

ATWOOD REGIONAL WATER AND SEWER DISTRICT

Financial Condition

As of

December 31, 2008 and 2009

Together with Auditors' Report



Mary Taylor, CPA
Auditor of State

Board of Trustees
Atwood Regional Water and Sewer District
P.O. Box 100
Dellroy, Ohio 44620

We have reviewed the *Independent Auditor's Report* of the Atwood Regional Water and Sewer District, Tuscarawas County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2008 through December 31, 2009. 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 Atwood Regional Water and Sewer District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 20, 2010

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ATWOOD REGIONAL WATER AND SEWER DISTRICT

Carroll and Tuscarawas Counties, Ohio

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Independent Auditor's Report

Board of Trustees
Atwood Regional Water and Sewer District
Fremont, Ohio

I have audited the accompanying financial statements of the Atwood Regional Water and Sewer District, as of December 31, 2008 and 2009 and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the Atwood Regional Water and Sewer District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards 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 I 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. I believe that my audit provides a reasonable basis in my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Atwood Regional Water and Sewer District, as of December 31, 2008 and 2009, and the changes in financial position and cash flows, where applicable, of its proprietary fund type for the years ended December 31, 2008 and 2009 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 – 5, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with the standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 17, 2010 on my consideration of the Atwood Regional Water and Sewer District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters.

The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the result of my audit.

Kevin L. Penn, Inc.

June 17, 2010

MANAGEMENT DISCUSSION AND ANALYSIS:

Overview of the Financial Statements

The basic financial statements present the Statement of Net Assets, Statement of Income, Expenses and Changes in Fund Net Assets, and Cash Flow Statement for the period. The three financial statements are presented with prior year comparative data.

The Statement of Net Assets is a point-in-time snapshot of account balances at the end of the fiscal year. It reports assets available for working capital and to pay for any current liabilities owed as of the statement date.

The Statement of Income, Expenses and Changes in Fund Net Assets are used to report the flow of economic resources which emphasizes the determination of net income. All revenues earned and all expenses incurred are reported in this statement.

Condensed Financial Data	2009	2008	2007
Capital Assets:	\$7,986,843	\$7,735,546	\$7,735,200
Other Assets:	\$314,268	\$277,094	\$352,015
Total Assets:	\$8,301,011	\$8,012,640	\$8,087,215
Long Term Liabilities:	\$2,475,564	\$2,179,841	\$2,062,871
Other Liabilities:	\$14,399	\$12,777	\$13,359
Total Liabilities:	\$2,489,963	\$2,192,618	\$2,076,230
Invested Net Assets:	\$6,089,140	\$5,959,792	\$5,691,402
Unrestricted Net Asset	(277,992)	(\$139,770)	\$319,582
Total Net Assets:	\$5,811,148	\$5,820,022	\$6,010,984
Operating Revenue:	\$893,735	\$888,370	\$851,471
Non Operating Rev:	\$43,475	\$9,899	\$16,656
Total Revenues:	\$937,210	\$898,269	\$868,127
Operating Expenses	\$859,109	\$993,552	\$856,081
Non Operating Exp:	\$86,975	\$95,678	\$113,597
Total Expenses:	\$946,084	\$1,089,230	\$969,678
Change in net assets:	(\$8,874)	(\$190,961)	(\$101,551)
Ending Net Assets:	\$5,811,148	\$5,820,020	\$6,010,984

Analysis of Operations Activity:

The Cash Flow Statement shows the distribution of cash received and expended during the period. Non-cash transactions such as depreciation are omitted from this statement. The notes to the financial statements contain important details which assist the user in gaining a full understanding of the statements.

Analysis of Operations Activity: (continued)

The District operates a tertiary wastewater treatment plant and maintains a collection system of some 35 miles of sewers with eighteen primary lift stations and 115 smaller grinder pump stations. The facilities operate 24 hours per day throughout the year. The operating environment is hazardous with exposures to heavy electrical power service of 480 volts and up, oxygen deficient confined space, infectious disease vectors, explosive gas environments, and similar industrial exposures. The staff is on standby duty for emergency services after normal work hours and on weekends and holidays. Typical emergency conditions consist of storm events, power outages, and equipment failures. Pump stations are equipped with alarm lights and several stations have auto-dialers for alarm conditions.

The District is responsible for meeting the requirements of its National Pollutant Discharge Elimination System (NPDES) permit which allows a maximum discharge of eight parts per million for suspended solids, seven parts per million for biochemical oxygen demand, and one and one half parts per million of ammonia. These limits represent removal in excess of ninety six percent of the pollutants in the wastewater received at the plant. Achievement of these requirements together with associated regulations regarding disposal of bio-solids, plant management, and construction, drive the economic and business activity of the District.

During the year, the District treated 82.5 million gallons of wastewater and removed a substantial amount of pollutants as shown on the operations summary at the end of this report. For 2009, the wastewater flow was down 30% due to dryer than normal rainfall conditions.

The 2009 maintenance activity included rebuilding several sewage pumps and rehabilitated six main lift stations and 20 grinder pump systems. Four new residential connections were installed during the year. The Ohio EPA's National Pollutant Discharge Elimination System (NPDES) permit requires the District to conduct a formal Sewer System Evaluation Survey (SSES). Completed in 2008, the study examined the flow of surface and ground water entering the sewer system, the condition of 25 year old sewers, manholes and pump stations, and evaluates the costs for repair and rehabilitation alternatives. During 2009, the rehabilitation continued with completion scheduled during 2010.

Budget Summary:

For comparison, the Ohio EPA conducts an annual survey of 550 water and sewer utilities in Ohio each year. The most recent data shows an average residential annual sewer rate in Ohio for 2008 was \$413.00 compared to the District's 2008 residential rate of \$408.00. Also, the average residential user in the District discharges about 150 to 200 gallons of wastewater per day into the system. The sewage weighs between 1250 and 1650 pounds and a home owner would need some 30 to 40 five gallon buckets to haul it each day. Most of the wastewater is pumped 5 miles and some over 10 miles to the treatment plant. The treatment plant then removes over 96 percent of the pollutants and disinfects the water prior to discharging it into the Conotton Creek. The residual organic solids are further treated and ultimately added to cropland as soil conditioner. The customer currently pays \$1.12 per day for this service; less than one cent per gallon or less than the cost of one cup of coffee.

A review of economic inflationary pressure on the District's users charge rates show that the original \$14.00 rate established in 1979 requires a \$33.76 users charge to produce the same purchasing power at the end of 2009. The \$23.00 monthly users charge in 1987 requires a rate of \$40.23 to achieve parity in 2009. Further, the District deals with commercial and industrial inflation as compared to the consumer inflation frequently reported. Thus, regular increases in health insurance and other labor costs, together with increases for industrial parts, tools and equipment set the need for rate changes.

In 1976, the District established a connection fee to recover the costs related to adding a new sewer service to the system. The standard residential connection fee for the District remained at \$1,700 for 2009.

While connection charges may be changed anytime, the Board includes the connection fee in its annual review in September and normally implements any necessary changes in December. An impact fee is established to recover the cost of adding sewer facilities. A system audit was completed in 2008 to assure that all eligible structures are connected to the sewer system and that the proper users charge is applied.

The District's overall financial position on December 31, 2009 remained nearly the same as it was at the end of 2008. The actual budgeted operating expenses were slightly under budget. Depreciation is not funded in the budget which causes an operating loss for the year. The budget changes were typical for the year.

Capital Assets and Long-term Debt Activity:

The District's capital asset activity consists of construction projects and development of a rehabilitation plan for the sewage collection and pumping system. The District's debt is administered via loan agreements with Ohio Water Development Authority, Ohio Public Works Commission and a loan with a local bank. A detailed debt schedule is presented in the notes to the basic financial statements. The OWDA construction loan remains open and in a disbursing status while the improvements are completed. The requested loan amount was \$ 731,390 of which \$509,094 has been disbursed. A five year demand water resource note of \$135,000 held by Citizens Bank is being amortized over five years.

Other Potentially Significant Matters:

The District resolved the construction litigation in March 2009. Two connection compliance complaints remain active. Please refer to the notes to the basic financial statements for details on active litigation.

Contacting the District's Financial Management:

This financial report is designed to provide our users, creditors, and community residents 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 Larry Lloyd, Secretary/Treasurer at the Atwood Regional Water and Sewer District, P.O. Box 100, Dellroy, Ohio 44620.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF FINANCIAL POSITION
DECEMBER 31,

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and Cash Equivalents (Note 1)	\$ 166,600	\$ 139,409
Accounts Receivable	147,668	137,685
Total Current Assets	<u>314,268</u>	<u>277,094</u>
Noncurrent Assets		
Land	172,832	172,832
Buildings	39,000	39,000
Treatment Facilities	2,727,616	2,727,616
Infrastructures	11,208,165	11,208,165
Machinery and Equipment	500,714	490,238
Construction in Progress	980,709	434,542
	<u>15,629,036</u>	<u>15,072,393</u>
Less Accumulated Depreciation	<u>7,642,193</u>	<u>7,336,847</u>
Net Noncurrent Assets	<u>7,986,843</u>	<u>7,735,546</u>
TOTAL ASSETS	<u><u>\$ 8,301,111</u></u>	<u><u>\$ 8,012,640</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable and Payroll Taxes	\$ 10,552	\$ 9,742
Advance Sewer Payments	3,847	3,035
Current Portion - Loan Payable	188,554	146,278
Total Current Liabilities	<u>202,953</u>	<u>159,055</u>
Noncurrent Liabilities		
Compensated Absences	18,384	17,584
Loan Payable	<u>2,268,626</u>	<u>2,015,979</u>
Total Noncurrent Liabilities	2,287,010	2,033,563
Total Liabilities	2,489,963	2,192,618
Net Assets		
Invested in Capital Assets Net of Related Debt	6,089,140	5,959,792
Unrestricted Assets	<u>(277,992)</u>	<u>(139,770)</u>
Total Net Assets	<u>5,811,148</u>	<u>5,820,022</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,301,111</u></u>	<u><u>\$ 8,012,640</u></u>

The accompanying notes are an integral part of the financial statements.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31,

	2009	2008
OPERATING REVENUE		
Charges for Services	\$ 893,735	\$ 888,370
OPERATING EXPENSES		
Personal Services	339,394	385,342
Contractual Services	41,459	52,145
Materials, Supplies, and Equipment	46,813	131,312
Utilities	91,486	83,658
Depreciation	305,345	302,065
Other Operating Expenses	34,612	39,033
Total Operating Expenses	859,109	993,555
NET OPERATING INCOME (LOSS)	34,626	(105,185)
NON-OPERATING RECEIPTS (EXPENSES)		
Rent, Royalties and Interest on Investments	3,241	9,899
Interest and Fiscal Charges	(86,975)	(95,678)
Other Non-Operating Revenues (Expenses)	40,234	-
Total Non-Operating Receipts (Expenses)	(43,500)	(85,779)
CHANGE IN NET ASSETS	(8,874)	(190,964)
NET ASSETS - DECEMBER 31,	5,820,025	6,010,986
NET ASSETS - DECEMBER 31,	\$ 5,811,151	\$ 5,820,022

The accompanying notes are an integral part of the financial statements.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31,

	2009	2008
Cash Flows from Operating Activities:		
Payments from Customers:	\$ 884,565	\$ 877,913
Payments to Suppliers for Goods and Services:	(214,371)	(306,145)
Payments to/for Employees, Benefits, and related Taxes:	(337,784)	(386,553)
Net cash Provided By (Used For) Operating Activities	332,410	185,215
Cash Flows from Noncapital Financing Activities:		
Net Cash Provided By (Used For) Capital and Related Financing Activities:	-	-
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Capital Debt:	445,125	283,253
Payments for Capital Acquisitions:	(556,643)	(302,411)
Principal Paid on Capital Debt:	(150,201)	(164,841)
Interest Paid on Capital Debt:	(86,975)	(95,678)
Net Cash Provided By (Used For) Capital and Related Financing Activities:	(348,694)	(279,677)
Cash flows from Investing Activities:		
Payments from Interest, Royalties, and Rent:	43,475	9,899
Net Cash Provided By (Used For) Investing Activities:	43,475	9,899
Net Increase (Decrease) in Cash and Cash Equivalents:	27,191	(84,563)
Cash and Cash Equivalents January 1:	139,409	223,972
Cash and Cash Equivalents December 31:	\$ 166,600	\$ 139,409
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Net Operating Income:	\$ 34,626	\$ (105,185)
Adjustments:		
Depreciation Expenses	305,345	302,065
Increase (Decrease) in Accounts Receivable	(9,983)	(9,643)
Increase (Decrease) in Advance Payments Liability	812	(812)
Increase (Decrease) in Compensated Absences Liability	(800)	(1,442)
Increase (Decrease) in Payroll Liabilities	810	232
Net Cash Provided By (Used For) Operating Activities	\$ 330,810	\$ 185,215

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

ATWOOD REGIONAL WATER AND SEWER DISTRICT
Carroll and Tuscarawas Counties Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

Atwood Regional Water and Sewer District is a special purpose independent political subdivision of the State of Ohio. It is governed by an appointed board of eight trustees. These financial statements present all the accounts of the District. Organized in 1970, the District serves an estimated population of 3500 persons in Warren Township, Tuscarawas County and Orange and Monroe Townships, Carroll County together with the residents of the Villages of Sherrodsville and Dellroy. Trustees serve for a staggered three year term.

B. BASIS OF ACCOUNTING

The District uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

A fund is defined as a fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

For financial statement presentation purposes, the District has one fund which is categorized as a proprietary fund. Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following are the District's proprietary fund types:

Enterprise Fund - A fund used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The accounting and financial reporting treatment applied to the District's funds is determined by their measurement focus. The District's fund is a proprietary, enterprise fund which uses a flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The District uses the accrual basis of accounting, which records revenue when earned and measurable and expenses when the liability is incurred. Revenues subject to accrual are charges for services.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
Carroll and Tuscarawas Counties Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2009

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

B. BASIS OF ACCOUNTING - (continued)

In the preparation of its financial statements, the District conforms to the Generally Accepted Accounting Principles as prescribed in statements issued by the Governmental Accounting Standards Board (GASB) and other authoritative sources. The District's financial statements have been prepared in accordance with GASB Statement No. 20, 'Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.' The District applies Financial Accounting Standards Board Statements and Interpretations provided that they do not conflict with GASB Statements and Interpretations.

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 for State and Local Governments: Omnibus', GASB Statement No. 38, 'Certain Financial Statement Note Disclosures' and GASB Statement No. 41, 'Budgetary Comparison Schedules - Perspective Differences.'

GASB 34 creates new basic financial statements for reporting on the District's financial activities. The implementation of this statement had no effect on the District beginning balances.

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.

C. Cash and Cash Equivalents:

The District defines cash as coin minted and paper currency printed by the U.S. Government. Cash equivalents are defined as demand deposits, certificates of deposit, and any other instrument which can be readily exchanged for cash.

D. Operating and Non-operating Revenues:

Operating revenues are defined as those charges or receipts which relate directly to the delivery of sewer or water services. User charges, connection and impact fees, and penalties are operating revenues. Non-operating revenues have an indirect relationship to delivery of services. Interest on investments, rents, and royalties are examples of non-operating revenues.

2. DEPOSITS

At December 31, 2008 and 2009, the carrying amount of the District's deposits was \$139,409 and \$166,600 respectively, and the bank balances were \$264,308 and \$235,786, respectively. All of the bank balances for both years were covered by federal depository insurance and pledged securities.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
 Carroll and Tuscarawas Counties Ohio
 Notes to the Basic Financial Statements
 For the Years Ended December 31, 2008 and 2009

2. DEPOSITS (continued)

Pursuant to Ohio Revised Code section 135.16, the District has depository agreements with two depositories, Citizens Bank Company and National City Bank, for deposits of active and inactive funds. Further, the ORC Section 6119.16 authorizes the District to invest in obligations of the United States, the State of Ohio, or any of its political subdivisions. The District has no obligations that would be considered investments.

3. DEBT ADMINISTRATION

Long-term debt consists of five loans from Ohio Water Development Authority (OWDA), two principal only loans from Ohio Public Works Commission (OPWC), and a five year balloon loan from The Citizens Bank Company. The proceeds of these loans provide the District's share of water resource projects. The District pledges its revenues for payment of the loans however; the agreements contain no stipulated net revenue coverage value for the debt service. Also, Ohio statutes contain no debt limit for water resource loans secured by pledged revenues.

A total of \$445,124 was disbursed during 2009 for capital assets. The 2007 planning loan was rolled into a new 1.25 million OWDA construction loan for pump station and sewer repairs. This loan remains in a disbursing status while the work is performed in 2009.

Non-Current Loans Payable Fiscal Year 2009

Obligation	Bal Jan 1	Issued	Retired	Bal Dec 31	Due 2010
Cooperative Loan Agreement (OWDA) 1989 Interest Rate 7.9 % Mat: 7/1/2014	\$ 605,863	\$ 0	\$ 92,398	\$ 513,465	\$ 99,688
Cooperative Loan Agreement (OWDA) 1994 Interest Rate 6.02 % Mat: 1/1/2020	\$ 260,586	\$ 0	\$ 17,386	\$ 243,200	\$ 18,433
Cooperative Loan Agreement (OWDA) 1999 Interest Rate 5.77% Mat: 1/1/2026	\$ 291,550	\$ 0	\$ 10,469	\$ 281,081	\$ 11,081
Cooperative Loan Agreement (OWDA) 2002 Interest Rate 2.00% Mat: 1/1/2029	\$ 616,512	\$ 0	\$ 25,348	\$ 591,164	\$ 25,858
Cooperative Loan Agreement (OWDA) 2008 Planning Loan Interest rate 1.5% Mat:2038	\$ 356,521	\$ 445,124	\$ 0	\$ 801,645	\$ 33,270
Cooperative Loan Agreement (OPWC) 1995 Interest Rate 0.0% Mat 7/1/2015	\$ 12,675	\$ 0	\$ 1,950	\$ 10,725	\$ 1,950
Cooperative Loan Agreement (OPWC) 1996 Interest Rate 0.0% Mat: 1/1/2016	\$ 18,550	\$ 0	\$ 2,650	\$ 15,900	\$ 2,650
Total Obligations	\$ 2,162,257	\$ 445,124	\$ 150,201	\$2,457,180	\$ 192,930

ATWOOD REGIONAL WATER AND SEWER DISTRICT
 Carroll and Tuscarawas Counties Ohio
 Notes to the Basic Financial Statements
 For the Years Ended December 31, 2008 and 2009

3. DEBT ADMINISTRATION - (continued)

The financial requirements to amortize all indebtedness, including interest, are as follows:

Year (s) Ending Dec 31st:	Interest	Principal	Total
2010	\$ 100,812	\$ 188,554	\$ 289,366
2011	91,353	198,867	290,220
2012	84,243	209,897	294,141
2013	73,435	221,700	295,134
2014	58,861	234,345	293,206
2015-2019	196,766	455,870	652,636
2020-2024	110,492	387,389	497,881
2025-2029	52,616	282,708	335,324
2030-2034	28,324	130,056	158,380
2035-2039	10,390	147,794	158,184
	\$ 807,292	\$ 2,457,180	\$ 3,264,472

4. ACCRUED COMPENSATED ABSENCES

Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences," specifies the methods used to accrue liabilities for leave benefits. Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate employees for the benefits through paid time off or some other means. Sick leave benefits are accrued using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible for termination benefits in the future.

The District employs six full time and one part time personnel. The liability for sick leave is tabulated from one half of the accumulated hours for sick leave to a maximum of 480 hours multiplied by the current hourly rate for each eligible employee. Vacation is tabulated from the accumulated hours of vacation multiplied by the current hourly rate for each eligible employee. Year end changes in vacation and sick leave accruals are closed to Compensated Absences on the Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Statement of Net Assets. Sick leave and vacation liability is liquidated as compensated absences from regular work periods or within certain District policy limitations, paid to employees. Only full time employees are eligible for vacation. Sick leave benefits conform to statutory requirements.

5. DEFINED BENEFIT PENSION PLAN

The employees of the District are covered by the Ohio Public Employees Retirement System. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
Carroll and Tuscarawas Counties Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2009

5. DEFINED BENEFIT PENSION PLAN - (continued)

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described as follows: 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 thereon. 3) The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional 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.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans (TP, MD and CO). The 2009 member contribution rates were 10.0%. The 2009 employer contribution rate for local government employer units were 14.0% of covered payroll.

The payroll covered by this pension system for 2009, 2008 and 2007 was \$243,935, \$234,788 and \$232,516 respectively. Actual employer contributions for those years were \$31,419 (92%), \$32,870 (100%) and \$32,203 (100%) which is 14.00% for 2009; 2008 and 13.85% for 2007 of above payroll. The actual employee contributions were \$22,442 (92%), \$23,479 (100%) and \$22,089 (100%) which is 10.0% for 2009; 2008 and 9.5% for 2007 respectively of the above payroll amount. The District provides a fringe benefit pickup plan for full time employees.

6. POST-EMPLOYMENT BENEFITS

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 portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2009 employer contribution rate for local government employer units was 13.55% of covered payroll, of which 4.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
Carroll and Tuscarawas Counties Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2009

6. POST-EMPLOYMENT BENEFITS - (continued)

The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2008. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2008 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. Thereafter, health care costs were assumed to increase at 4% annually.

OPEBs are advance-funded on an actuarially determined basis. At year-end 2009, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The rates stated above are the actuarially determined contribution requirements for OPERS. The portion of employer contributions that were used to fund post employment benefits was \$10,375. \$10.8 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2008.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively. On September 9, 2008, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocations exceed the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
 Carroll and Tuscarawas Counties Ohio
 Notes to the Basic Financial Statements
 For the Years Ended December 31, 2008 and 2009

6. **POST-EMPLOYMENT BENEFITS - (continued)**

In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2009 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rate increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

7. **CAPITAL ASSET MANAGEMENT**

The District records fixed assets at cost or estimated historical cost if purchased or constructed. As a proprietary enterprise fund, the District's assets are depreciated on a straight line basis during their useful life. While depreciation is not presently budgeted, it is reported as an expense. Major outlays for capital assets are capitalized when projects are completed and placed in service. Interest incurred during the loan disbursement period is reflected in the capitalized value of the asset. Fixed assets are classified as those durable items which retain their identity when in use, have an estimated useful life of two years or more, and cost \$3,000 or more.

The District uses the following useful life periods for fixed assets:

Buildings	20 - 40 years
Treatment Facilities	30 - 50 years
Infrastructures	50 years
Machinery and Equipment	2-20 years

Statement of Changes in Fixed Assets
 For the year ending December 31, 2009

Fixed Assets	Bal. Jan. 1, 2009	Additions	Deletions	Bal. Dec. 31, 2009
Land	\$172,832	\$0	\$0	\$172,832
Buildings	\$39,000	\$0	\$0	\$39,000
Treatment Facilities	\$2,727,616	\$0	\$0	\$2,727,616
Infrastructures	\$11,208,165	\$0	\$0	\$11,208,165
Machinery/Equip.	\$490,238	\$10,475	\$0	\$500,714
Total Fixed Assets:	\$14,637,851	\$10,475	\$0	\$14,648,327
Less Accum. Depreciation:	\$(7,336,847)	\$(305,345)	\$0	\$(7,642,193)
Construction in Progress:	\$434,542	\$546,167	\$0	\$980,709
Net Fixed Assets:	\$7,735,546	\$ 251,297	\$0	\$7,986,843

ATWOOD REGIONAL WATER AND SEWER DISTRICT
 Carroll and Tuscarawas Counties Ohio
 Notes to the Basic Financial Statements
 For the Years Ended December 31, 2008 and 2009

7. **CAPITAL ASSET MANAGEMENT (continued)**

Statement of Changes in Fixed Assets
 For the fiscal year ended December 31, 2008

Fixed Assets	Bal. Jan. 1, 2008	Additions	Deletions	Bal. Dec. 31, 2008
Land	\$172,832	\$0	\$0	\$172,832
Buildings	\$39,000	\$0	\$0	\$39,000
Treatment Facilities	\$2,727,616	\$0	\$0	\$2,727,616
Infrastructures	\$11,208,165	\$0	\$0	\$11,208,165
Machinery/Equip.	\$456,267	\$33,971	\$0	\$490,238
Total Fixed Assets:	\$14,603,880	\$33,971	\$0	\$14,637,851
Less Accum. Depreciation	\$(7,034,782)	\$(302,065)	\$0	\$(7,336,847)
Construction in Progress	\$166,102	\$268,440	\$0	\$434,542
Net Fixed Assets	\$7,735,200	\$346	\$0	\$7,735,546

8. **BUDGETARY DATA**

Since the District does not levy taxes, a tax budget is not required by the Ohio Revised Code. The District's Rules and Regulations require the Board of Trustees to adopt an annual budget which serves as a financial plan for the year. The legal level of control is at the fund level which allows management to adjust individual budget items within the overall budget available. Annually, management prepares a statement of estimated receipts, expenses, and debt charges expected to occur in the ensuing year as required by ORC 5705.28. The Board adopts an annual budget appropriation resolution based on the operating requirements, approved capital improvements and contingency fund commitments. Further, all purchases over \$1,000 require prior board approval which effectively appropriates the funds for the purchase. Project length budgets are prepared in addition to annual budgets for capital improvements. Encumbrances are used for complex purchases or those requiring several months delivery. Encumbrances expire at the end of the fiscal year and are reestablished for the next fiscal year. The budget is prepared on a Non-GAAP budget basis which omits depreciation and certain other accruals.

ATWOOD REGIONAL WATER AND SEWER DISTRICT
Carroll and Tuscarawas Counties Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2009

9. **INSURANCE**

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90 percent coinsured. The District has not significantly decreased coverage in the past three years, nor have claims exceeded commercial coverage.

10. **CONTINGENCIES**

As of December 31, 2008, unpaid construction mechanic's liens against the District totaled \$7,500. This claim was fully resolved in 2009 by the contractor, Myers Contracting and the project surety, Gulf States Insurance Company.

In September 2009, the District filed complaints in Common Pleas Court against two property owners in the District to enforce compliance with the District's Wastewater Discharge Regulation. As of December 31, 2009, these complaints are pending litigation. It is the opinion of District legal counsel that the outcome of these complaints will be favorable and will not materially affect the District's financial position. Management is not aware of any other claims against the District.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

To the Board of Trustee
Atwood Regional Water and Sewer District
Dellroy, Ohio

I have audited the financial statements of Atwood Regional Water and Sewer District as of and for the year ended December 31, 2008 and 2009, and have issued my report thereon dated June 17, 2010. I conducted my audit in accordance with generally accepted auditing standards 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 my audit, I considered Atwood Regional Water and Sewer District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Atwood Regional Water and Sewer District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Atwood Regional Water and Sewer District's internal control over financial reporting. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Atwood Regional Water and Sewer District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Atwood Regional Water and Sewer District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Kevin L. Penn, Inc.

June 17, 2010

ATWOOD REGIONAL WATER AND SEWER DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2008 and 2009

There were no audit findings, during the 2006 and 2007 fiscal year.

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Mary Taylor, CPA
Auditor of State

ATWOOD REGIONAL WATER AND SEWER DISTRICT

TUSCARAWAS 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
SEPTEMBER 30, 2010**