

**JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY
Regular Audit
For the Years Ended December 31, 2011 and 2010**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • 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, 2011 through December 31, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 30, 2012

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**JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

June 27, 2012

Jefferson Water and Sewer District
Franklin County
6455 Taylor Road
Blacklick, OH 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 years ended December 31, 2011 and December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2011 and December 31, 2010, and the respective changes in financial position and cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Respectfully Submitted,

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

Perry & Associates
Certified Public Accountants, A.C.

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
(Unaudited)

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, 2011 and 2010 by \$12,397,962 and \$11,963,328, respectively. The District's net assets increased by \$434,634 (3.6%) in 2011 and by \$165,409 (1.4%) in 2010.

The District's operating revenues decreased by \$41,363 (-0.9%) in 2011 and increased by \$210,424 (5.0%) in 2010. Operating expenses (excluding depreciation expense) decreased by \$179,350 (-7.0%) in 2011 and increased by \$174,985 (7.3%) in 2010. Depreciation expense decreased \$36,356 (-4.1%) in 2011 and decreased \$16,367 (-1.8%) in 2010.

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, 2011 and 2010. 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.

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
(Unaudited)

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

	2011	2010	Change	2009	Change
Current and Other Assets	\$4,642,646	\$4,465,226	\$177,420	\$4,653,011	(\$187,785)
Capital Assets, Net	23,384,856	23,660,292	(275,436)	24,512,374	(852,082)
Total Assets	<u>28,027,502</u>	<u>28,125,518</u>	<u>(98,016)</u>	<u>29,165,385</u>	<u>(1,039,867)</u>
Long Term Liabilities	13,815,150	14,446,295	(631,145)	15,334,955	(888,660)
Current and Other Liabilities	1,814,390	1,715,895	98,495	2,032,511	(316,616)
Total Liabilities	<u>15,629,540</u>	<u>16,162,190</u>	<u>(532,650)</u>	<u>17,367,466</u>	<u>(1,205,276)</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	8,658,604	8,440,940	217,664	8,460,959	(20,019)
Unrestricted	3,739,358	3,522,388	216,970	3,336,960	185,428
Total Net Assets	<u>\$12,397,962</u>	<u>\$11,963,328</u>	<u>\$434,634</u>	<u>\$11,797,919</u>	<u>\$165,409</u>

The District's assets decreased by \$98,016 in 2011. The decrease is primarily a result of a decrease in capital assets and was partially offset by an increase in cash and cash equivalents. The decrease in capital assets is primarily a result of current year depreciation in excess of additions. The increase in cash and cash equivalents is primarily a result of income in excess of expenses. Liabilities decreased \$532,650 in 2011. This decrease is primarily due to principal payments on debt.

Unrestricted net assets increased by \$216,970 in 2011. 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 \$217,664 from 2010 to 2011 primarily due to additions of capital assets and payments on debt balances which were only partially offset by an increase in depreciation expense.

The District's assets decreased by \$1,039,867 in 2010. The decrease is primarily a result of a decrease in accounts receivable, notes receivable and capital assets and was partially offset by an increase in cash and cash equivalents. The decrease in accounts receivable is a result of increased collection of receivables. The decrease in notes receivable is a result of receipt of payments for tap fees. The decrease in capital assets is primarily a result of the demolition of a water tower, current year disposals, and current year depreciation in excess of additions. The increase in cash and cash equivalents is primarily a result of income in excess of expenses. Liabilities decreased \$1,205,276 in 2010. 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.

Unrestricted net assets increased by \$185,428 in 2010. 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 \$20,019 from 2009 to 2010 primarily due to demolition of a water tower, disposals of capital assets and depreciation expense, which was only partially offset by additions of capital assets and payments on debt balances.

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
(Unaudited)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Table 2

	2011	2010	Change	2009	Change
Operating Revenues	\$4,368,618	\$4,409,981	(\$41,363)	\$4,199,557	\$210,424
Total Operating Revenues	4,368,618	4,409,981	(41,363)	4,199,557	210,424
Operating Expenses (Excluding Depreciation)	2,377,539	2,556,889	(179,350)	2,381,904	174,985
Depreciation Expense	853,214	889,570	(36,356)	905,937	(16,367)
Total Operating Expenses	3,230,753	3,446,459	(215,706)	3,287,841	158,618
Operating Income	1,137,865	963,522	174,343	911,716	51,806
Non-Operating Revenues	75,735	61,695	14,040	55,982	5,713
Non-Operating Expenses	(778,966)	(859,808)	80,842	(896,058)	36,250
Changes in Net Assets	434,634	165,409	269,225	71,640	93,769
Net Assets at Beginning of Year	11,963,328	11,797,919	165,409	11,726,279	71,640
Net Assets at End of Year	\$12,397,962	\$11,963,328	\$434,634	\$11,797,919	\$165,409

Operating revenues decreased by \$41,363 from 2010 to 2011 which is primarily due to a decrease in Tap Fees.

Operating expenses decreased by \$215,706 from 2010 to 2011 primarily due to an increase in plant operations expenses and general and administrative expenses. The increase in plant operations is primarily due to a reduction in treatment fees for the Columbus connect.

Operating revenues increased by \$210,424 from 2009 to 2010 which is primarily due to an increase in receipts for charges for services and tap fees.

Operating expenses increased by \$158,618 from 2009 to 2010 primarily due to an increase in plant operations expenses and general and administrative expenses. These increases were partially offset by a decrease in depreciation expense. The decrease in depreciation expense is due to the demolition of a water tower and other capital asset disposals during the year.

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
(Unaudited)

CAPITAL ASSETS

The District had \$32,153,317 and \$31,532,231 invested in depreciable capital assets (before depreciation) at the end of 2011 and 2010, respectively. This amount is an increase of \$621,086 (2.0%) from 2010 to 2011 and an decrease of \$316,871 (-1.0%) from 2009 to 2010. The increase in 2011 is primarily the result of completed construction projects. The decrease in 2010 is primarily the result of the demolition of a water tower and other disposals, depreciation expense and was partially offset by capital asset additions. 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				
	2011	2010	Change	2009	Change
Non-depreciable Capital Assets					
Land and land easements	\$663,326	\$657,235	\$6,091	\$627,637	\$29,598
Construction in progress	7,529	56,928	(49,399)	33,171	23,757
Total Non-depreciable Capital Assets	670,855	714,163	(43,308)	660,808	53,355
Depreciable Capital Assets					
Buildings and improvements	5,268,802	5,268,802	0	5,268,802	0
Completed construction	15,375,724	14,808,429	567,295	15,134,739	(326,310)
Furniture and general equipment	2,391,036	2,338,504	52,532	2,333,755	4,749
Vehicles and accessories	174,138	172,879	1,259	172,879	0
Donated assets	8,943,617	8,943,617	0	8,938,927	4,690
Totals Before					
Accumulated Depreciation	32,153,317	31,532,231	621,086	31,849,102	(316,871)
Accumulated Depreciation	(9,439,316)	(8,586,102)	(853,214)	(7,997,536)	(588,566)
Net Depreciable Capital Assets	22,714,001	22,946,129	(232,128)	23,851,566	(905,437)
Total Capital Assets	<u>\$23,384,856</u>	<u>\$23,660,292</u>	<u>(\$275,436)</u>	<u>\$24,512,374</u>	<u>(\$852,082)</u>

DEBT

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

	Table 4				
	2011	2010	Change	2009	Change
Ohio Water Development Authority (OWDA)	\$9,100,552	\$9,365,687	(\$265,135)	\$9,972,723	(\$607,036)
Rural Development	4,585,700	4,641,000	(55,300)	4,694,000	(53,000)
PNC Financial Corp	1,040,000	1,200,000	(160,000)	1,360,000	(160,000)
Total Long Term Debt	14,726,252	15,206,687	(480,435)	16,026,723	(820,036)
Less: Current Maturities	911,102	864,040	47,062	820,040	44,000
Net Total Long Term Debt	<u>\$13,815,150</u>	<u>\$14,342,647</u>	<u>(\$527,497)</u>	<u>\$15,206,683</u>	<u>(\$864,036)</u>

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.

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010
(Unaudited)

CASH

Cash and cash equivalents were \$3,654,648 on December 31, 2011 and \$3,422,948 on December 31, 2010.

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, 2011 and 2010

	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	\$3,501,669	\$3,269,969
Accounts receivable	478,360	459,825
Inventory	13,303	7,389
Prepaid expense	30,997	31,748
Intergovernmental receivable	9,477	9,477
Current portion of notes receivable - tap fees	89,828	31,580
Total Current Assets	4,123,634	3,809,988
RESTRICTED ASSETS:		
Restricted cash and cash equivalents	152,979	152,979
Water assessments receivable	243,379	269,196
Sewer assessments receivable	106,640	114,433
Total Restricted Assets	502,998	536,608
CAPITAL ASSETS:		
Capital assets, not being depreciated	670,855	714,163
Capital assets, net of accumulated depreciation	22,714,001	22,946,129
Total Capital Assets	23,384,856	23,660,292
OTHER ASSETS:		
Notes receivable less current portion - tap fees:	0	103,648
Loan fees - net of amortization	16,014	14,982
Total Other Assets	16,014	118,630
Total Assets	\$28,027,502	\$28,125,518
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$289,418	\$299,871
Accrued wages and benefits and withholding payroll expenses	102,451	95,191
Current portion of capital lease	0	12,665
Current portion of long term debt	911,102	864,040
Current portion of deferred revenue - tap fees	89,828	0
Accrued interest payable	399,576	444,128
Customer Deposits- Payable	22,015	0
Total Current Liabilities	1,814,390	1,715,895
LONG TERM LIABILITIES:		
Long term debt less current portion	13,815,150	14,342,647
Deferred revenue - tap fees	0	103,648
Total Long Term Liabilities	13,815,150	14,446,295
Total Liabilities	15,629,540	16,162,190
NET ASSETS:		
Invested in capital assets, net of related deb	8,658,604	8,440,940
Unrestricted	3,739,358	3,522,388
Total Net Assets	12,397,962	11,963,328
Total Liabilities and Net Assets	\$28,027,502	\$28,125,518

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Charges for services	\$3,967,881	\$3,851,529
Tap fees	256,740	524,512
Intergovernmental	0	20,434
Miscellaneous income	143,997	13,506
Total Operating Revenues	<u>4,368,618</u>	<u>4,409,981</u>
OPERATING EXPENSES:		
Plant operations	1,523,653	1,749,190
Salaries and payroll related expenses	726,229	674,315
General and administration expenses	127,657	133,384
Depreciation	853,214	889,570
Total Operating Expenses	<u>3,230,753</u>	<u>3,446,459</u>
Operating Income	1,137,865	963,522
OTHER INCOME AND (EXPENSES):		
Loss on disposal of capital assets	0	(30,462)
Interest income	75,735	61,695
Interest expense	(778,966)	(829,346)
Total Other Income (Expenses)	<u>(703,231)</u>	<u>(798,113)</u>
Increase In Net Assets	434,634	165,409
Net Assets, Beginning of Year	<u>11,963,328</u>	<u>11,797,919</u>
Net Assets, End of Year	<u>\$12,397,962</u>	<u>\$11,963,328</u>

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, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$4,238,698	\$4,390,867
Cash received from operating grants	0	21,915
Cash received from other operating income	143,997	13,506
Cash payments to suppliers for goods and services	(1,672,213)	(1,877,299)
Cash payments for employee services and benefits	(718,969)	(688,665)
Net Cash Provided From Operating Activities	1,991,513	1,860,324
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Customer Deposits - Payable	22,015	0
Interest received on bank accounts	49,259	32,933
Net Cash From Non-Capital Financing Activities	71,274	32,933
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction of water and sewer projects	(577,778)	(66,551)
Proceeds from construction loans	383,605	0
Principal payments on construction loans	(864,040)	(820,036)
Interest payments on construction loans	(819,624)	(824,801)
Special assessment collections - principal	33,610	29,204
Special assessment collections - interest	26,476	28,762
Principal payments on capital lease	(12,665)	(12,027)
Interest payments on capital lease	(671)	(1,309)
Net Cash From Capital and Related Financing Activities	(1,831,087)	(1,666,758)
Net Increase In Cash and Cash Equivalents	231,700	226,499
Cash and Cash Equivalents, Beginning of the Year	3,422,948	3,196,449
Cash and Cash Equivalents, End of the Year	\$3,654,648	\$3,422,948
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$1,137,865	\$963,522
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	853,214	889,570
CHANGES IN NET ASSETS AND LIABILITIES:		
(Increase) decrease in accounts receivable	(18,535)	129,406
(Increase) decrease in intergovernmental receivable	0	1,481
(Increase) decrease in prepaid expense	751	5,690
(Increase) decrease in inventory	(5,914)	22,169
(Increase) decrease in notes receivable	45,400	225,912
Increase (decrease) in accounts payable (operating)	(15,740)	(22,584)
Increase (decrease) in accrued wages and benefits and withholding payroll taxes	7,260	(14,350)
Increase (decrease) in deferred revenue	(13,820)	(340,914)
Increase (Decrease) in loan fees - net of amortization	1,032	422
Total Adjustments	853,648	896,802
Net Cash Provided by Operating Activities	\$1,991,513	\$1,860,324

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

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

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 6119.01 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:

Basis of Presentation – Fund Accounting

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:

Proprietary Fund Type – 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.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

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, 2011 and 2010, 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.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

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.

Cash and Cash Equivalents

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.

Investments with a maturity of three months or less at the time they are purchased by the District are considered to be pooled cash and investments and are reported as “cash and cash equivalents” in the accompanying financial statements.

Interest Expense

Interest expense for the years ended December 31, 2011 and 2010 represents the interest portion of construction loan payments to the Ohio Water Development Authority, Rural Development, and PNC Financial Corporation in the amount of \$778,295 and \$828,037 and the vehicle/equipment lease payments are \$671 and \$1,309, 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, 2011 and 2010 were \$90 and \$200, respectively, 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 non-operating.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

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.

3. RECEIVABLES

Accounts receivable are presented at their net realizable value of \$478,360 and \$459,825 as of December 31, 2011 and 2010.

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.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 was as follows:

	Ending Balance at 12/31/2010	Additions	Deletions	Ending Balance at 12/31/2011
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	\$657,235	\$6,091	\$0	\$663,326
Construction in Progress	56,928	0	(49,399)	7,529
Total Capital Assets, Not Being Depreciated	714,163	6,091	(49,399)	670,855
Capital Assets, Being Depreciated				
Buildings and Improvements	5,268,802	0	0	5,268,802
Water and Sewer Lines and Related Infrastructure	14,808,429	567,295	0	15,375,724
Vehicles and Accessories	172,879	1,259	0	174,138
Furniture and General Equipment	2,338,504	52,532	0	2,391,036
Donated Water and Sewer Lines	8,943,617	0	0	8,943,617
Total Capital Assets, Being Depreciated	31,532,231	621,086	0	32,153,317
Less Accumulated Depreciation:				
Buildings and Improvements	(1,207,010)	(150,107)	0	(1,357,117)
Water and Sewer Lines and Related Infrastructure	(4,788,975)	(385,514)	0	(5,174,489)
Vehicles and Accessories	(128,372)	(10,108)	0	(138,480)
Furniture and General Equipment	(872,442)	(128,374)	0	(1,000,816)
Donated Water and Sewer Lines	(1,589,303)	(179,111)	0	(1,768,414)
Total Accumulated Depreciation	(8,586,102)	(853,214)	0	(9,439,316)
Total Capital Assets Being Depreciated, Net	22,946,129	(232,128)	0	22,714,001
Total Capital Assets	\$23,660,292	(\$226,037)	(\$49,399)	\$23,384,856

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

4. CAPITAL ASSETS - CONTINUED

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

	Ending Balance at 12/31/2009	Additions	Deletions	Ending Balance at 12/31/2010
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	\$627,637	\$29,598	\$0	\$657,235
Construction in Progress	33,171	25,156	(1,399)	56,928
Total Capital Assets, Not Being Depreciated	660,808	54,754	(1,399)	714,163
Capital Assets, Being Depreciated				
Buildings and Improvements	5,268,802	0	0	5,268,802
Water and Sewer Lines and Related Infrastructure	15,134,739	861	(327,171)	14,808,429
Vehicles and Accessories	172,879	0	0	172,879
Furniture and General Equipment	2,333,755	7,645	(2,896)	2,338,504
Donated Water and Sewer Lines	8,938,927	4,690	0	8,943,617
Total Capital Assets, Being Depreciated	31,849,102	13,196	(330,067)	31,532,231
Less Accumulated Depreciation:				
Buildings and Improvements	(1,064,091)	(142,919)	0	(1,207,010)
Water and Sewer Lines and Related Infrastructure	(4,665,776)	(424,203)	301,004	(4,788,975)
Vehicles and Accessories	(118,185)	(10,187)	0	(128,372)
Furniture and General Equipment	(739,292)	(133,150)	0	(872,442)
Donated Water and Sewer Lines	(1,410,192)	(179,111)	0	(1,589,303)
Total Accumulated Depreciation	(7,997,536)	(889,570)	301,004	(8,586,102)
Total Capital Assets Being Depreciated, Net	23,851,566	(876,374)	(29,063)	22,946,129
Total Capital Assets	\$24,512,374	(\$821,620)	(\$30,462)	\$23,660,292

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, 2011 and 2010:

	2011	2010
2011	\$0	\$31,580
2012	89,828	103,648
	89,828	135,228
Current Portion of Notes Receivable	(89,828)	(31,580)
	<u>\$0</u>	<u>\$103,648</u>

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

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, 2011 and 2010:

OWDA Loans Payable:	2011	2010
8.05% due in semi-annual payments of \$71,302, including interest through July 2015	\$471,810	\$568,638
8.07% due in semi-annual payments of \$134,051, including interest through July 2015	886,536	1,068,416
7.50% due in semi-annual payments of \$12,431, including interest through July 2015	83,271	100,589
7.50% due in semi-annual payments of \$15,361, including interest through July 2015	102,900	124,300
7.21% due in semi-annual payments of \$12,396, including interest through July 2018	132,639	146,843
7.14% due in semi-annual payments of \$7,170, including interest through July 2018	76,903	85,162
6.51% due in semi-annual payments of \$19,856, including interest through January 2022	151,494	160,742
6.18% due in semi-annual payments of \$2,367, including interest through July 2022	36,994	39,299
5.88% due in semi-annual payments of \$9,785, including interest through January 2023	160,221	169,806
5.66% due in semi-annual payments of \$16,119, including interest through January 2025	298,597	313,112
5.56% due in semi-annual payments of \$22,440, including interest through January 2025	422,206	442,751
5.77% due in semi-annual payments of \$9,067, including interest through January 2025	168,464	176,527
5.85% due in semi-annual payments of \$7,797, including interest through January 2021	111,177	119,764
6.72% due in semi-annual payments of \$25,478, including interest through January 2021	349,281	375,034
6.16% due in semi-annual payments of \$18,861, including interest through January 2020	243,789	265,177
6.41% due in semi-annual payments of \$4,667, including interest through January 2027	90,863	94,212
6.39% due in semi-annual payments of \$12,930, including interest through January 2027	252,048	261,355
6.39% due in semi-annual payments of \$3,383, including interest through July 2027	67,183	69,543
6.39% due in semi-annual payments of \$12,877, including interest through January 2027	251,009	260,277
6.03% due in semi-annual payments of \$64,884, including interest through January 2027	1,295,131	1,344,557
6.03% due in semi-annual payments of \$15,454, including interest through January 2027	308,473	320,245
6.03% due in semi-annual payments of \$10,084, including interest through January 2027	201,288	208,970
6.03% due in semi-annual payments of \$17,014, including interest through January 2027	339,605	352,565
5.15% due in semi-annual payments of \$3,230, including interest through July 2028	72,586	75,206

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

6. LONG-TERM DEBT - CONTINUED

	2011	2010
OWDA Loans Payable:		
4.40% due in semi-annual payments of \$56,999, including interest through July 2028	\$1,354,598	\$1,407,251
4.66% due in semi-annual payments of \$32,573, including interest through July 2029	787,881	815,346
3.77% due in semi-annual payments of \$27,569 Including interest through July 2021	383,605	0
Total	9,100,552	9,365,687
Less current maturities	(693,402)	(648,740)
Noncurrent OWDA loans payable	\$8,407,150	\$8,716,947

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Amount Due Within One Year
O.W.D.A.	\$9,365,687	\$383,605	\$648,740	\$9,100,552	\$693,402
Rural Development	4,641,000	0	55,300	4,585,700	57,700
PNC Financial Corp	1,200,000	0	160,000	1,040,000	160,000
	\$15,206,687	\$383,605	\$864,040	\$14,726,252	\$911,102

	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010	Amount Due Within One Year
O.W.D.A.	\$9,972,723	\$0	\$607,036	\$9,365,687	\$648,740
Rural Development	4,694,000	0	53,000	4,641,000	55,300
PNC Financial Corp	1,360,000	0	160,000	1,200,000	160,000
	\$16,026,723	\$0	\$820,036	\$15,206,687	\$864,040

Maturities of the District's debt for the years subsequent to December 31, 2011 are as follows:

	OWDA Loans			Rural Development Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	693,402	523,749	1,217,151	57,700	200,624	258,324
2013	741,236	475,915	1,217,151	60,200	198,100	258,300
2014	792,477	424,674	1,217,151	62,900	195,466	258,366
2015	847,304	369,847	1,217,151	65,600	192,714	258,314
2016	439,897	310,966	750,863	68,500	189,844	258,344
2017-2021	2,400,732	1,143,444	3,544,176	390,200	901,543	1,291,743
2022-2026	2,253,066	489,727	2,742,793	483,400	808,396	1,291,796
2027-2031	548,833	32,195	581,028	598,700	692,997	1,291,697
2032-2036	0	0	0	741,700	550,056	1,291,756
2037-2041	0	0	0	918,700	372,986	1,291,686
2042-2046	0	0	0	1,138,100	153,631	1,291,731
Total	\$8,716,947	\$3,770,517	\$12,487,464	\$4,585,700	\$4,456,357	\$9,042,057

The amortization schedule above for OWDA loans does not include Loan #5782 with a principle balance outstanding of \$383,605 because the loan has not been finalized.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

6. LONG-TERM DEBT - CONTINUED

	PNC Financial Corp			Total		
	Principal	Interest	Total	Principal	Interest	Total
2012	160,000	43,600	203,600	911,102	767,973	1,679,075
2013	160,000	36,624	196,624	961,436	710,639	1,672,075
2014	160,000	29,648	189,648	1,015,377	649,788	1,665,165
2015	160,000	22,672	182,672	1,072,904	585,233	1,658,137
2016	160,000	15,696	175,696	668,397	516,506	1,184,903
2017-2021	240,000	10,464	250,464	3,030,932	2,055,451	5,086,383
2022-2026	0	0	0	2,736,466	1,298,123	4,034,588
2027-2031	0	0	0	1,147,533	725,192	1,872,725
2032-2036	0	0	0	741,700	550,056	1,291,756
2037-2041	0	0	0	918,700	372,986	1,291,686
2042-2046	0	0	0	1,138,100	153,631	1,291,731
Total	\$1,040,000	\$158,704	\$1,198,704	\$14,342,647	\$8,385,578	\$22,728,225

*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 PNC Financial Corp 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 combined principal and interest remaining to be paid on these bonds and loans as of December 31, 2011 and 2010 are \$9,042,057 and \$9,300,401 and \$12,487,464 and \$13,704,615, respectively. The coverage ratios at December 31, 2011 and 2010 were 1.41 and 1.32, respectively.

7. CAPITAL LEASE OBLIGATIONS

The District entered into an agreement to lease trucks during the fiscal year 2008. The terms of the agreement provide for ownership at the end of the lease term. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases."

The trucks acquired by lease have been capitalized as vehicles 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 \$12,665 and \$12,027 and interest payments totaled \$671 and \$1,309, respectively during 2011 and 2010.

The lease obligation was paid off during 2011.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

8. CAPITAL CONTRIBUTIONS

Donated Developer Lines

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 2011 or 2010.

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 benefits as well as post-employment health care coverage 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 visiting <https://www.opers.org/investments/cafr.shtml> , writing to OPERS, 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 2011, member and employer contribution rates were consistent across all three plans.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

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

The member contribution rates were 10.0%, 10.0%, and 10.0% for 2011, 2010, and 2009, respectively, for the District.

The employer contribution rates were 14.0%, 14.0%, and 14.0%, of covered payroll for 2011, 2010, and 2009, respectively, for the District.

The District's contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were \$70,678, \$68,782, and \$66,777, respectively, which were equal to 100% of the required contributions for each of those years.

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

Ohio Public Employees Retirement System

- 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 visiting <https://www.opers.org/investments/cafr.shtml>, writing OPERS, 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 2011, 2010, and 2009, the District contributed at 14.0%, 14.0% and 14.0%, respectively, 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.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

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 Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2011, the employer contribution allocated to the health care plan for members in the Traditional Plan was 4% and 6.05% for the Combined Plan. For 2010, the employer contribution allocated to the health care plan for members in the Traditional Plan was 5.5% from January through February and 5.0% from March through December. The employer contribution allocated to the health care plan for members in the Combined Plan was 4.73% from January through February and 4.23% from March through December. For 2009, the employer contribution allocated to the health care plan was 7.0% from January through March and 5.5% from April through December. 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 \$20,193 for 2011, \$25,007 for 2010, and \$28,158 for 2009 which were equal to 100% of the required contributions for each of those years.
- 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, of each year from 2006 to 2008. These rate increases 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;

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – CONTINUED

3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
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. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 5% of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed 10% of the District's average portfolio.

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.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

11. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – CONTINUED

The District's deposit bank balances as of December 31, 2011 and 2010 were \$2,137,105 and \$2,043,583, respectively. 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, 2011:

<u>Description</u>	<u>Fair Value</u>	Investment Maturities (in years) <u>Less than 1</u>
ML Institutional Fund	\$1,475,413	\$1,475,413
STAR Ohio	50,592	50,592
Total Investments	<u>\$1,526,005</u>	<u>\$1,526,005</u>

The District had the following investments at December 31, 2010:

<u>Description</u>	<u>Fair Value</u>	Investment Maturities (in years) <u>Less than 1</u>
ML Institutional Fund	\$1,335,072	\$1,335,072
STAR Ohio	50,563	50,563
	<u>\$1,385,635</u>	<u>\$1,385,635</u>

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 its 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 A- by Standard & Poor's. Investments in STAR Ohio 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 one issuer. The District has invested 97% in money market funds and 3% in STAR Ohio as of December 31, 2011 and 96% and 4% in 2010.

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.

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).

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

12. RISK MANAGEMENT – CONTINUED

During 2011 the District contracted with PEP for general liability insurance in the amount of \$5,000,000 each occurrence with no aggregate limit, automobile liability in the amount of \$5,000,000, blanket building and personal property in the amount of \$14,794,918 and boiler and machinery coverage in the amount of \$14,514,824.

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.

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, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Assets	\$34,952,010	\$36,374,898
Liabilities	<u>(14,320,812)</u>	<u>(15,256,862)</u>
Retained Earnings	<u>\$20,631,198</u>	<u>\$21,118,036</u>

The District made payments to PEP in the amounts of \$29,930, \$39,065, and \$42,507 for the years 2011, 2010, and 2009, respectively.

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.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010

13. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2011 and 2010 was as follows:

	Budgeted and Actual Receipts		
	Budget	Actual	Variance
2011	\$4,255,077	4,897,660	\$642,583
2010	4,422,609	4,517,187	94,578

	Budgeted and Actual Budgetary Basis Expenditures		
	Budget	Actual	Variance
2011	\$5,437,127	4,665,960	771,167
2010	5,391,987	4,290,688	1,101,299

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

June 27, 2012

Jefferson Water and Sewer District
Franklin County
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**, Pickaway County, Ohio, (the District), as of and for the years ended December 31, 2011 and 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 27, 2012. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

Respectfully Submitted,

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

Perry & Associates
Certified Public Accountants, A.C.

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Dave Yost • 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
AUGUST 14, 2012**