(Increase) decrease in accounts receivable	(150,162)	(65,698)
(Increase) decrease in intergovernmental receivable	1,269	(13,597)
(Increase) decrease in prepaid expense	(2,385)	(3,831)
(Increase) decrease in inventory	61,868	(11,734)
(Increase) decrease in deferred expense	124,806	275,050
Increase (decrease) in accounts payable (operating)	58,504	45,111
Increase (decrease) in accrued wages and benefits and withholding payroll taxes	52,945	(7,277)
Increase (Decrease) in loan fees - net of amortization	1,421	1,344
Total Adjustments	1,031,413	1,069,497
Net Cash Provided by Operating Activities	$1,983,911	$1,720,636
NONCASH TRANSACTIONS		
Proceeds from capital lease	$49,449	$0

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

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1. NATURE OF ORGANIZATION

Jefferson Water and Sewer District (the "District") was created by the Court of Common Pleas of Franklin County to provide water and sewer services to the residents of Jefferson Township in accordance with the provisions of section 6119.et.seq. of the Ohio Revised Code. The District is managed by a Board comprised of five appointed trustees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations and water and sewer related activities of the District.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision of the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The District is solely responsible for its finances. The District is empowered to issue debt payable solely from District revenues.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units.

The significant accounting policies followed in the preparation of these financial statements conform to accounting principles generally accepted in the United States of America for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. Under the guidelines of GASB 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its enterprise fund activities. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

<u>Basis of Presentation – Fund Accounting</u>
The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which the District uses, is described below:

<u>Proprietary Fund Type</u> – This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Enterprise Fund – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where 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.

Measurement Focus and Basis of Accounting
The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with operations are included on the statement of net assets. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

Budgetary Process
The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2008 and 2007, and passed annual appropriations and resolutions.

Appropriations – Budgetary expenditures (i.e., disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

Estimated Resources – Estimated resources include estimates of cash to be received (budgeted receipts) plus encumbered cash as of January 1.

Encumbrances – The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

Revenue Recognition
Revenues for the service fees are recorded in the period the service is provided. Revenue for tap fees from developers is recorded when construction of the main water and sewer lines to a development is complete and the District and the developer have satisfied the terms of the tap agreement. The principal portion of tap fee revenues from customer five-year notes receivable is recognized in the year the note is executed; interest from the notes receivable is recognized in the year earned. All other revenue is recognized when earned.

Accounts Receivable
Accounts receivable are shown at their net realizable value. The direct write-off method is used to record bad debts. Uncollectible accounts receivable are charged to operations during the period in which they are determined to be uncollectible. The results of using the direct write-off method closely approximate the reserve method of accounting for receivables. Bad debts are only recorded after all efforts for collection are exhausted, including certifying delinquent accounts to the county auditor, which are attached to real estate tax billings.

Prepaid Expenses
Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid expenses using the consumption method. An asset for prepaid amounts is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Capital Assets
Capital assets are stated at cost (except as noted in the next paragraph with respect to donated developer lines) and are depreciated over the estimated useful lives of the assets from 5 years to 50 years depending upon the type of asset. The District capitalizes assets that have a value or cost in excess of $1,000 at the date of acquisition and an expected useful life of one or more years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated developer lines are stated at fair value based on developer documentation, and are depreciated over 50 years, which represents the estimated useful lives of the assets.

Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions are capitalized.

Amortization

Loan fees are being amortized over sixty months beginning with the date of the first payment of each loan. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan fees amortization expense charged to operations for the years ended December 31, 2008 and 2007 were $1,420 and $2,657, respectively.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Interest Expense

Interest expense for the years ended December 31, 2008 and 2007 represents the interest portion of construction loan payments to the Ohio Water Development Authority, Rural Development, and National City Bank in the amount of $1,080,150 and $925,689 and the vehicle/equipment lease payments are $0 and $403, respectively.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Board Designated Cash Fund

The Board of Trustees allocates $1,500 each year, via resolution, for expenditures to be designated by the Trustees. This procedure is in accordance with the Ohio Revised Code. Board discretionary expenditures for the years ended December 31, 2008 and 2007 were $55 and $109 and were approved as bills and paid individually.

Vacation, Sick Leave and Other Compensated Absences

The District's employees are entitled to certain compensated absences based on their length of employment. Accrued employee benefits include cumulative vested vacation, sick leave, and compensatory hours multiplied by current hourly rates.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are service revenues and late charges for water and sewer services provided. Operating expenses are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. Revenues and expenses not meeting these definitions are identified as nonoperating.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets
Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvements of those assets. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Inventory of Materials and Supplies
Inventories of materials and supplies are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Restricted Assets
Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset. Restricted assets represent certain resources segregated from other resources of the District to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the District or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

Planning Costs – Proposed Projects
The planning costs for proposed projects are comprised of engineering, legal and administrative planning costs which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be included in capital assets and depreciated. If the proposed project does not enter construction, respective planning costs will be deemed impaired assets and written-off. For the year ended December 31, 2008, the District abandoned a well project and wrote off incurred expenses as "noncapitalized planning costs" in the accompanying basic financial statements.

3. RECEIVABLES

Accounts receivable are presented at their net realizable value of $633,249 and $483,087 as of December 31, 2008 and 2007.

Notes receivables consist of five-year notes at an annual interest rate of 7% for voluntary water and sewer tap agreements.

Assessment receivables represent the principal portion of assessments for water and sewer line construction costs to local service users. These amounts will generally be paid over the life of the related debt (see Note 6) including interest rates ranging from 6.16% to 7.14% and are reported as restricted assets.

4. CAPITAL ASSETS

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

	Ending Balance at 12/31/2007	Additions	Deletions	Ending Balance at 12/31/2008
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	$624,782	$450	$0	$625,232
Construction in Progress	391,940	1,668,311	(349,692)	1,710,559
Total Capital Assets, Not Being Depreciated	1,016,722	1,668,761	(349,692)	2,335,791
Capital Assets, Being Depreciated				
Buildings and Improvements	5,212,891	26,921	0	5,239,812
Completed Construction	12,680,437	331,301	(4,000)	13,007,738
Vehicles and Accessories	108,264	59,605	0	167,869
Furniture and General Equipment	2,224,012	62,890	0	2,286,902
Donated Assets	8,938,927	0	0	8,938,927
Total Capital Assets, Being Depreciated	29,164,531	480,717	(4,000)	29,641,248
Less Accumulated Depreciation:				
Buildings and Improvements	(776,459)	(144,019)	0	(920,478)
Completed Construction	(3,815,428)	(416,862)	1,157	(4,231,133)
Vehicles and Accessories	(95,968)	(9,903)	0	(105,871)
Furniture and General Equipment	(469,783)	(133,252)	0	(603,035)
Donated Assets	(1,051,971)	(179,111)	0	(1,231,082)
Total Accumulated Depreciation	(6,209,609)	(883,147)	1,157	(7,091,599)
Total Capital Assets Being Depreciated, Net	22,954,922	(402,430)	(2,843)	22,549,649
Total Capital Assets	$23,971,644	$1,266,331	($352,535)	$24,885,440

4. CAPITAL ASSETS - CONTINUED

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

	Ending Balance at 12/31/2006	Additions	Deletions	Ending Balance at 12/31/2007
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	$623,724	$1,058	$0	$624,782
Construction in Progress	218,761	392,538	(219,359)	391,940
Total Capital Assets, Not Being Depreciated	842,485	393,596	(219,359)	1,016,722
Capital Assets, Being Depreciated				
Buildings and Improvements	5,133,414	141,857	(62,380)	5,212,891
Completed Construction	12,467,474	212,963	0	12,680,437
Vehicles and Accessories	108,264	0	0	108,264
Furniture and General Equipment	1,859,908	364,104	0	2,224,012
Donated Assets	8,938,927	0	0	8,938,927
Total Capital Assets, Being Depreciated	28,507,987	718,924	(62,380)	29,164,531
Less Accumulated Depreciation:				
Buildings and Improvements	(671,050)	(140,585)	35,176	(776,459)
Completed Construction	(3,421,875)	(393,553)	0	(3,815,428)
Vehicles and Accessories	(86,332)	(9,636)	0	(95,968)
Furniture and General Equipment	(342,445)	(127,338)	0	(469,783)
Donated Assets	(872,954)	(179,017)	0	(1,051,971)
Total Accumulated Depreciation	(5,394,656)	(850,129)	35,176	(6,209,609)
Total Capital Assets Being Depreciated, Net	23,113,331	(131,205)	(27,204)	22,954,922
Total Capital Assets	$23,955,816	$262,391	($246,563)	$23,971,644

5. NOTE RECEIVABLE - TAP FEES

The District has signed tap agreements under which developers have agreed to purchase water and sewer taps over the next several years. The developers have secured their obligation to purchase these taps by signing irrevocable, unconditional letters-of-credit. The following is the schedule of future tap payments to be made to the District for the years subsequent to December 31, 2008 and 2007:

	2008	2007
2008	$0	$484,960
2009	211,160	477,560
2010	329,560	63,160
2011	31,580	31,580
	572,300	1,057,260
Current Portion of Notes Receivable	(211,160)	(484,960)
	$361,140	$572,300

6. LONG-TERM DEBT

Loans payable related to construction of the District's infrastructure consist of the following loans payable to the Ohio Water Development Authority for December 31, 2008 and 2007:

OWDA Loans Payable:	2008	2007
8.05% due in semi-annual payments of $71,302, including interest through July 2015	$741,190	$817,948
8.07% due in semi-annual payments of $134,051, including interest through July 2015	1,392,445	1,536,547
7.50% due in semi-annual payments of $12,431, including interest through July 2015	131,684	145,624
7.50% due in semi-annual payments of $15,361, including interest through July 2015	162,724	179,950
7.21% due in semi-annual payments of $12,396, including interest through July 2018	172,450	183,977
7.14% due in semi-annual payments of $7,170, including interest through July 2018	100,066	106,782
6.51% due in semi-annual payments of $19,856, including interest through January 2022	177,576	185,230
6.18% due in semi-annual payments of $2,367, including interest through July 2022	43,515	45,441
5.88% due in semi-annual payments of $9,785, including interest through January 2023	187,408	195,483
5.66% due in semi-annual payments of $16,119, including interest through January 2025	339,852	352,158
5.56% due in semi-annual payments of $22,440, including interest through January 2025	480,609	498,037
5.77% due in semi-annual payments of $9,067, including interest through January 2025	191,340	198,138
5.85% due in semi-annual payments of $7,797, including interest through January 2021	135,541	142,782
6.72% due in semi-annual payments of $25,478, including interest through January 2021	421,778	442,966
6.16% due in semi-annual payments of $18,861, including interest through January 2020	304,301	322,178
6.41% due in semi-annual payments of $4,667, including interest through January 2027	100,308	103,079
6.39% due in semi-annual payments of $12,930, including interest through January 2027	278,301	286,007
6.39% due in semi-annual payments of $3,383, including interest through July 2027	73,839	75,793
6.39% due in semi-annual payments of $12,877, including interest through January 2027	277,153	284,827
6.03% due in semi-annual payments of $64,884, including interest through January 2027	1,435,020	1,476,377
6.03% due in semi-annual payments of $15,454, including interest through January 2027	341,792	351,642
6.03% due in semi-annual payments of $10,084, including interest through January 2027	223,029	229,457
6.03% due in semi-annual payments of $17,014, including interest through January 2027	376,287	387,131
5.15% due in semi-annual payments of $3,230, including interest through July 2028	80,063	82,312

6. LONG-TERM DEBT - CONTINUED

OWDA Loans Payable:	2008	2007
4.40% due in semi-annual payments of $56,999, including interest through July 2028	$1,505,923	$1,552,131
4.66% due in semi-annual payments of $32,573, including interest through July 2029	866,626	890,547
Total	10,540,820	11,072,544
Less current maturities	(568,096)	(531,724)
Noncurrent OWDA loans payable	$9,972,724	$10,540,820

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008	Amount Due Within One Year
O.W.D.A.	$11,072,544	$0	$531,724	$10,540,820	$568,096
Rural Development	4,793,400	0	48,600	4,744,800	50,800
National City Loan	1,600,000	0	80,000	1,520,000	160,000
	$17,465,944	$0	$660,324	$16,805,620	$778,896

	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007	Amount Due Within One Year
O.W.D.A.	$11,570,294	$0	$497,750	$11,072,544	$531,724
Rural Development	4,840,000	0	46,600	4,793,400	48,600
National City Loan	0	1,600,000	0	1,600,000	80,000
	$16,410,294	$1,600,000	$544,350	$17,465,944	$660,324

Maturities of the District's debt for the years subsequent to December 31, 2008 are as follows:

	OWDA Loans			Rural Development Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009	$568,096	$649,056	$1,217,152	$50,800	$207,585	$258,385
2010	607,039	610,050	1,217,089	53,000	205,363	258,363
2011	648,740	568,411	1,217,151	55,300	203,044	258,344
2012	693,401	523,750	1,217,151	57,700	200,624	258,324
2013	741,236	475,915	1,217,151	60,200	198,100	258,300
2014-2018	3,038,232	1,648,731	4,686,963	343,200	948,587	1,291,787
2019-2023	2,356,257	866,260	3,222,517	425,000	866,656	1,291,656
2024-2028	1,824,882	253,654	2,078,536	526,600	765,176	1,291,776
2029-2033	62,937	2,208	65,145	652,200	639,464	1,291,664
2034-2038	0	0	0	808,000	483,740	1,291,740
2039-2043	0	0	0	1,001,000	290,837	1,291,837
2044-2046	0	0	0	711,800	63,173	774,973
Total	$10,540,820	$5,598,035	$16,138,855	$4,744,800	$5,072,349	$9,817,149

6. LONG-TERM DEBT - CONTINUED

	National City Loan			Total		
	Principal	Interest	Total	Principal	Interest	Total
2009	$160,000	$64,528	$224,528	$778,896	$921,169	$1,700,065
2010	160,000	57,552	217,552	820,039	872,965	1,693,004
2011	160,000	50,576	210,576	864,040	822,031	1,686,071
2012	160,000	43,600	203,600	911,101	767,974	1,679,075
2013	160,000	36,624	196,624	961,436	710,639	1,672,075
2014-2018	720,000	78,480	798,480	4,101,432	2,675,798	6,777,230
2019-2023	0	0	0	2,781,257	1,732,916	4,514,173
2024-2028	0	0	0	2,351,482	1,018,830	3,370,312
2029-2033	0	0	0	715,137	641,672	1,356,809
2034-2038	0	0	0	808,000	483,740	1,291,740
2039-2043	0	0	0	1,001,000	290,837	1,291,837
2044-2046	0	0	0	711,800	63,173	774,973
Total	$1,520,000	$331,360	$1,851,360	$16,805,620	$11,001,744	$27,807,364

*The District will receive an interest rate subsidy for some of its loans over the remaining life of the Ohio Water Development Authority loans. This reduction in interest is reflected in the interest column of this schedule. The total interest rate subsidy granted to the District was $264,861.

During 2006, the District issued $4,840,000 in Rural Development Water Resource Revenue Bonds to retire an Ohio Water Development Authority loan. The terms of the bonds are an interest rate of 4.375% with a maturity date of 2046.

During 2007, the District obtained a National City Bank loan in the amount of $1,600,000 for the purpose of Blacklick sanitary sewer improvements. The terms of the loan are an interest rate of 4.36% with a maturity date of 2018.

In connection with the mortgage revenue bonds and Ohio Water Development Authority loans, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds and loans are payable, through their final maturities, solely from net revenues applicable to its fund. The principal and interest remaining to be paid on these bonds and loans as of December 31, 2008 and 2007 are $9,817,149 and $10,075,461 and $16,138,855 and $17,356,007, respectively. The coverage ratios at December 31, 2008 and 2007 were 1.11 and 0.93, respectively.

7. CAPITAL LEASE OBLIGATIONS

The District entered into agreements to lease trucks and computer equipment during the fiscal years 2002 and 2008. The terms of each agreement provide for ownership at the end of the lease term. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases".

The trucks, property and equipment acquired by lease have been capitalized as vehicles and equipment in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded as obligations under capital leases on the statement of net assets. Principal payments totaled $13,336 and $10,312 and interest payments totaled $0 and $403, respectively during 2008 and 2007. The 2002 leases were paid in full during 2007.

7. CAPITAL LEASE OBLIGATIONS – CONTINUED

The following is a schedule of the future minimum lease payables under capital lease obligations as of December 31, 2008:

2009	$13,336
2010	13,336
2011	13,336
Total Minimum Lease Payments	40,008
Less: Amount Representing Interest	3,895
Present Value of Minimum Lease Payments	$36,113

8. CAPITAL CONTRIBUTIONS

Donated Developer Lines
The District received capital contributions in 2006 in the amount of $3,015,155. The capital contributions represent donated developer sewer and water lines. Once construction and inspection are final for developer sewer and water lines, lines are given/donated to the District and recorded at fair value, and the lines become operational.

The donated developer sewer and water lines are shown on the face of the financial statements as capital contributions – donated lines. The District had no capital contributions for 2008 or 2007.

9. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

   1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
   2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
   3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

B. OPERS provides retirement, disability, and survivor and death benefits and annual cost-of-living adjustments to qualifying members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans.

9. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) - CONTINUED

The member contribution rates were 10.0%, 9.5% and 9.0% for 2008, 2007, and 2006, respectively, for the District.

The employer contribution rates were 14.0%, 13.85%, and 13.70% of covered payroll for 2008, 2007, and 2006, respectively, for the District.

The District's contributions to OPERS for the years ended December 31, 2008, 2007, and 2006 were $67,904, $63,266, and $59,102, respectively, which were equal to the required contributions for those years.

10. POST-EMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

<u>Ohio Public Employees Retirement System</u>

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interest parties may obtain a copy by writing OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contributions to OPERS is set aside for the funding of post retirement health care benefits.

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2008, the District contributed at 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

10. POST-EMPLOYMENT BENEFITS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – CONTINUED

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008, the employer contributions allocated to the health care plan was 7.0% of covered payroll. For 2007, these percentages were 5.0% for January through June 2007 and 6.0% for July through December 2007. For 2006, this percentage was 4.5%. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

C. The employer contributions that were used to fund post-employment benefits were $33,952 for 2008, $25,123 for 2007, and $17,409 for 2006.

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

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS

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

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must be evidenced either by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;

2. Bonds, notes, debentures, or 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;

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – CONTINUED

5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;

6. 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;

7. The State Treasurer's investment pool (STAR Ohio);

8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and

9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Controller by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 Controller or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

The District's deposit bank balances as of December 31, 2008 were $3,094,730 and $5,023,464. The District's balances were either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

Investments

The District had the following investments at December 31, 2008:

	Fair Value	Weighted Average Maturity
ML Institutional Fund	$503,222	N/A

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – CONTINUED

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no investment policy specifically dealing with interest rate risk. The District manages it exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has no investment policy specifically dealing with credit risk. Investments in money market funds were rated AAAm by Standard & Poor's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any on issuer. The District has invested 100% in money market funds.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy specifically dealing with custodial credit risk. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District with the exception of the repurchase agreements.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP).

Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to $250,000 per claim, including loss adjustment expense. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding $250,000, up to $1,750,000 per claim and $5,000,000 in the aggregate per year. Governments can elect additional coverage, from $2,000,000 to $10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to $5,000,000 per year, subject to a per-claim limit of $2,000,000.

Property Coverage

PEP retains property risks including automobile physical damage. As of 2003, PEP retains property risks, including automobile physical damage, up to $100,000 on a specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding $100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operation contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

12. RISK MANAGEMENT – CONTINUED

Financial Position

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006 (the latest information available).

	2007	2006
Assets	$37,560,071	$36,123,194
Liabilities	(17,340,825)	(16,738,904)
Retained Earnings	$20,219,246	$19,384,290

The District has not incurred significant reductions in insurance coverage from the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

13. DEFERRED EXPENSE

The District is undergoing various sewer line projects in Columbus, Ohio. Before they could tap into the sewer lines, they were required to pay for this in advance. The amount of the payment charged to Jefferson Water and Sewer District was $1,375,250. The District's management estimates that it will take approximately five years to complete these projects. Therefore, rather than absorb the entire cost in June of 2003, the District elected to amortize the cost over the sixty-month period, expensing monthly an amount of $22,921. The total amounts expensed for 2008 and 2007 were $124,806 and $275,050, respectively. This deferred expense was fully amortized as of December 31, 2008.

14. NEW ACCOUNTING PRONOUNCEMENTS

For the year ended December 31, 2008, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, GASB Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to basic financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The application of these new standards had no effect on the financial statements, nor did their implementation require a restatement of prior year balances.

For the year ended December 31, 2007, the District implemented Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and disclosure requirements for future revenues that are pledged or sold. The implementation of this statement had no effect on previously reported net assets.

15. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2008 and 2007 was as follows:

Budgeted and Actual Receipts			
	Budget	Actual	Variance
2008	$4,167,093	$4,587,507	$420,414
2007	5,693,894	6,020,237	326,343

Budgeted and Actual Budgetary Basis Expenditures			
	Budget	Actual	Variance
2008	$6,662,490	$6,042,883	$619,607
2007	4,893,276	4,822,545	70,731

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

August 31, 2009

Board of Trustees
Jefferson Water and Sewer District
6455 Taylor Road
Blacklick, Ohio 43004

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the **Jefferson Water and Sewer District, Franklin County, Ohio** (the District), as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2009, wherein we noted the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45 and GASB Statement No. 50. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2008-001.

We intend this report solely for the information and use of management and District Trustees. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

Perry & Associates CPA's A.C.

Perry & Associates
Certified Public Accountants, A.C.

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

FINDING NUMBER 2008-01

Noncompliance Citation/Significant Deficiency

Ohio Revised Code § 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than $3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

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

FINDING NUMBER 2008-01(Continued)

Noncompliance Citation/Significant Deficiency (Continued)

Ohio Revised Code § 5705.41(D) (Continued)

The District did not properly certify the availability of funds prior to purchase commitment for 79% of the expenditures tested during 2008.

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

Management's Response – The District's fiscal officer certifies that appropriate funds are available prior to entering into contracts or expending funds via "super blanket". The super blanket is issued by "type of purchase" within the specified fund: personnel/benefits, administration, plant operations, debt service, and capital expenditures. Upon additional discussion with the audit firm, the District received further clarification as to how blanket certificates and super blanket certificates can and should be used. The District has implemented the auditors' suggestions as of January 1, 2009 and will continue to consult with its accountants as to any unexpected situations that may arise to ensure compliance with this requirement.

JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2007-001	Internal Controls over Financial Reporting	Yes	N/A
2007-002	ORC 5705.41(D)	No	Repeated as Finding 2008-001

Mary Taylor, CPA
Auditor of State

JEFFERSON WATER AND SEWER DISTRICT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 5, 2009

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