



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2011 and 2010
Fiscal Years Audited Under GAGAS: 2011 and 2010



Dave Yost • Auditor of State

Board of Trustees
Southern Perry County Water District
P.O. Box 335
Corning, Ohio 43730-0335

We have reviewed the *Independent Auditor's Report* of the Southern Perry County Water District, Perry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2010 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 Southern Perry County Water 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

September 19, 2012

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SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Members of the Board
Southern Perry County Water District
Perry County, Ohio
P.O. Box 335
Corning, Ohio 43730-0335

We have audited the accompanying financial statements of the business-type activities of the Southern Perry County Water District, Perry 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Southern Perry County Water District, as of December 31, 2011 and 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 May 25, 2012, on our consideration of the District's internal control over financial reporting and on 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 be read in conjunction with this report in considering 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 on 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.



Balestra, Harr & Scherer, CPAs, Inc.
May 25, 2012

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010

This discussion and analysis, along with the accompanying financial report, of Southern Perry County Water District Inc., ("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 exceed liabilities by \$1.8 and \$1.9 million on December 31, 2011 and 2010, respectively. The District's net assets decreased \$53 thousand (-3%) in 2011 and decreased \$34 thousand (2%) in 2010.

The District's Operating Revenues increased \$13 thousand (2%) during 2011 and increased \$36 thousand (5%) during 2010. Operating Expenses increased \$34 thousand (5%) during 2011 and increased \$45 thousand (6%) during 2010.

The District issued additional long term debt of \$208 thousand during 2011.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. 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. The District's net assets (equity) 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 of its costs through service charges, tap fees, 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. It summarizes the net changes in cash resulting from operating, investing, and financing activities.

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010

NET ASSETS

Table 1 summarizes the Net Assets of the District. Capital Assets are reported less accumulated depreciation. The line "Invested in Capital, Net of Debt" is Capital Assets, less outstanding debt that was used to acquire those assets.

TABLE 1

	2011	2010	Change	2009	Change
Current & other assets	\$199,884	\$210,230	\$-10,346	\$257,374	\$-47,144
Long term assets	192,170	189,255	2,915	186,308	2,947
Capital assets, net	3,855,978	3,817,821	38,157	3,898,424	-80,603
Total assets	4,248,032	4,217,306	30,726	4,342,106	-124,800
Long term liabilities	2,271,400	2,174,111	97,289	2,281,953	-107,842
Current and other liabilities	136,210	150,134	-13,924	132,645	17,489
Total liabilities	2,407,610	2,324,245	83,365	2,414,598	-90,353
Net assets					
Invested in capital, net of debt	1,499,032	1,551,184	-52,152	1,536,899	14,285
Restricted	192,170	189,255	2,915	186,308	2,947
Unrestricted	149,220	152,622	-3,402	204,301	-51,679
Total net assets	\$1,840,422	\$1,893,061	\$-52,639	\$1,927,508	\$-34,447

The District's Net Assets decreased \$53 thousand (-3%) in 2011 and decreased \$34 thousand (-2%) in 2010.

Restricted net assets increased by \$3 thousand for 2011 and 2010. This increase was 2% for 2011 and 2010, and resulted from interest earned. Restricted assets are cash that is limited in use as part of the District's loan covenants with the United States Department of Agriculture – Rural Development.

Unrestricted assets decreased \$3 thousand during 2011 (-2%) and decreased \$52 thousand during 2010 (-25%). Unrestricted assets may be used without constraints established by loan covenants, and as provided by the adopted budget. Cash and Cash Equivalents decreased \$12 thousand during 2011 and decreased \$49 thousand during 2010.

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Table 2 summarizes the changes in Revenues and Expenses and the resulting change in Net Assets.

TABLE 2

	2011	2010	Change	2009	Change
Total operating revenues	\$804,935	\$792,268	\$12,667	\$755,890	\$36,378
Purchased water	311,603	293,405	18,198	263,841	29,564
Wages and fringe benefits	204,155	194,449	9,706	183,902	10,547
Maintenance and operations	101,097	89,890	11,207	90,920	-1,030
Office expenses and operation	17,715	17,412	303	17,295	117
Engineering, legal, audit & accounting fees	17,077	21,244	-4,167	19,255	1,989
Depreciation	139,252	140,272	-1,020	136,832	3,440
Total operating expenses	790,899	756,672	34,227	712,045	44,627
Operating income	14,036	35,596	-21,560	43,845	-8,249
Non-operating revenues	3,185	3,346	-161	5,949	-2,603
Non-operating expenses	-69,860	-73,389	3,529	-76,051	2,662
Changes in net assets	-52,639	-34,447	-18,192	-26,257	-8,190
Net assets at beginning of year	1,893,061	1,927,508	-34,447	1,953,765	-26,257
Net assets at end of year	\$1,840,422	\$1,893,061	\$-52,639	\$1,927,508	\$-34,447

Operating revenues increased in 2011 by \$13 thousand as a result of increased water sales during 2011. Operating revenues increased during 2010 by \$36 thousand, due to customer growth.

Operating expenses increased \$34 thousand (5%) in 2011, due mainly to a increase in the purchase of water, maintenance and operations and wages and fringe benefits expenses. During 2010, operating expenses increased by \$45 thousand (6%), as expenses increases in most categories.

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010

CAPITAL ASSETS

The District had \$6.2 million invested in Capital Assets (before depreciation) at the end of 2011. This amount is an increase of \$177 thousand (3%) from the previous year. The District had \$6.1 million invested in Capital Assets (before depreciation) at the end of 2010, and this amount is an increase of \$60 thousand (1%) from the previous year.

TABLE 3

	2011	2010	Change	2009	Change
Land	\$19,968	\$19,968	\$ -	\$19,968	\$ -
Water system	5,824,013	5,819,758	4,255	5,760,089	59,669
Transportation, equipment, and tools	237,178	210,914	26,264	210,914	-
Construction in Progress	146,890	-	146,890	-	-
Total before depreciation	6,228,049	6,050,640	177,409	5,990,971	59,669
Accumulated depreciation	-2,372,071	-2,232,819	-139,252	-2,092,547	-140,272
Total net capital assets	\$3,855,978	\$3,817,821	\$38,157	\$3,898,424	\$80,603

For additional information regarding capital assets, please see Note 4 to the Basic Financial Statements.

DEBT

The District issues long term debt to finance much of its construction and to purchase vehicles and equipment.

TABLE 4

	2011	2010	Change	2009	Change
Farmer' Home Administration Revenue Bonds	\$1,032,179	\$1,067,243	\$-35,064	\$1,100,275	\$-33,032
Ohio Public Works Commission Issue II Loan	168,362	197,053	-28,691	206,428	-9,375
Ohio Water Development Authority Loans	1,113,478	962,618	150,860	993,127	-30,509
Bank Installment Loans	42,927	39,723	3,204	61,695	-21,972
Total long term debt	2,356,946	2,266,637	90,309	2,361,525	-94,888
Less current maturities	-85,546	-92,526	6,980	-79,572	-12,954
Net total long term debt	\$2,271,400	\$2,174,111	\$97,289	\$2,281,953	\$-107,842

For additional information regarding debt, please see Note 5 to the Basic Financial Statements.

SOUTHERN PERRY COUNTY WATER DISTRICT, INC.
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010

CASH

Cash and cash equivalents on December 31, 2011 and 2010, were \$167 thousand and \$179 thousand, respectively. Not included in these totals are an additional \$192 thousand and \$189 thousand, as of December 31, 2011 and 2010, respectively, of cash and cash equivalents that are restricted as debt service reserves.

ECONOMIC FACTORS AND 2012 BUDGET

The District has adopted a budget for 2012 that has a 1% increase from 2011. The District is committed to supplying water to the region at the most affordable rates, while maintaining and improving the District as needed.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to James Palmer, President of the Board of Trustees, Southern Perry County Water District, Inc., PO Box 335, Corning, Ohio 43730, or 740-347-9030.

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Net Assets
as of December 31, 2011 and 2010

	2011	2010
Current assets		
Cash and cash equivalents	\$ 166,811	\$ 178,584
Accounts receivable - customers	26,259	24,832
Inventories	6,814	6,814
Total current assets	199,884	210,230
Noncurrent assets		
Reserve account for debt payment	192,170	189,255
Total noncurrent assets	192,170	189,255
Capital assets		
Constuction in Progress	146,890	-
Land	19,968	19,968
Water system	5,824,013	5,819,758
Transportation, equipment, and tools	237,178	210,914
Total capital assets	6,228,049	6,050,640
Less: Accumulated depreciation	2,372,071	2,232,819
Net capital assets	3,855,978	3,817,821
Total assets	4,248,032	4,217,306
Current liabilities		
Accounts payable	27,794	32,068
Current portion of USDA-RD bonds	37,218	35,065
Current portion other loans	48,328	57,461
Payroll taxes and OPERS payable	4,255	4,308
Interest payable USDA-RD	18,554	19,209
Interest payable-other	61	2,023
Total current liabilities	136,210	150,134
Noncurrent liabilities		
Bonds payable USDA-RD	1,032,179	1,067,243
Other loans payable	1,324,767	1,199,394
Less current portion shown above	(85,546)	(92,526)
Total noncurrent liabilities	2,271,400	2,174,111
Total liabilities	2,407,610	2,324,245
Net assets		
Invested in capital assets, net of related debt	1,499,032	1,551,184
Restricted	192,170	189,255
Unrestricted	149,220	152,622
Total net assets	1,840,422	1,893,061
Total liabilities and net assets	\$ 4,248,032	\$ 4,217,306

See accompanying notes to the basic financial statements.

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues		
Water sales	\$ 748,242	\$ 751,771
Tap fees	28,800	14,400
Turn on fees	2,200	2,275
Late penalty charges	23,717	22,269
Miscellaneous income	1,976	1,553
Total operating revenues	804,935	792,268
Operating expenses		
Purchased water	311,603	293,405
Salaries, payroll taxes, & employers share OPERS	155,393	148,282
Directors fees	5,925	6,150
Employee health and life insurance	40,440	37,491
Workers compensation	2,397	2,526
Utilities	37,882	34,578
Maintenance and operations	63,215	55,312
Office expenses and operation	17,715	17,412
Professional fees	17,077	21,244
Depreciation	139,252	140,272
Total operating expenses	790,899	756,672
Operating income	14,036	35,596
Nonoperating revenues (expenses)		
Interest revenue	3,185	3,346
Interest expense USDA-RD	(50,464)	(52,106)
Interest expense other	(19,396)	(21,283)
Total nonoperating revenues (expenses)	(66,675)	(70,043)
Increase (decrease) in net assets	(52,639)	(34,447)
Net assets - beginning of period	1,893,061	1,927,508
Net assets - end of period	\$ 1,840,422	\$ 1,893,061

See accompanying notes to the basic financial statements.

SOUTHERN PERRY COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flow from Operating Activities:		
Receipts from customers	\$ 803,507	\$ 790,835
Payments to suppliers	(500,528)	(464,824)
Payments to employees	(155,446)	(148,367)
	147,533	177,644
Cash flows from capital and related financing activities		
Proceeds from issuance of debt	208,091	-
Acquisitions of capital assets	(177,410)	(59,669)
Principal paid on capital debt	(117,782)	(94,889)
Interest paid on debt	(72,475)	(72,062)
	(159,576)	(226,620)
Cash flows from investing activities		
Interest	3,185	3,346
	3,185	3,346
Net increase (decrease) in cash and cash equivalents	(8,858)	(45,630)
Balances - beginning of year	367,839	413,469
Balances - end of year	\$ 358,981	\$ 367,839
Reconciliation of operating income to net cash Provided by operating activities		
Operating income	\$ 14,036	\$ 35,596
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	139,252	140,272
Changes in net assets and liabilities:		
Increase in Accounts Receivables, net	(1,427)	(1,433)
Increase (Decrease) in Accounts payable	(4,274)	3,294
Decrease in Payroll Taxes and PERS payable	(53)	(85)
	147,534	177,644
Reconciliation of cash to the balance sheet:		
Cash and cash equivalents	166,811	178,584
Cash equivalents - restricted	192,170	189,255
Total cash and cash equivalents	\$ 358,981	\$ 367,839

See accompanying notes to the basic financial statements.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Southern Perry County Water District, Inc. (the District) is a water district organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Perry County on February 11, 1975. The District operates under the direction of a seven member board of trustees. The staff, consisting of an appointed Board Treasurer, a distribution superintendent, and an office manager, is responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users and business use. The District serves all or parts of the following political subdivisions in Perry County:

Bearfield Township
Coal Township
Harrison Township
Jackson Township
Monroe Township
Pike Township
Pleasant Township
Saltlick Township
Village of Rendville

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Southern Perry County Water District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Un-billed water utility service receivables are recorded at year end.

Expenses are recognized under the accrual basis of accounting when the liability is incurred.

Under the guidelines of Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the District has elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its proprietary activities.

C. BUDGETARY PROCESS

The Ohio Revised Code requires the District to adopt an annual budget.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations, 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 cash as of January 1.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. CASH & CASH EQUIVALENTS

Cash in the District's operating account, certificates of deposit, and the District's participation in the State Treasurer's Investment Pool (STAROhio) are treated as cash and cash equivalents for the purposes of the Statement of Cash Flows.

E. INVENTORY

The inventory is valued at cost, which approximates market, utilizing the first-in, first-out (FIFO) method. The inventory of the District consists of expendable materials and supplies. The cost is recorded as an expense at the time individual inventory items are used.

F. RESTRICTED ASSETS

Restricted assets represent monies legally restricted for payment of bond issues. All of the District's restricted investments are invested in certificates of deposit at December 31, 2011 and 2010, and are listed in the noncurrent assets section of the balance sheet.

G. PROPERTY, PLANT, AND EQUIPMENT (FIXED ASSETS)

Fixed assets acquired or constructed for the general use of the District in providing service are recorded at cost. Donated assets are recorded at their estimated fair market value at the time received. Depreciation of fixed assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation. The estimated useful lives by major capital asset class are as follows:

Department of Natural Resources Tap Fees	40 years
Water Lines	50 years
Water Tanks	50 years
Water Meters and Installation	50 years
Transportation Equipment	5 to 10 years
Equipment and Tools	2 to 5 years

H. COMPENSATED ABSENCES

GASB Statement 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. Compensated absence is earned on the basis of services already performed by employees.
2. It is probable that the compensated absence will be paid in a future period.

The District does not record compensated absences in accordance with GASB 16, as the District feels that any liability would be immaterial to the basic financial statements as a whole.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. PENSIONS

The provisions for pension costs are recorded when the related payroll is accrued and the obligation is incurred.

J. ESTIMATES

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

NOTE 2 - CASH AND CASH EQUIVALENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands. Such monies must be maintained either as cash in the 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 either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits 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 can be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, 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 items (1) and (2) of this footnote 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);

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

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 five percent 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 ten percent 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 Treasurer 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. Investments 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 Treasurer, or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits - Custodial credit risk for deposits is the risk that in the event of bank failure, 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.

At December 31, 2011, the District's bank balance of \$278,274 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above. At December 31, 2010, the District's bank balance of \$283,806 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above.

Investments - The District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the years ended December 31, 2011 and 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2011 and 2010. The District's investments in STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

	2011		2010	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$85,555	0	\$85,507	0
Total Fair Value	\$85,555		\$85,507	

Interest rate risk – In accordance with the investment policy, the District manages its exposure to declines in fair values by investing exclusively in STAR Ohio.

Credit risk – In accordance with the investment policy, the District limits its investments to STAR Ohio. Investments in STAR Ohio were rated AAA by Standard & Poor’s.

Concentration of credit risk – The District’s investment policy allows investments in STAR Ohio, Repurchase Agreements, Certificates of Deposit or with financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% in investments in STAR Ohio.

Custodial credit risk – 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. In accordance with the investment policy, 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.

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity, which is accounted for on the cash basis of accounting, is as following for the year ended December 31, 2011 and 2010:

	Budgeted vs. Actual Receipts	
	2011	2010
Budgeted Receipts	\$ 1,162,500	\$ 1,166,500
Actual Receipts	1,014,783	794,181
Variance	\$ 147,717	\$ 372,319

	Budgeted vs. Actual Budgetary Basis Expenditures	
	2011	2010
Appropriation Authority	\$ 1,162,500	\$ 1,166,500
Budgetary Expenditures	1,023,641	839,811
Variance	\$ 138,859	\$ 326,689

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 4 - CAPITAL ASSETS

Capital Assets activity for the fiscal year ended December 31, 2010 is as follows:

	Beginning Balance 1/1/2010	Additions	Deletions	Ending Balance 12/31/2010
Capital Assets, Not Being Depreciated				
Land	\$ 19,968	\$ -	\$ -	\$ 19,968
Total Capital Assets, Not Being Depreciated	<u>19,968</u>	<u>-</u>	<u>-</u>	<u>19,968</u>
Capital Assets Being Depreciated				
Water Lines and Buildings	5,256,573	59,669	-	5,316,242
DNR Tap Fees	503,516	-	-	503,516
Transportation Equipment	120,950	-	-	120,950
Furniture and Equipment	89,964	-	-	89,964
Total Capital Assets Being Depreciated	<u>5,971,003</u>	<u>59,669</u>	<u>-</u>	<u>6,030,672</u>
Less Accumulated Depreciation				
Water Lines and Buildings	(1,586,365)	(110,626)	-	(1,696,991)
DNR Tap Fees	(387,257)	(12,588)	-	(399,845)
Transportation Equipment	(87,487)	(9,171)	-	(96,658)
Furniture and Equipment	(31,438)	(7,887)	-	(39,325)
Total Accumulated Depreciation	<u>(2,092,547)</u>	<u>(140,272)</u>	<u>-</u>	<u>(2,232,819)</u>
Total Capital Assets Being Depreciated, Net	<u>3,878,456</u>	<u>(80,603)</u>	<u>-</u>	<u>3,797,853</u>
Total Capital Assets, Net	<u>\$3,898,424</u>	<u>(\$80,603)</u>	<u>\$ -</u>	<u>\$3,817,821</u>

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 4 - CAPITAL ASSETS (Continued)

Capital Assets activity for the fiscal year ended December 31, 2011 is as follows:

	Beginning Balance 1/1/2011	Additions	Deletions	Ending Balance 12/31/2011
Capital Assets, Not Being Depreciated				
Land	\$ 19,968	\$ -	\$ -	\$ 19,968
Construction in Progress	\$ -	\$ 146,890	\$ -	\$ 146,890
Total Capital Assets, Not Being Depreciated	<u>19,968</u>	<u>146,890</u>	<u>0</u>	<u>166,858</u>
Capital Assets Being Depreciated				
Water Lines and Buildings	5,316,242	4,256	-	5,320,498
DNR Tap Fees	503,516	-	-	503,516
Transportation Equipment	120,950	26,263	-	147,213
Furniture and Equipment	89,964	-	-	89,964
Total Capital Assets Being Depreciated	<u>6,030,672</u>	<u>30,519</u>	<u>-</u>	<u>6,061,191</u>
Less Accumulated Depreciation				
Water Lines and Buildings	(1,696,991)	(111,570)	-	(1,808,561)
DNR Tap Fees	(399,845)	(12,588)	-	(412,433)
Transportation Equipment	(96,658)	(7,536)	-	(104,194)
Furniture and Equipment	(39,325)	(7,558)	-	(46,883)
Total Accumulated Depreciation	<u>(2,232,819)</u>	<u>(139,252)</u>	<u>-</u>	<u>(2,372,071)</u>
Total Capital Assets Being Depreciated, Net	<u>3,797,853</u>	<u>(108,733)</u>	<u>0</u>	<u>3,689,120</u>
Total Capital Assets, Net	<u>\$3,817,821</u>	<u>\$38,157</u>	<u>\$0</u>	<u>\$3,855,978</u>

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 5 – CURRENT AND LONG-TERM DEBT

Long-Term debt obligations and the related transactions for the years ending December 31, 2011 and 2010 are summarized below:

	Balance 1/1/2010	Additions	Reductions	Balance 12/31/2010	Due Within One Year
O.W.D.A.	\$ 993,127	\$ -	\$ 30,507	\$ 962,620	\$ 15,375
O.P.W.C.	206,428	-	9,375	197,053	19,032
USDA Revenue Bonds	1,100,275	-	33,032	1,067,243	35,065
Bank Installment Loans	61,695	-	21,974	39,721	23,054
	<u>\$ 2,361,525</u>	<u>\$ -</u>	<u>\$ 94,888</u>	<u>\$ 2,266,637</u>	<u>\$ 92,526</u>

	Balance 1/1/2011	Additions	Reductions	Balance 12/31/2011	Due Within One Year
O.W.D.A.	\$ 962,620	\$ 181,827	\$ 30,969	\$ 1,113,478	\$ 15,658
O.P.W.C.	197,053	-	28,691	168,362	9,756
USDA Revenue Bonds	1,067,243	-	35,064	1,032,179	37,218
North Valley Bank	39,721	26,264	23,058	42,927	22,914
	<u>\$ 2,266,637</u>	<u>\$ 208,091</u>	<u>\$ 117,782</u>	<u>\$ 2,356,946</u>	<u>\$ 85,546</u>

A. USDA revenue bonds

The USDA outstanding revenue bonds were issued for the acquisition and construction of Phase I, II, and III of the water resource expansion project. Revenue of the District has been pledged to repay these debts.

Future principal and interest payments on all USDA Revenue Bonds are as follows:

Year Ending December 31,	USDA Revenue Bonds		
	Principal	Interest	Total
2012	37,218	49,416	86,634
2013	38,391	47,608	85,999
2014	40,592	45,737	86,329
2015	42,803	43,771	86,574
2016	45,143	41,691	86,834
2017-2021	202,105	176,208	378,313
2022-2026	212,558	129,340	341,898
2027-2031	268,556	73,312	341,868
2032-2036	144,813	14,296	159,109
	<u>\$ 1,032,179</u>	<u>\$ 621,379</u>	<u>\$ 1,653,558</u>

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$1,487,000 in water revenue bonds issued in 1978, 1992, and 1996. Proceeds from the bonds provided financing for the construction of the Water Resource Extension Plant. The bonds are payable solely from water customer net revenues and are payable through 2035. Annual principal and interest payments remaining on the bonds are expected to require approximately 55 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,653,558.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010

NOTE 5 – CURRENT AND LONG-TERM DEBT (continued)

B. Ohio Public Works Commission Issue II loans:

The outstanding Issue II loan was issued by Perry County. The District has assumed this debt because the water improvements are to be turned over to the District.

Future principal and interest payments on all OPWC loans are as follows:

Year Ending December 31,	OPWC		
	Principal	Interest	Total
2012	9,756	13,123	22,879
2013	19,805	3,074	22,879
2014	20,203	2,676	22,879
2015	20,609	2,270	22,879
2016	21,023	1,856	22,879
2017-2021	76,966	3,111	80,077
	<u>\$ 168,362</u>	<u>\$ 26,110</u>	<u>\$ 194,472</u>

C. Ohio Water Development Authority (OWDA) loans

The OWDA loans were used for a water booster station and an elevated storage tank.

Future principal and interest payments on all O.W.D.A. loans are as follows:

Year Ending December 31,	OWDA Loans		
	Principal	Interest	Total
2012	15,658	6,987	22,645
2013	31,669	13,622	45,291
2014	32,146	13,145	45,291
2015	32,630	12,661	45,291
2016	33,121	12,169	45,290
2017-2021	173,237	53,215	226,452
2022-2026	186,677	39,775	226,452
2027-2031	201,160	25,292	226,452
2032-2036	162,705	10,874	173,579
2037-2041	62,648	1,326	63,974
	<u>* \$ 931,651</u>	<u>\$ 189,066</u>	<u>\$ 1,120,717</u>

*The OWDA advanced \$181,827 during 2011 for an improvement project. Total amount of the loan is 368,447, for which the District has not received all funds so an amortization table is not available. The difference between the principal amount on this amortization table and amount above is the \$181,827 addition for the advancement of funds.

The District has pledged future water customer revenues, net of specified operating expenses, to repay \$1,090,898 in water revenue bonds issued in 2002, 2004, 2006 and 2008. Proceeds from the bonds provided financing for the construction of the Water Booster Station and Elevated Storage Tank. The bonds are payable solely from water customer net revenues and are payable through 2041. The total principal and interest remaining to be paid on the bonds is \$1,120,717.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010

NOTE 5 – CURRENT AND LONG-TERM DEBT (continued)

D. North Valley Bank Installment Loans:

The North Valley Bank installment loans were used to purchase a loader backhoe and a truck.

Future principal and interest payments on all North Valley Bank installment loans are as follows:

Year Ending December 31,	North Valley Bank Installment Loans		
	Principal	Interest	Total
2012	22,914	1,146	24,060
2013	6,447	598	7,045
2014	6,677	369	7,046
2015	6,889	132	7,021
	\$ 42,927	\$ 2,245	\$ 45,172

NOTE 6 - RISK MANAGEMENT

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.

Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years and there has not been any significant reductions in insurance coverage from the prior year.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

The District also provides health care insurance coverage for its full-time employees.

NOTE 7 – DEFINED BENEFIT RETIREMENT PLAN

Ohio Public Employees Retirement System

- 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, survivor and death benefits and annual cost-of-living adjustments to 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, OH 43215-4642, or calling 614-222-5601 or 1-800-222-7311.

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 7 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Ohio Public Employees Retirement System (Continued)

- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011 and 2010, member and employer contribution rates were consistent across all three plans.

The 2011 and 2010 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

The 2011 and 2010 employer contribution rate for state and local employers was 14.00% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2011, 2010 and 2009 were \$19,587 and \$18,036 and \$18,188, respectively, which were equal to the required contributions for those years.

- F. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer's records.

NOTE 8 – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

- A. Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—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 health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined 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 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or calling 614-222-5601 or 1-800-222-7377

SOUTHERN PERRY COUNTY WATER DISTRICT
PERRY COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 8 – POSTEMPLOYMENT BENEFITS (Continued)

Ohio Public Employees Retirement System (Continued)

B. Funding Policy

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 contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011 and 2010, state and local employers contributed at a rate of 14.00% of covered payroll and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

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 contributions allocated to the health care plan was 4.0% of covered payroll. For 2010, the employer contributions allocated to the health care plan from January 1, 2010 through February 28, 2010 and March 1, 2010 through December 31, 2010 was 5.5% and 5.0%, respectively. For 2009, the employee contributions allocated to the health care plan was 7.0% of covered payroll. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. 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 \$5,596 for 2011, \$12,883 for 2010 and \$9,094 for 2009.

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



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Southern Perry County Water District
Perry County
P.O. Box 335
Corning, Ohio 43730-0335

To the Board of Trustees:

We have audited the financial statements of the business-type activities of Southern Perry County Water District, Perry County, (the District), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated May 25, 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 opinion 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, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
May 25, 2012



Dave Yost • Auditor of State

SOUTHERN PERRY COUNTY WATER DISTRICT

PERRY 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
OCTOBER 04, 2012**