JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2013

MARK D. WILLIAMS, CONTROLLER

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

We have reviewed the *Independent Auditor's Report* of the Jefferson Water and Sewer District, Franklin County, prepared by Julian & Grube, Inc., for the audit period January 1, 2013 through December 31, 2013. 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.

Dave Yost

Dave Yost
Auditor of State

July 14, 2014

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JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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Julian & Grube, Inc.
Serving Ohio Local Governments
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Independent Auditor's Report

Jefferson Water and Sewer District
Franklin County
6455 Taylor Road
Blacklick, OH 43004

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Jefferson Water and Sewer District, Franklin County, Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Jefferson Water and Sewer District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Jefferson Water and Sewer District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Jefferson Water and Sewer District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Jefferson Water and Sewer District, Franklin County, Ohio, as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Predecessor Auditor

The financial statements of the Jefferson Water and Sewer District for the year ended December 31, 2012 were audited by a predecessor auditor whose report dated June 14, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management’s discussion and analysis* 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2014, on our consideration of the Jefferson Water and Sewer 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Jefferson Water and Sewer District’s internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
June 3, 2014

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, 2013 and 2012 by $13,482,837 and $13,057,403, respectively. The District's net position increased by $425,434 (3.3%) in 2013 and by $675,455 (5.5%) in 2012.

The District's operating revenues decreased by $20,988 (-0.4%) in 2013 and increased by $371,191 (8.5%) in 2012. Operating expenses (excluding depreciation expense) increased by $259,771 (10.4%) in 2013 and increased by $132,141 (5.6%) in 2012. Depreciation expense decreased $3,389 (-0.4%) in 2013 and increased $8,392 (1.0%) in 2012.

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 position 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, 2013 and 2012. The District's net position is the difference between assets and liabilities.

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

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

STATEMENTS OF NET POSITION

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

Table 1

	2013	2012*	Change	2011*	Change
Current and Other Assets	$4,755,129	$5,018,955	($263,826)	$4,626,632	$392,323
Capital Assets, Net	22,388,374	22,656,553	(268,179)	23,384,856	(728,303)
Total Assets	27,143,503	27,675,508	(532,005)	28,011,488	(335,980)
Long Term Liabilities	11,791,202	12,847,861	(1,056,659)	13,776,838	(928,977)
Current and Other Liabilities	1,869,464	1,770,244	99,220	1,852,702	(82,458)
Total Liabilities	13,660,666	14,618,105	(957,439)	15,629,540	(1,011,435)
Net Position					
Net Investment in Capital Assets	9,540,513	8,807,487	733,026	8,658,604	148,883
Unrestricted	3,942,324	4,249,916	(307,592)	3,723,344	526,572
Total Net Position	$13,482,837	$13,057,403	$425,434	$12,381,948	$675,455

*As restated, see Note 13

The District's assets decreased by $532,005 in 2013. The decrease is primarily a result of a decrease in capital assets and cash and cash equivalents and was partially offset by an increase in inventory. The decrease in capital assets is primarily a result of current year depreciation in excess of additions. The decrease in cash and cash equivalents and increase of inventory is primarily a result of the purchase and installation of several meters. Liabilities decreased $957,439 in 2013. This decrease is primarily due to principal payments on debt.

Unrestricted net position decreased by $307,592 in 2013. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Net investment in capital assets increased by $733,026 from 2012 to 2013 primarily due to additions of capital assets and payments on debt balances.

The District's assets decreased by $335,980 in 2012. 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 $1,011,435 in 2012. This decrease is primarily due to principal payments on debt.

Unrestricted net position increased by $526,572 in 2012. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Net investment in capital assets increased by $148,883 from 2011 to 2012 primarily due to additions of capital assets and payments on debt balances which were only partially offset by an increase in depreciation expense.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

Table 2

	2013	2012*	Change	2011*	Change
Operating Revenues	$4,718,821	$4,739,809	($20,988)	$4,368,618	$371,191
Total Operating Revenues	4,718,821	4,739,809	(20,988)	4,368,618	371,191
Operating Expenses (Excluding Depreciation)	2,769,451	2,509,680	259,771	2,377,539	132,141
Depreciation Expense	858,217	861,606	(3,389)	853,214	8,392
Total Operating Expenses	3,627,668	3,371,286	256,382	3,230,753	140,533
Operating Income	1,091,153	1,368,523	(277,370)	1,137,865	230,658
Non-Operating Revenues	36,489	83,467	(46,978)	75,735	7,732
Non-Operating Expenses	(702,208)	(776,535)	74,327	(778,966)	2,431
Changes in Net Position	425,434	675,455	(250,021)	434,634	240,821
Net Position at Beginning of Year	13,057,403	12,381,948	675,455	11,947,314	434,634
Net Position at End of Year	$13,482,837	$13,057,403	$425,434	$12,381,948	$675,455

*As restated, see Note 13

Operating revenues decreased by $20,988 from 2012 to 2013 which is primarily due to a decrease in charges for services which was offset by an increase in tap fees due to the sharp increase in new homes in the area.

Operating expenses increased by $256,382 from 2012 to 2013 primarily due to an increase in plant operations related expenses for the installation of new taps, and increase in sewer treatment costs to the City of Columbus, increase in plant chemicals, and is also due to an increase in salaries and payroll related expenses due to an increase in overtime, premium and holiday pay, bonuses provided by the Board to employees and new employees.

Operating revenues increased by $371,191 from 2011 to 2012 which is primarily due to an increase in charges for services due to increased water usage as a result of dry summer months during 2012.

Operating expenses increased by $140,533 from 2011 to 2012 primarily due to an increase in salaries and payroll related expenses due to an increase in overtime, premium and holiday pay, bonuses provided by the Board to employees and new employees and also due to the purchase of water from Southwest Licking Community Water & Sewer District.

CAPITAL ASSETS

The District had $32,800,490 and $32,265,044 invested in depreciable capital assets (before depreciation) at the end of 2013 and 2012, respectively. This amount is an increase of $535,446 (1.7%) from 2012 to 2013 and an increase of $111,727 (0.3%) from 2011 to 2012. The increase in 2013 is primarily the result of completed construction projects and the addition of furniture and general equipment. The increase in 2012 is primarily the result of completed construction projects. 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

	2013	2012	Change	2011	Change
Non-depreciable Capital Assets					
Land and land easements	$671,076	$663,326	$7,750	$663,326	$0
Construction in progress	75,947	29,105	46,842	7,529	21,576
Total Non-depreciable Capital Assets	747,023	692,431	54,592	670,855	21,576
Depreciable Capital Assets					
Buildings and improvements	5,268,802	5,268,802	0	5,268,802	0
Completed construction	15,666,294	15,455,916	210,378	15,375,724	80,192
Furniture and general equipment	2,725,464	2,400,396	325,068	2,391,036	9,360
Vehicles and accessories	196,313	196,313	0	174,138	22,175
Donated assets	8,943,617	8,943,617	0	8,943,617	0
Totals Before Accumulated Depreciation	32,800,490	32,265,044	535,446	32,153,317	111,727
Accumulated Depreciation	(11,159,139)	(10,300,922)	(858,217)	(9,439,316)	(861,606)
Net Depreciable Capital Assets	21,641,351	21,964,122	(322,771)	22,714,001	(749,879)
Total Capital Assets	$22,388,374	$22,656,553	($268,179)	$23,384,856	($728,303)

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

	2013	2012	Change	2011	Change
Ohio Water Development Authority (OWDA)	$7,660,061	$8,441,066	($781,005)	$9,100,552	($659,486)
Rural Development	4,467,800	4,528,000	(60,200)	4,585,700	(57,700)
PNC Financial Corp	720,000	880,000	(160,000)	1,040,000	(160,000)
Total Long Term Debt	12,847,861	13,849,066	(1,001,205)	14,726,252	(877,186)
Less: Current Maturities	1,056,659	1,001,205	55,454	949,414	51,791
Net Total Long Term Debt	$11,791,202	$12,847,861	($1,056,659)	$13,776,838	($928,977)

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

CASH

Cash and cash equivalents were $1,473,195 on December 31, 2013 and $4,183,637 on December 31, 2012.

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 Position

As of December 31, 2013

(With Comparative Amounts for 2012)

	2013	2012
CURRENT ASSETS:		
Cash and cash equivalents	$1,320,216	$4,030,658
Investments	2,163,855	0
Accounts receivable	473,109	468,491
Inventory	331,748	10,140
Prepaid expense	34,327	34,430
Intergovernmental receivable	9,477	9,477
Current portion of notes receivable - tap fees	4,194	4,194
Total Current Assets	4,336,926	4,557,390
RESTRICTED ASSETS:		
Restricted cash and cash equivalents	152,979	152,979
Water assessments receivable	183,813	210,886
Sewer assessments receivable	81,411	97,700
Total Restricted Assets	418,203	461,565
CAPITAL ASSETS:		
Capital assets, not being depreciated	747,023	692,431
Capital assets, net of accumulated depreciation	21,641,351	21,964,122
Total Capital Assets	22,388,374	22,656,553
Total Assets	$27,143,503	$27,675,508
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$250,360	$218,185
Accrued wages and benefits and withholding payroll expenses	136,146	117,090
Current portion of long term debt	1,056,659	1,001,205
Accrued interest payable	352,459	383,291
Customer deposits- payable	73,840	50,473
Total Current Liabilities	1,869,464	1,770,244
LONG TERM LIABILITIES:		
Long term debt less current portion	11,791,202	12,847,861
Total Long Term Liabilities	11,791,202	12,847,861
Total Liabilities	13,660,666	14,618,105
NET POSITION:		
Net Investment in capital assets	9,540,513	8,807,487
Unrestricted	3,942,324	4,249,916
Total Net Position	13,482,837	13,057,403
Total Liabilities and Net Position	$27,143,503	$27,675,508

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 Position
For the Year Ended December 31, 2013
(With Comparative Amounts for 2012)

	2013	2012
OPERATING REVENUES:		
Charges for services	$4,237,332	$4,415,524
Tap fees	382,859	224,512
Miscellaneous income	98,630	99,773
Total Operating Revenues	4,718,821	4,739,809
OPERATING EXPENSES:		
Plant operations	1,688,695	1,525,292
Salaries and payroll related expenses	976,704	872,795
General and administration expenses	104,052	111,593
Depreciation	858,217	861,606
Total Operating Expenses	3,627,668	3,371,286
Operating Income	1,091,153	1,368,523
NONOPERATING INCOME AND (EXPENSES):		
Gain on disposal of capital assets	750	201
Interest income	35,739	83,266
Interest expense	(702,208)	(776,535)
Total Nonoperating Income (Expenses)	(665,719)	(693,068)
Increase In Net Position	425,434	675,455
Net Position, Beginning of Year - As Restated	13,057,403	12,381,948
Net Position, End of Year	$13,482,837	$13,057,403

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 Year Ended December 31, 2013

(With Comparative Amounts for 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$4,615,573	$4,645,711
Cash received from other operating income	98,630	99,773
Cash payments to suppliers for goods and services	(2,082,077)	(1,708,388)
Cash payments for employee services and benefits	(957,648)	(858,156)
Net Cash Provided by Operating Activities	1,674,478	2,178,940
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Customer Deposits - Payable	23,367	28,458
Net Cash Provided by Non-Capital Financing Activities	23,367	28,458
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction of water and sewer projects and other capital acquistions	(590,038)	(133,303)
Proceeds from construction loans	0	72,228
Principal payments on construction loans	(1,001,205)	(949,414)
Interest payments on construction loans	(733,040)	(792,820)
Special assessment collections - principal	43,362	41,433
Special assessment collections - interest	21,492	20,770
Proceeds from disposal of capital assets	750	201
Net Cash Used for Capital and Related Financing Activities	(2,258,679)	(1,740,905)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(2,163,855)	0
Interest received on bank accounts	14,247	62,496
Net Cash Provided by (Used for) Investing Activities	(2,149,608)	62,496
Net Increase (Decrease) In Cash and Cash Equivalents	(2,710,442)	528,989
Cash and Cash Equivalents, Beginning of the Year	4,183,637	3,654,648
Cash and Cash Equivalents, End of the Year	$1,473,195	$4,183,637
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$1,091,153	$1,368,523
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	858,217	861,606
CHANGES IN NET ASSETS AND LIABILITIES:		
(Increase) decrease in accounts receivable	(4,618)	9,869
(Increase) decrease in prepaid expense	103	(3,433)
(Increase) decrease in inventory	(321,608)	3,163
(Increase) decrease in notes receivable	0	85,634
Increase (decrease) in accounts payable (operating)	32,175	(71,233)
Increase (decrease) in accrued wages and benefits and withholding payroll taxes	19,056	14,639
Increase (decrease) in unearned revenue	0	(89,828)
Total Adjustments	583,325	810,417
Net Cash Provided by Operating Activities	$1,674,478	$2,178,940

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

1. NATURE OF ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

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

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14), and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* (an amendment of GASB Statement No. 14 and No. 34), 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. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Enterprise Fund – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

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, 2013 and 2012, 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 unencumbered cash as of January 1.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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, 2013 and 2012 represents the interest portion of construction loan payments to the Ohio Water Development Authority, Rural Development, and PNC Financial Corporation in the amount of $702,208 and $776,535.

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, 2013 and 2012 were $282 and $17, 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.

Net Position
Net position represents the difference between assets and liabilities. Net investment in capital assets, 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 position are available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Comparative Information
Comparative data for the prior year has been presented in selected sections of the basic financial statements in order to provide an understanding of the changes in the District's financial position and operations. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended December 31, 2012, from which the comparative data was derived.

3. RECEIVABLES

Accounts receivable are presented at their net realizable value of $473,109 and $468,491 as of December 31, 2013 and 2012.

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

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

4. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

	Ending Balance at 12/31/2012	Additions	Deletions	Ending Balance at 12/31/2013
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	$663,326	$7,750	$0	$671,076
Construction in Progress	29,105	46,842	0	75,947
Total Capital Assets, Not Being Depreciated	692,431	54,592	0	747,023
Capital Assets, Being Depreciated				
Buildings and Improvements	5,268,802	0	0	5,268,802
Water and Sewer Lines and Related Infrastucture	15,455,916	210,378	0	15,666,294
Vehicles and Accessories	196,313	0	0	196,313
Furniture and General Equipment	2,400,396	325,068	0	2,725,464
Donated Water and Sewer Lines	8,943,617	0	0	8,943,617
Total Capital Assets, Being Depreciated	32,265,044	535,446	0	32,800,490
Less Accumulated Depreciation:				
Buildings and Improvements	(1,506,509)	(137,185)	0	(1,643,694)
Water and Sewer Lines and Related Infrastucture	(5,569,784)	(399,483)	0	(5,969,267)
Vehicles and Accessories	(149,874)	(13,162)	0	(163,036)
Furniture and General Equipment	(1,127,230)	(129,276)	0	(1,256,506)
Donated Water and Sewer Lines	(1,947,525)	(179,111)	0	(2,126,636)
Total Accumulated Depreciation	(10,300,922)	(858,217)	0	(11,159,139)
Total Capital Assets Being Depreciated, Net	21,964,122	(322,771)	0	21,641,351
Total Capital Assets	$22,656,553	($268,179)	$0	$22,388,374

4. CAPITAL ASSETS - CONTINUED

Capital assets activity for the year ended December 31, 2012 was as follows:

	Ending Balance at 12/31/2011	Additions	Deletions	Ending Balance at 12/31/2012
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	$663,326	$0	$0	$663,326
Construction in Progress	7,529	21,576	0	29,105
Total Capital Assets, Not Being Depreciated	670,855	21,576	0	692,431
Capital Assets, Being Depreciated				
Buildings and Improvements	5,268,802	0	0	5,268,802
Water and Sewer Lines and Related Infrastucture	15,375,724	80,192	0	15,455,916
Vehicles and Accessories	174,138	22,175	0	196,313
Furniture and General Equipment	2,391,036	9,360	0	2,400,396
Donated Water and Sewer Lines	8,943,617	0	0	8,943,617
Total Capital Assets, Being Depreciated	32,153,317	111,727	0	32,265,044
Less Accumulated Depreciation:				
Buildings and Improvements	(1,357,117)	(149,392)	0	(1,506,509)
Water and Sewer Lines and Related Infrastucture	(5,174,489)	(395,295)	0	(5,569,784)
Vehicles and Accessories	(138,480)	(11,394)	0	(149,874)
Furniture and General Equipment	(1,000,816)	(126,414)	0	(1,127,230)
Donated Water and Sewer Lines	(1,768,414)	(179,111)	0	(1,947,525)
Total Accumulated Depreciation	(9,439,316)	(861,606)	0	(10,300,922)
Total Capital Assets Being Depreciated, Net	22,714,001	(749,879)	0	21,964,122
Total Capital Assets	$23,384,856	($728,303)	$0	$22,656,553

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 current portion of notes receivable for tap fees for the years ended December 31, 2013 and 2012 were $4,194 in both years.

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, 2013 and 2012:

OWDA Loans Payable:	2013	2012
8.05% due in semi-annual payments of $71,302, including interest through July 2015	$254,143	$367,188
8.07% due in semi-annual payments of $134,051, including interest through July 2015	477,558	689,978
7.50% due in semi-annual payments of $12,431, including interest through July 2015	44,642	64,655
7.50% due in semi-annual payments of $15,361, including interest through July 2015	55,166	79,896
7.21% due in semi-annual payments of $12,396, including interest through July 2018	101,083	117,410
7.14% due in semi-annual payments of $7,170, including interest through July 2018	58,572	68,053
6.51% due in semi-annual payments of $9,856, including interest through July 2022	131,153	141,644
6.18% due in semi-annual payments of $2,367, including interest through July 2022	31,947	34,546
5.88% due in semi-annual payments of $9,785, including interest through January 2023	139,328	150,073
5.66% due in semi-annual payments of $16,119, including interest through January 2025	267,055	283,260
5.56% due in semi-annual payments of $22,440, including interest through January 2025	377,577	400,503
5.77% due in semi-annual payments of $9,067, including interest through January 2025	150,894	159,929
5.85% due in semi-annual payments of $7,797, including interest through January 2021	92,465	102,087
6.72% due in semi-annual payments of $25,478, including interest through January 2021	292,465	321,796
6.16% due in semi-annual payments of $18,861, including interest through January 2020	196,979	221,083
6.41% due in semi-annual payments of $4,667, including interest through January 2027	83,497	87,296
6.39% due in semi-annual payments of $12,930, including interest through January 2027	231,583	242,137
6.39% due in semi-annual payments of $3,383, including interest through July 2027	61,994	64,670
6.39% due in semi-annual payments of $12,877, including interest through January 2027	230,628	241,139
6.03% due in semi-annual payments of $64,884, including interest through January 2027	1,187,019	1,242,680
6.03% due in semi-annual payments of $15,454, including interest through January 2027	282,723	295,980
6.03% due in semi-annual payments of $10,084, including interest through January 2027	184,485	193,136
6.03% due in semi-annual payments of $17,014, including interest through January 2027	311,256	325,851
5.15% due in semi-annual payments of $3,230, including interest through July 2028	66,930	69,830

6. LONG-TERM DEBT - CONTINUED

OWDA Loans Payable:	2013	2012
4.40% due in semi-annual payments of $56,999, including interest through July 2028	$1,242,163	$1,299,604
4.66% due in semi-annual payments of $32,573, including interest through July 2029	729,002	759,119
3.77% due in semi-annual payments of $27,569 Including interest through July 2021	377,754	417,523
Total	7,660,061	8,441,066
Less current maturities	(833,759)	(781,005)
Noncurrent OWDA loans payable	$6,826,302	$7,660,061

	Balance 12/31/2012	Additions	Reductions	Balance 12/31/2013	Amount Due Within One Year
O.W.D.A.	$8,441,066	$0	$781,005	$7,660,061	$833,759
Rural Development	4,528,000	0	60,200	4,467,800	62,900
PNC Financial Corp	880,000	0	160,000	720,000	160,000
	$13,849,066	$0	$1,001,205	$12,847,861	$1,056,659

	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012	Amount Due Within One Year
O.W.D.A.	$9,100,552	$72,228	$731,714	$8,441,066	$781,005
Rural Development	4,585,700	0	57,700	4,528,000	60,200
PNC Financial Corp	1,040,000	0	160,000	880,000	160,000
	$14,726,252	$72,228	$949,414	$13,849,066	$1,001,205

Maturities of the District's debt for the years subsequent to December 31, 2013 are as follows:

	OWDA Loans			Rural Development Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2014	$833,759	$438,530	$1,272,289	$62,900	$195,466	$258,366
2015	890,157	382,132	1,272,289	65,600	192,714	258,314
2016	484,380	321,621	806,001	68,500	189,844	258,344
2017	511,816	294,184	806,000	71,600	186,848	258,448
2018	540,848	265,225	806,073	74,600	183,715	258,315
2019-2023	2,511,283	876,647	3,387,930	425,000	866,656	1,291,656
2024-2028	1,824,882	253,654	2,078,536	526,600	765,176	1,291,776
2029-2033	62,936	2,208	65,144	652,200	639,464	1,291,664
2034-2038	0	0	0	808,000	483,740	1,291,740
2039-2043	0	0	0	1,001,000	290,837	1,291,837
2044-2046	0	0	0	711,800	63,173	774,973
Total	$7,660,061	$2,834,201	$10,494,262	$4,467,800	$4,057,633	$8,525,433

6. LONG-TERM DEBT - CONTINUED

	PNC Financial Corp			Total		
	Principal	Interest	Total	Principal	Interest	Total
2014	$160,000	$29,648	$189,648	$1,056,659	$663,644	$1,720,303
2015	160,000	22,672	182,672	1,115,757	597,518	1,713,275
2016	160,000	15,696	175,696	712,880	527,161	1,240,041
2017	160,000	8,720	168,720	743,416	489,752	1,233,168
2018	80,000	1,744	81,744	695,448	450,684	1,146,132
2019-2023	0	0	0	2,936,283	1,743,303	4,679,586
2024-2028	0	0	0	2,351,482	1,018,830	3,370,312
2029-2033	0	0	0	715,136	641,672	1,356,808
2034-2038	0	0	0	808,000	483,740	1,291,740
2039-2043	0	0	0	1,001,000	290,837	1,291,837
2044-2046	0	0	0	711,800	63,173	774,973
Total	$720,000	$78,480	$798,480	$12,847,861	$6,970,314	$19,818,175

*The District receives 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.

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 resource 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, 2013 and 2012 are $8,525,433 and $8,783,733 and $10,494,262 and $11,766,552, respectively. The coverage ratios at December 31, 2013 and 2012 were 1.31 and 1.48, respectively.

7. 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 2013 or 2012.

8. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

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.

8. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) - CONTINUED

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, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The member contribution rates for 2013, 2012, and 2011 were 10.0%, 10.0%, and 10.0%, respectively, for members in state and local classifications.

The employer contribution rates were 14.0%, 14.0%, and 14.0%, respectively, for state and local employers for the years ended December 31, 2013, 2012, and 2011 for the District.

The District's contributions to OPERS for the years ended December 31, 2013, 2012, and 2011 were $90,385, $77,785, and $70,678, respectively, which were equal to 100% of the required contributions for each of those years.

9. 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 health care 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.

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

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. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or 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 contribution to OPERS is set aside for the funding of post-retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, 2012, and 2011, the District contributed at a rate of 14% of covered payroll. 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 2013, the portion of employer contributions allocated to health care was lowered to 1.0% for both plans, as recommended by the OPERS Actuary. For 2012 and 2011, the employer contributions allocated to the Traditional plan was 4.0% and the Combined plan was 6.05%. 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. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2 percent for both plans, as recommended by the OPERS Actuary.

C. The employer contributions that were used to fund post-employment benefits were $6,456 for 2013, $22,223 for 2012, and $20,193 for 2011, which equaled the required contributions for these years.

D. Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period

10. 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.

10. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS - CONTINUED

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

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

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

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

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio, 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.

10. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS - CONTINUED

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Controller or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

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

The District's deposit bank balances as of December 31, 2013 and 2012 were $1,408,303 and $2,547,172, 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, 2013:

		Investment Maturities		
Description	Fair Value	< 1 Year	1-2 Years	3-5 Years
UBS Fixed Income	$1,085,572	$1,085,572	-	-
STAR Ohio	50,650	50,650	-	-
US Treasury Notes	66,960	-	66,960	-
Federal Farm Credit Bank Bonds	131,801	65,470	66,331	-
Federal Home Loan Mortgage Corporation Notes	130,563	65,321	-	65,242
Federal National Mortgage Association Notes/Bonds	390,442	131,692	66,426	192,324
Well Fargo MM and Sweep Funds	18,529	18,529	-	-
Wells Fargo Municipal Bonds	358,517	-	42,193	316,324
Total Investments	$2,233,034	$1,417,234	$241,910	$573,890

The District had the following investments at December 31, 2012:

		Investment Maturities		
Description	Fair Value	< 1 Year	1-2 Years	3-5 Years
ML Institutional Fund	$1,593,973	$1,593,973	-	-
STAR Ohio	50,630	50,630	-	-
Total Investments	$1,644,603	$1,644,603	-	-

10. DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS - CONTINUED

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code. Investments in money market funds were rated AAAm by Standard & Poor's, investments in municipal bonds were rated AAA, AA+, AA, AA-, A+, and A by Standard & Poor's, investments in fixed income accounts were rated A by Standard & Poor's, investments in U.S. Treasury Notes, Federal Farm Credit Bank Bonds, Federal Home Loan Mortgage Corporations Notes, and Federal National Mortgage Association Notes/Bonds were all rated AAA by Moody's, and 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 1% in money market funds, 16% in municipal bonds, 49% in fixed income, 3% in U.S. Treasury Notes, 6% in Federal Farm Credit Bank Bonds, 6% in Federal Home Loan Mortgage Corporation Notes, 17% in Federal National Mortgage Association Notes/Bonds, and 2% in STAR Ohio as of December 31, 2013 and 97% in money market funds and 3% in STAR Ohio in 2012.

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.

11. 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 Government belongs to the Public Entities Pool of Ohio (PEP, a risk-sharing pool available to Ohio local governments. PEP provides properly and casually coverage for its members. American Risk Pooling Consultant, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

<u>Casualty and Property Coverage</u>

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012 (the most recent information available), PEP retained $350,000 for casualty claims and $150,000 for property claims.

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

During 2013, the District contracted with the Public Entities Pool of Ohio for all property and fleet insurance, liability insurance, and inland marine coverage as follows:

11. RISK MANAGEMENT - CONTINUED

Property	$ 14,661,036
Boiler	14,661,036
Automobile Vehicle Liability ($0 deductible)	5,000,000
Auto Physical Damage - Deductible	500
Public Officials Liability	5,000,000
General Liability	5,000,000
Excess	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

There have been no significant reductions in insurance coverage from the previous year.

Financial Position

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2012 and 2011 (the most recent information available).

	2012	2011
Assets	$34,389,569	$33,362,404
Liabilities	(14,208,353)	(14,187,273)
Net Position	$20,181,216	$19,175,131

At December 31, 2012 and 2011 (the most recent information available), respectively, the liabilities above include approximately $13.1 million and $13 million of estimated incurred claims payable. The assets above also include approximately $12.6 million and $12.1 million of unpaid claims to be billed to approximately 466 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012 (the most recent information available), the Government's share of these unpaid claim's collectible in future years is approximately $27,103. Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

The District made payments to PEP in the amounts of $34,641, $33,867, and $29,930 for the years 2013, 2012, and 2011, respectively.

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

12. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2013 and 2012 was as follows:

Budgeted and Actual Receipts			
	Budget	Actual	Variance
2013	$4,613,515	$4,753,454	$139,939
2012	4,545,159	4,971,070	425,911

Budgeted and Actual Budgetary Basis Expenditures			
	Budget	Actual	Variance
2013	$5,990,671	$5,407,030	$583,641
2012	5,680,820	4,442,081	1,238,739

13. CHANGE IN ACCOUNTING PRINCIPLES

For 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34," GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," GASB Statement No. 66, "Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62," GASB Statement No. 69, "Government Combinations and Disposals of Government Operations," and GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees."

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations.

Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

Statement No. 65 provides guidance on how to properly classify items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In addition, guidance is provided on recognizing certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

13. CHANGE IN ACCOUNTING PRINCIPLES - CONTINUED

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, and transfers of operations.

Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive non exchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The implementation of GASB Statements No.61, 62, 66, 69, and 70 had no effect on the financial statements. The implementation of GASB Statement No. 65 had the following effect on beginning net position, and did result in certain financial statement terminology and classification changes.

Beginning net position decreased from $12,397,962 as of December 31, 2011 to $12,381,948 as of January 1, 2012. The $16,014 restatement is due to the removal of the remaining amount of loan fees that had not yet been amortized.

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

Jefferson Water and Sewer District
Franklin County
6455 Taylor Road
Blacklick, OH 43004

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Jefferson Water and Sewer District, Franklin County, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Jefferson Water and Sewer District's basic financial statements and have issued our report thereon dated June 3, 2014. Our report refers to other auditors, who audited the financial statements of the Jefferson Water and Sewer District as of and for the year ended December 31, 2012, as described in our report on the Jefferson Water and Sewer District's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that those other auditor's separately reported.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Jefferson Water and Sewer District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Jefferson Water and Sewer District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Jefferson Water and Sewer District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Trustees
Jefferson Water and Sewer District

Compliance and Other Matters

As part of reasonably assuring whether the Jefferson Water and Sewer 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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Jefferson Water and Sewer District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Jefferson Water and Sewer District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Julian & Grube, Inc.

Julian & Grube, Inc.
June 3, 2014

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
JULY 24, 2014

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