

***CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY, OHIO***

***AUDIT REPORT***

***FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005***

***Charles E. Harris and Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Crains Run Water and Sewer District  
10383 Dayton-Cincinnati Pike  
Miamisburg, OH 45005

We have reviewed the *Report of Independent Accountants* of the Crains Run Water and Sewer District, Montgomery County, prepared by Charles E. Harris and Associates, Inc., for the audit period January 1, 2005 to December 31, 2006. 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 Crains Run Water and Sewer District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

August 23, 2007

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**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY  
AUDIT REPORT  
For Years Ending December 31, 2006 and 2005**

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***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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## REPORT OF INDEPENDENT ACCOUNTANTS

Crains Run Water and Sewer District  
Montgomery County  
10383 Dayton-Cincinnati Pike  
Franklin, Ohio 45005

To the Board of Trustees:

We have audited the accompanying financial statements of Crains Run Water and Sewer District, Montgomery County (the District), as of and for the years ended December 31, 2006 and 2005, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2006 and 2005, and the respective changes in cash basis financial position, thereof for the years then ended in conformity with accounting basis Note 2 describes.

The management's discussion and analysis on pages 3 to 7 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

***Charles E. Harris & Associates, Inc.***

June 12, 2007

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005  
(UNAUDITED)**

This discussion and analysis of the District's financial performance provides an overall review of the District's financial activities for the years ended December 31, 2006 and 2005, within the limitations of the District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Highlights**

**Key highlights for 2006 are as follows:**

Net assets of governmental activities decreased by \$228,041 or 10.23 percent. This decrease is a result of excess expenditures over revenues relative to debt repayments.

Debt service was \$309,295 during the period of which \$106,340 was debt principal payments.

**Key highlights for 2005 are as follows:**

Net assets of governmental activities decreased by \$246,041 or 9.94 percent. These decreases are a result of excess expenditures over revenues relative to debt repayments.

During 2005 debt service was \$309,295 during the period of which \$100,652 was debt principal payments.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the District as a whole.

The District is a single enterprise fund using proprietary fund accounting. The Basic Financial Statements are presented using the cash basis of accounting.

The notes to the financial statements are an integral part of the government-wide statements, provide expanded explanation, and detail regarding the information reported in the statements.



**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005  
(UNAUDITED)**

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a cash basis of accounting. Under this basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets, their related revenues (such as accounts receivable), certain liabilities, and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the District's use of the cash basis of accounting.

**Reporting the Government as a Whole**

The statement of net assets and the statement of activities reflect how the District did financially during 2005 and 2006, using the cash basis accounting. The statement of net assets presents the cash balances and investments and the activities of the District at year end.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other financial factors as well such as the condition of the District's capital assets and physical plant, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the possible need for major local revenue sources.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005  
(UNAUDITED)**

**The Government as a Whole**

Table 1 provides a summary of the District's net assets for 2006 compared to 2005 on a cash basis:

(Table 1)

**Net Assets**

<b>Assets</b>	<b>Business-Type Activities</b>	
	2006	2005
Cash and Investments	\$ 2,000,568	\$ 2,228,609
Total Assets	2,000,568	2,228,609
<b>Net Assets</b>		
Restricted for:		
Debt Service	310,295	310,295
Unrestricted	1,690,273	1,918,314
Total Net Assets	\$ 2,000,568	\$ 2,228,609

As mentioned previously, net assets of governmental activities decreased \$228,041 or 10.23 percent during 2006. The primary reasons contributing to the decrease in cash balances are as follows:

- Debt service payments
- Higher than average engineering fees relating to potential upgrades to the plant

Net assets of governmental activities also decreased \$246,041 or 9.94 percent during 2005. The primary reasons contributing to the decrease in cash balances are as follows:

- Debt service payments
- Operational loss

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005  
(UNAUDITED)**

Table 2 reflects the changes in net assets in 2005 and 2006.

**(Table 2)  
Changes in Net Assets**

	2006	2005
<b>Operating Cash Receipts:</b>		
Water Sales	\$ 156,744	\$ 161,539
Tap/Inspection/Meter Receipts	<u>33,399</u>	<u>51,248</u>
<b>Total Operating Cash Receipts</b>	<b><u>190,143</u></b>	<b><u>212,787</u></b>
<b>Operating Cash Disbursements:</b>		
Operations	146,921	174,090
Administration	76,636	48,536
Repairs/Maintenance	<u>8,874</u>	<u>25,985</u>
<b>Total Operating Cash Disbursements</b>	<b><u>232,431</u></b>	<b><u>248,611</u></b>
<b>Operating Gain (Loss)</b>	<b>(42,288)</b>	<b>(35,824)</b>
<b>Non-Operating Cash Receipts:</b>		
Assessments	41,905	50,779
Investment Income	<u>81,637</u>	<u>75,394</u>
<b>Total Non-Operating Cash Receipts</b>	<b><u>123,542</u></b>	<b><u>126,173</u></b>
<b>Non-Operating Cash Disbursements:</b>		
Debt Service	309,295	309,295
Capital Outlay	<u>-0-</u>	<u>27,095</u>
<b>Total Non-Operating Cash Disbursements</b>	<b><u>309,295</u></b>	<b><u>336,390</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b>(228,041)</b>	<b>(246,041)</b>
<b>Net Assets – Beginning of the Year</b>	<b><u>2,228,609</u></b>	<b><u>2,474,650</u></b>
<b>Net Assets – End of the Year</b>	<b><u>\$2,000,568</u></b>	<b><u>\$2,228,609</u></b>

The District did not report 2004 financial statements under GASB 34, thus there are no numbers available for comparative purposes.

**DEBT**

The District has total outstanding loans of \$3,507,888 and \$3,614,228 December 31, 2006 and 2005, respectively. These balances represent decreases of \$106,340 and \$100,652 due to principal payments in 2006 and 2005, respectively. The District issued long term debt to finance the construction of the water lines, water tower, and infrastructure. The notes were authorized and issued under resolutions passed by the Board of Trustees. The District issued no new debt in 2006 or 2005.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005  
(UNAUDITED)**

**Budgeting Highlights**

The District is not required to present budgetary statements.

**Capital Assets**

Capital Assets: The District does not report capital assets under the cash basis of accounting.

**Current Issues**

The challenge for the District is to provide quality water to the public while staying within a balanced budget. Our newly prepared financial forecast predicts a deficit for 2007; therefore, the administration implemented a strategy to delay the deficit. This plan reduces spending and increases the revenue. We reviewed our sources of revenue and determined that increases in customers are likely, but not in the near term. We then reviewed the disbursement history of the District. We have reduced expenditures where appropriate and continue to look for alternate sources of revenue.

**Contacting the Government's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and patrons with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sim Evans, Treasurer, Crains Run Water & Sewer District, 10383 Dayton Cincinnati Pike, Miamisburg, OH 45342.

CRAINS RUN WATER SEWER DISTRRICT  
MONTGOMERY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2006

<b>Assets</b>	
Cash and Investments	\$ 2,000,568
Total Assets	<u>\$ 2,000,568</u>
<b>Net Assets</b>	
Restricted for:	
Debt Service	\$ 310,295
Unrestricted	1,690,273
Total Net Assets	<u>\$ 2,000,568</u>

See accompanying notes to the financial statements

CRAINS RUN WATER SEWER DISTRICT  
 MONTGOMERY COUNTY  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS - CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

Operating Cash Receipts:	
Operating Revenues	\$ 156,744
Tap and Inspection Fees	33,399
Total Operating Cash Receipts	190,143
Operating Cash Disbursements:	
Personal Services	54,408
Contractual Services	77,536
Contract Services	13,976
Office Supplies and Equipment	1,497
Postage	897
Insurance	18,204
Utilities and Phone	27,434
Rent	3,600
Plant Operations and Testing	8,361
Chemicals and Operating Supplies	8,108
Repairs and Maintenance	13,330
Audit	860
Bank Fees	1,824
Tools & Equipment	700
Miscellaneous	1,696
Total Operating Cash Disbursements	232,431
Operating gain (loss)	(42,288)
Non-Operating Cash Receipts	
Special Assessments	41,905
Interest/Investment Income	81,637
Total Non-Operating Cash Receipts	123,542
Non-Operating Cash Disbursements	
Debt Service	309,295
Total Non-Operating Cash Disbursements	309,295
Net Receipts in excess of disbursements	(228,041)
Fund Cash Balances, January 1	2,228,609
Fund Cash Balances December 31	\$ 2,000,568

See accompanying Notes to the Financial Statements.

CRAINS RUN WATER SEWER DISTRRICT  
MONTGOMERY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

<b>Assets</b>	
Cash and Investments	\$ 2,228,609
Total Assets	<u>\$ 2,228,609</u>
<b>Net Assets</b>	
Restricted for:	
Debt Service	\$ 310,295
Unrestricted	1,918,314
Total Net Assets	<u>\$ 2,228,609</u>

See accompanying notes to the financial statements

CRAINS RUN WATER SEWER DISTRICT  
 MONTGOMERY COUNTY  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS - CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2005

Operating Cash Receipts:	
Operating Revenues	\$ 160,740
Tap and Inspection Fees	51,248
Bulk Water Sales	799
Total Operating Cash Receipts	212,787
Operating Cash Disbursements:	
Personal Services	59,567
Contractual Services	43,286
Contract Services	14,392
Office Supplies and Equipment	2,719
Postage	999
Insurance	12,606
Utilities and Phone	25,857
Rent	1,200
Plant Operations and Testing	21,212
Chemicals and Operating Supplies	30,489
Repairs and Maintenance	25,985
Vehicle Expense	819
Audit	3,954
Bank Fees	98
Tools & Equipment	2,686
Miscellaneous	2,742
Total Operating Cash Disbursements	248,611
Operating gain (loss)	(35,824)
Non-Operating Cash Receipts	
Special Assessments	50,779
Interest/Investment Income	75,394
Total Non-Operating Cash Receipts	126,173
Non-Operating Cash Disbursements	
Debt Service	309,295
Capital Outlay	27,095
Total Non-Operating Cash Disbursements	336,390
Net Receipts in excess of disbursements	(246,041)
Fund Cash Balances, January 1	2,474,650
Fund Cash Balances December 31	\$ 2,228,609

See accompanying Notes to the Financial Statements.



**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

**NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

The Crain's Run Water & Sewer District, Montgomery County Ohio (the District), is a body corporate and politic established by the Court of Common Pleas of Montgomery County to provide water and sewer services to the residents of Miami District in accordance with the provision of Section 6119.01 of the Ohio Revised Code. An appointed five member Board of Trustees directs the District. The Trustees of Miami District appoint the Trustees of the District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on the cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The District does not apply FASB statements issued after November 30, 1989, to its enterprise fund. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

The District's basic financial statements consist of a statement of net assets and a statement of cash receipts, disbursements and changes in net assets.

Financial Statements

The statement of net assets and the statement of cash receipts, disbursements and changes in net assets display information about the District at year end. These statements include the financial activities of the government.

The statement of net assets presents the cash and investment balances of the District at year end. The statement of cash receipts, disbursements and changes in net assets compares disbursements with receipts. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible.

**B. Basis of Accounting**

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

**C. Budgetary Process**

All funds are legally required to be appropriated. The Appropriation Resolution is the Trustee's authorization to spend resources and sets limits on expenditures plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund level. Budgetary modifications at the legal level of control may only be made by resolution of the Board of Trustees.

For control purposes, the District estimates revenues to be received for the year. These estimated revenues, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated revenues may be revised during the year if projected increases or decreases in receipts are identified by the Clerk-Treasurer. Proprietary funds are not required to prepare budgetary statements.

**D. Cash and Cash Equivalents**

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as unrealized gain or loss.

During 2006 and 2005, the District invested in nonnegotiable certificates of deposit and STAR Ohio. The non-negotiable certificates of deposit are reported at cost.

The District has invested funds in the State Treasurer's Asset Reserve of Ohio (STAR Ohio) during 2005 and 2006. 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 at December 31, 2006 and 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the District during 2006 and 2005 totaled \$81,637 and \$75,394, respectively.

**E. Restricted Assets**

Certain resources are set aside for the repayment of loans and as such are classified as restricted assets on the asset sheet because their use is limited to repayment of debt. The restricted assets are used for assuring payment of future principal and interest.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

**F. Inventory and Prepaid Items**

The District reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**G. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

**I. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits. Beyond annual contributions, pensions are the liability of the State or Federal Programs and are not liabilities of Crains Run Water & Sewer District.

**J. Long-Term Obligations**

The District's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. The District had no such transactions in 2006 or 2005.

**K. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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

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.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

Inactive deposits are public deposits that the District has identified as not required for use within the current two 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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts. Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes 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 obligation or security 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;
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) of this section 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); and

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 the

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. The securities must be obligations of or guaranteed by the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities, subject to a repurchase agreement, must exceed the value of the principal by 2% and be marked to market daily.

At December 31, 2006 and 2005, the carrying amount of the District's deposits was \$889,071 and \$2,065,670, respectively, as compared to bank balances of \$890,767 and \$2,067,790, respectively. Of the bank balances at December 31, 2006 and 2005, \$200,000 and \$100,000 respectively was on deposit and covered by federal depository insurance and in 2006 and 2005, respectively \$690,767 and \$1,967,790 were collateralized by a pool of securities maintained by the District's financial institution but not in the District's name.

As of December 31, 2006 and 2005, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value 12/31/2006</u>	<u>Fair Value 12/31/2005</u>	<u>Maturity(1)</u>	<u>Rating (2)</u>
Repurchase Agreement	\$ -	\$ 150,000	Daily	Aaa
StarOhio(Investment Pool)	125	12,939	Daily	Aaa
Federal Home Mortgage Association	750,427	-	1,095	Aaa
Federal Home Mortgage Association	148,596	-	1,095	Aaa
Federal Home Mortgage Association	212,349	-	1,095	Aaa
<b>Total Investments</b>	<b><u>\$ 1,111,497</u></b>	<b><u>\$ 162,939</u></b>		

(1) Weighted Average # of Days

(2) Moody's

*Interest Rate Risk* – the Ohio Revised Code generally limits security purchases to those that mature within five years of settlement.

*Credit Risk* – The Township's investment policy addresses credit risk by limiting investments to the safest types of securities, pre-qualifying financial institutions, brokers, intermediaries and financial advisors and by diversifying the investment portfolio so that potential losses on the individual securities do not exceed income generated from the remaining portfolio.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Township has no investment policy dealing with custodial credit risk beyond the requirements of the State which prohibit payment for investments prior to the delivery of the securities representing the investments to the treasurer or qualified trustee.

*Concentration of Credit Risk* – The Township places no limit on the amount the Township may invest in one issuer.

**NOTE 4 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006 and 2005, the District contracted for various types of insurance coverage as follows:

	Coverage
Commercial Property	\$2,716,428
General Liability	1,000,000
Commercial Umbrella	3,000,000
Inland Marine	153,410
Vehicle	1,000,000
Trustee Officials	1,000,000
Hydrants	146,010

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

**NOTE 5 - DEBT**

Debt outstanding at December 31, 2006 was as follow:

	Balance 1/1/2005	2005 Principal Reductions	2006 Principal Reductions	Balance 12/31/2006	Amount Due Within/One Year
Phase I Loan OWDA	\$2,535,949	\$ 68,667	\$ 72,552	\$2,394,730	\$ 76,858
PhaseII Loan OWDA	<u>1,178,931</u>	<u>31,985</u>	<u>33,788</u>	<u>1,113,158</u>	<u>35,691</u>
<b>Totals</b>	<b><u>\$3,714,880</u></b>	<b><u>\$ 100,652</u></b>	<b><u>\$106,340</u></b>	<b><u>\$3,507,888</u></b>	<b><u>\$112,549</u></b>

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

The District issued long term debt to finance the construction of the water lines, water tower, and infrastructure. The notes were authorized and issued under resolutions passed by the Board of Trustees. The District, under terms of the loan agreements, state that it will charge such rates for the services of the system as shall result in pledged revenues at least adequate to provide to the payments required.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	Phase I Construction	Phase II Construction
2007	\$ 212,201	\$ 97,094
2008	212,201	97,094
2009	212,201	97,094
2010	212,201	97,094
2011	212,201	97,094
2012-2016	1,061,005	485,470
2017-2021	1,061,005	485,470
2022-2025	742,704	339,829
<b>Total</b>	<b><u>\$3,925,719</u></b>	<b><u>\$1,796,239</u></b>

**NOTE 6 – DEFINED BENEFIT PENSION PLAN**

**(a) Plan Description**

The District contributes to the Ohio Public Employees Retirement System (OPERS), a cost sharing, multiple-employer public employee retirement system. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries through 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 in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under this plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings; and the Combined Plan – a cost-sharing multiple-employer defined benefit pension plan. Under this 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. Chapter 145 of the Ohio Revised Code assigns the District to establish and amend benefit provisions to the OPERS board of trustees (Board).

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

OPERS issues a stand-alone financial report that includes the financial statements. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-466-2085 or 1-800-222-PERS (7377).

***(b) Funding Policy***

Plan members are required to contribute a percentage of their annual covered salary (9% in 2006 and 8.5% in 2005), and the District is required to contribute an actuarially determined rate. The employer contribution rate for 2006 was 13.7%, 13.55% for 2005 and 2004 of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Board. The District's contributions to OPERS for the years ending December 31, 2006, 2005, and 2004 \$5,573, \$5,566 and \$4,140 respectively, the full amount has been contributed for 2006, 2005, and 2004.

**NOTE 7 – POST EMPLOYMENT BENEFITS**

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. As required by state statute, a portion of each employer's contribution to OPERS (see below) is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory District for employer contributions. The contribution rates of 13.7% and 13.55% to the Plan for the years ended December 31, 2006 and 2005, respectively included a portion (4.5% in 2006 and 4% in 2005) that was used to fund healthcare. The District's contributions for post-employment benefits were approximately \$1,830 and \$1,643 for the years ended December 31, 2006 and 2005, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

The Ohio Revised Code provides the statutory District requiring public employers to fund postretirement health care through their contributions to OPERS.

***Summary of assumptions***

*Actuarial Review* – The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2005.

*Funding Method* – The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

*Assets Valuation Method* – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of the unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.



**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005**

*Investment Return* – The investment assumption rate for 2005 was 6.5%.

*Active Employee Total Payroll* – An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.

*Health Care* – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond), health care costs were assumed to increase at 4.0% (the projected wage inflation rate).

OPEBs are advanced funded on an actuarially determined basis. The number of active contributing participants in the Traditional Pension Plan and Combined Plans at December 31, 2005 was 369,214. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2005 was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2005, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

**NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE**

For 2005 and 2006, the District has implemented GASB Statement No. 40 "Deposit and Investment Risk Disclosures". GASB Statement No. 40 establishes disclosure requirements for investment credit risks, interest rate risk, deposit custodial risk and foreign currency risk.

The implementation of GASB Statement No. 40 did not affect the presentation of the financial statements of the District.

**NOTE 9 – CONTINGENT LIABILITIES/SUBSEQUENT EVENTS**

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Management believes there are no pending claims or lawsuits.

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Fax - (216) 436-2411

***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Crains Run Water and Sewer District  
Montgomery County  
10383 Dayton-Cincinnati Pike  
Franklin, Ohio 45005

To the Board of Trustees:

We have audited the financial statements of Crains Run Water and Sewer District (the District) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 12, 2007, wherein we noted the District followed the cash basis of accounting, a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the District in a separate letter dated June 12, 2007.

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

***Charles E. Harris & Associates, Inc.***

June 12, 2007

## **STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS**

The prior audit report, for the years ending December 31, 2004 and 2003, reported no material citations or recommendations.



**Mary Taylor, CPA**  
Auditor of State

**CRAINS RUN WATER AND SEWER DISTRICT**

**MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 6, 2007**