

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

AUDIT REPORT

***FOR THE FIVE MONTHS ENDED MAY 31, 2008
AND
THE YEAR ENDED DECEMBER 31, 2007***

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, 2007 to May 31, 2008. 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

October 2, 2008

This Page is Intentionally Left Blank.

**CRAINS RUN WATER AND SEWER DISTRICT
MONTGOMERY COUNTY
AUDIT REPORT
For the Five Months Ending May 31, 2008 and the Year Ending December 31, 2007**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1-2
Management Discussion & Analysis	3-7
Statement of Net Assets – Cash Basis, as of May 31, 2008	8
Statement of Cash Receipts, Disbursements and Changes in Net Assets – Cash Basis, for the Five Months Ended May 31, 2008	9
Statement of Net Assets – Cash Basis, as of December 31, 2007	10
Statement of Cash Receipts, Disbursements and Changes in Net Assets – Cash Basis, for the Year Ended December 31, 2007	11
Notes to the Financial Statements	12-21
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Required By <i>Government Auditing Standards</i>	22-23
Schedule of Findings	24-26
Status of Prior Audit’s Citations and Recommendations	27

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

REPORT OF INDEPENDENT ACCOUNTANTS

Crains Run Water and Sewer District
Montgomery County
Montgomery County Sanitary Engineering
451 W. Third Street
Dayton, Ohio 45422

To the Board of Trustees:

We have audited the accompanying financial statements of the Crains Run Water and Sewer District, Montgomery County (the District), as of and for the five months ended May 31, 2008 and the year ended December 31, 2007, 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 May 31, 2008 and December 31, 2007, and the respective changes in cash basis financial position, thereof for the five months ended May 31, 2008 and the year ended December 31, 2007 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.

As described in Note 8 to the financial statements, Crains Run Water & Sewer District has merged with Montgomery County and has ceased operations effective May 31, 2008 and no longer exists as a separate entity.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2008 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.

August 14, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND THE YEAR ENDED
DECEMBER 31, 2007**

This discussion and analysis of the District's financial performance provides an overall review of the District's financial activities for the five months ended May 31, 2008 and the for the year ended December 31, 2007, 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 2008 are as follows:

Net assets of the District increased by \$104,341 for the five months ended May 31, 2008. This increase is a result of excess revenues over expenditures relative to a debt payment being posted on 12/31/07 instead of 1/1/08.

Key highlights for 2007 are as follows:

Net assets of governmental activities decreased by \$349,986 or 17.5 percent. This decrease is a result of excess expenditures over revenues relative to debt repayments as well as an additional debt payment was made in 2007 due to the payment being posted on 12/31/07 instead of 1/1/08.

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 FIVE MONTHS ENDED MAY 31, 2008 AND THE YEAR ENDED
DECEMBER 31, 2007**

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 2008 and 2007, using the cash basis accounting. The statement of net assets presents the cash balances and investments of the business-type activities of the District at May 31, 2008 and December 31, 2007.

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.

The Government as a Whole

Table 1 provides a summary of the Government's net assets at May 31, 2008, December 31, 2007 and December 31, 2006 on a cash basis:

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND THE YEAR ENDED
DECEMBER 31, 2007**

Table 1

	Business-Type Activities		
	5/31/2008	12/31/2007	12/31/2006
Assets			
Cash and Investments	\$ 1,754,923	\$ 1,650,582	\$ 2,000,568
Total Assets	\$ 1,754,923	\$ 1,650,582	\$ 2,000,568
Net Assets			
Restricted for:			
Debt Service	\$ 155,148	\$ 310,295	\$ 310,295
Unrestricted	1,599,775	1,340,287	1,690,273
Total Net Assets	\$ 1,754,923	\$ 1,650,582	\$ 2,000,568

As mentioned previously, net assets of governmental activities increased by \$104,341 or 6.3 percent during the first five months of 2008. The primary reasons contributing to the increase is as follows:

- A debt service payment posted in 2007 instead of 2008
- Lower than expected expenditures due to merger with Montgomery County

Also, as mentioned previously, net assets of governmental activities decreased \$349,986 or 17.5 percent during 2007. The primary reasons contributing to the decrease in cash balances are as follows:

- Debt service payments
- An additional debt service payment posted in 2007
- Higher than average legal fees relating to negotiations and subsequent transition to Montgomery County operations.

Table 2 reflects the changes in net assets for the five months ending May 31, 2008, the years ending December 31, 2007 and 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND THE YEAR ENDED
DECEMBER 31, 2007**

Table 2

Changes in Net Assets

	2008	2007	2006
Operating Cash Receipts:			
Water Sales	\$ 86,374	\$ 221,382	\$ 156,744
Tap/Inspection/Meter Receipts	-0-	15,544	33,339
Total Operating Cash Receipts	86,374	236,936	190,143
Operating Cash Disbursements:			
Operations	38,195	158,289	146,921
Administration	16,857	57,193	76,636
Repairs/Maintenance	2,070	10,674	8,874
Miscellaneous Expenses	1,953	10,695	-0-
Total Operating Cash Disbursements	59,075	236,851	232,431
Operating Gain (Loss)	27,299	85	(42,288)
Non Operating Cash Receipts			
Assessments	44,694	42,471	41,905
Investment Income	32,348	75,581	81,637
Total Non Operating Cash Receipts	77,042	118,052	123,542
Non Operating Cash Disbursements			
Debt Service	-0-	464,272	309,295
Capital Expenses	-0-	3,851	-0-
Total Non Operating Cash Disbursements	-0-	468,123	309,295
Increase (Decrease) in Net Assets	104,341	(349,986)	(228,041)
Net Assets – Beginning of Year	1,650,582	2,000,568	2,228,609
Net Assets – Ending	\$ 1,754,923	\$ 1,650,582	\$ 2,000,568

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND THE YEAR ENDED
DECEMBER 31, 2007**

Debt

The District has total outstanding loans of \$3,337,557. 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 2008 or 2007.

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 Status

In order for the District is to provide quality water to the public and remain viable in the long term, the District entered into negotiations with Montgomery County for a merger with their Water & Sewer program. The Montgomery County Court of Common Pleas approved the merger between the two entities and a transition of the District's operations took place in May 2008.

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 John Parks, Accountant, Montgomery County Sanitary Engineering, 451 W. Third Street, Dayton, OH 45422.

CRAINS RUN WATER SEWER DISTRRICT
MONTGOMERY COUNTY
STATEMENT OF NET ASSETS
MAY 31, 2008

Assets	
Cash and Investments	\$ 1,754,923
Total Assets	<u>\$ 1,754,923</u>
Net Assets	
Restricted for:	
Debt Service	\$ 155,148
Unrestricted	1,599,775
Total Net Assets	<u>\$ 1,754,923</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 FIVE MONTHS ENDED MAY 31, 2008

Operating Cash Receipts:	
Operating Revenues	\$ 86,374
Total Operating Cash Receipts	86,374
Operating Cash Disbursements:	
Personal Services	11,287
Contractual Services	5,284
Contract Services	16,857
Office Supplies and Equipment	829
Postage	451
Insurance	2,250
Utilities and Phone	11,589
Rent	1,200
Plant Operations and Testing	2,011
Chemicals and Operating Supplies	441
Repairs and Maintenance	2,070
County Auditor Fees	2,321
Bank Fees	403
Tools & Equipment	129
Miscellaneous	1,953
Total Operating Cash Disbursements	59,075
Operating gain (loss)	27,299
Non-Operating Cash Receipts	
Special Assessments	44,694
Interest/Investment Income	32,348
Total Non-Operating Cash Receipts	77,042
Net Receipts in excess of disbursements	104,341
Fund Cash Balances, January 1	1,650,582
Fund Cash Balances December 31	\$ 1,754,923

See accompanying Notes to the Financial Statements.

CRAINS RUN WATER SEWER DISTRRICT
MONTGOMERY COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Assets	
Cash and Investments	\$ 1,650,582
Total Assets	<u>\$ 1,650,582</u>
Net Assets	
Restricted for:	
Debt Service	\$ 310,295
Unrestricted	1,340,287
Total Net Assets	<u>\$ 1,650,582</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, 2007

Operating Cash Receipts:	
Operating Revenues	\$ 221,382
Tap and Inspection Fees	15,554
Total Operating Cash Receipts	236,936
Operating Cash Disbursements:	
Personal Services	53,692
Contractual Services	19,012
Contract Services	57,193
Office Supplies and Equipment	2,131
Postage	1,292
Insurance	18,871
Utilities and Phone	32,596
Rent	2,453
Plant Operations and Testing	8,663
Chemicals and Operating Supplies	10,951
Repairs and Maintenance	10,674
Audit	4,600
County Auditor Fees	2,090
Bank Fees	407
Tools & Equipment	1,531
Miscellaneous	10,695
Total Operating Cash Disbursements	236,851
Operating gain (loss)	85
Non-Operating Cash Receipts	
Special Assessments	42,471
Interest/Investment Income	75,581
Total Non-Operating Cash Receipts	118,052
Non-Operating Cash Disbursements	
Debt Service	464,272
Capital Outlay	3,851
Total Non-Operating Cash Disbursements	468,123
Net Receipts in excess of disbursements	(349,986)
Fund Cash Balances, January 1	2,000,568
Fund Cash Balances December 31	\$ 1,650,582

See accompanying Notes to the Financial Statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

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.B, 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 government-wide statements, including a statement of net assets and a statement of activities, which provide a more detailed level of financial information.

Basis of Presentation – Fund Accounting

The accounts of the District are organized on the basis of funds, to report on its financial position and the results of its operations. The District has created a single type of fund and a single fund within the fund type. The fund is accounted for by a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenditures. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which the District uses, is described below:

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

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.

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 function 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

Cash and cash equivalents consists of cash on hand, demand deposits, short investments with original maturities of three months or less from the date of acquisition, and deposits in the State Treasurer's Asset Reserve investment pool (STAROhio).

E. Investments

Investments are reported at cost.

F. Restricted Assets

Certain resources may be set aside for the repayment of loans and as such would be classified as restricted assets on the statement of net assets because their use is limited. The District had no restricted assets at the end of either period.

G. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

H. 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.

I. 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.

J. 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.

K. 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 2008 or 2007.

L. 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.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

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 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

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 May 31, 2008 and December 31, 2007, the District had \$391 cash on hand. At May 31, 2008 and December 31, 2007, the carrying amount of the District's deposits was \$375,662 and \$299,412, respectively, as compared to bank balances of \$375,738 and \$302,001, respectively. Of the bank balances at May 31, 2008 and December 31, 2007, \$100,000 and \$200,000 respectively was on deposit and covered by federal depository insurance and in 2008 and 2007, respectively \$275,738 and \$102,001 were collateralized by a pool of securities maintained by the District's financial institution but not in the District's name.

As of May 31, 2008 and December 31, 2007 the District had the following investments and maturities:

Investment Type	Fair Value 5/31/2008	Fair Value 12/31/2007	Maturity(1)	Rating (2)
Money Market	\$ 248,312	\$ 137,952	Daily	Aaa
StarOhio(Investment Pool)	132	125	Daily	Aaa
Federal Home Mortgage Association	86,228	90,674	1,095	Aaa
Federal Home Mortgage Association	<u>1,044,198</u>	<u>1,122,028</u>	1,095	Aaa
 Total Investments	 <u>\$ 1,378,870</u>	 <u>\$ 1,350,779</u>		

(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 District'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 FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

Custodial Credit Risk – For an investment, 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 possession of an outside party. The District 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 District places no limit on the amount the District may invest in one issuer.

NOTE 4 – RISK MANAGEMENT

The District belongs to the Ohio Government Risk Management Plan (the “Plan”), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments (“Members”).

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine, and other coverages, modified for each member’s needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member’s deductible.

The Plan issues its own policies and reinsures the Plan with A-VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, the responsibility of the Plan.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005 (the latest information available):

	<u>2006</u>	<u>2005</u>
Assets	\$9,620,148	\$8,219,430
Liabilities	<u>(3,329,620)</u>	<u>(2,748,639)</u>
Members’ Equity	<u>\$6,290,528</u>	<u>\$5,470,791</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan’s website, www.ohioplan.org.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

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 May 31, 2008 was as follow:

	Balance 1/1/2007	2007 Principal Reductions	2008 Principal Reductions	Balance 5/31/2008	Amount Due Within One Year
Phase I Loan OWDA	\$2,394,730	\$ 116,045	\$ -0-	\$2,278,685	\$ 41,614
Phase II Loan OWDA	<u>1,113,158</u>	<u>54,286</u>	<u>-0-</u>	<u>1,058,872</u>	<u>19,110</u>
Totals	<u>\$3,507,888</u>	<u>\$ 170,331</u>	<u>\$ -0-</u>	<u>\$3,337,557</u>	<u>\$ 60,724</u>

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
2008	\$ 106,101	\$ 48,547
2009	212,201	97,094
2010	212,201	97,094
2011	212,201	97,094
2012	212,201	97,094
2013-2017	1,061,005	485,470
2018-2022	1,061,005	485,470
2023-2025	530,503	339,829
Total	<u>\$3,607,417</u>	<u>\$1,650,598</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

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).

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 (10% in 2008, 9.5% in 2007 and 9% in 2006), and the District is required to contribute an actuarially determined rate. The employer contribution rate for 2008 was 14%, 13.85% for 2007 and 13.7% for 2006 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 five months ending May 31, 2008, and the years ending December 31, 2007 and 2006 were \$1,981, \$5,879 and \$5,573 respectively, the full amount has been contributed for 2008, 2007, and 2006.

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 13.85% to the Plan for the year ended December 31, 2007, respectively included a portion (5% for January – June 2007, 6% for July – December 2007) that was used to fund healthcare. The portion of the

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

14% contribution for 2008 that was used to fund healthcare has yet to be determined. The District's contributions for post-employment benefits were approximately \$2,334 for the year ended December 31, 2007.

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, 2006.

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.

Investment Return – The investment assumption rate for 2006 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 5% for the next 8 years. In subsequent years (9 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, 2006 was 362,130. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2006 was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability at December 31, 2006, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively.

NOTE 8 – CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

Crains Run Water & Sewer District ceased operations effective May 31, 2008. Montgomery County took over operations effective June 1, 2008.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2008 AND
THE YEAR ENDED DECEMBER 31, 2007**

NOTE 9 – LEGAL COMPLIANCE

Contrary to Ohio Revised Code Section 5705.41 (D), certain expenditures were not certified prior to a commitment or obligation being incurred. Also contrary to Ohio Revised Code Section 5705.41(B), the District had expenditures in excess of appropriations.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
REQUIRED BY GOVERNMENT AUDITING STANDARDS

Crains Run Water and Sewer District
Montgomery County
Montgomery County Sanitary Engineering
451 W. Third Street
Dayton, Ohio 45422

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 five months ended May 31, 2008 and the year ended December 31, 2007, and have issued our report thereon dated August 14, 2008, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings as items 2008-CRWMC-001 and 002 to be significant deficiencies in internal control over financial reporting.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

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 several instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2008-CRWMC-001 and 002.

We noted certain matters that we have reported to management of the District in a separate letter dated August 14, 2008.

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.
August 14, 2008

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

**SCHEDULE OF FINDINGS
MAY 31, 2008 & DECEMBER 31, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

**FINDING NUMBER 2008-CRWMC-001
Noncompliance Citation and Material Weakness**

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

We noted the following fund had expenditures plus encumbrances that exceeded appropriations at May 31, 2008:

Fund	Approved Appropriations	Budgetary Expenditures	Variance
Enterprise Fund	-0-	\$ 59,075	\$ (59,075)

The Clerk-Treasurer should deny payment requests exceeding appropriations, as required by Ohio Rev. Code Section 5705.41(B). We recommend the District Trustees compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

Client Response:

The District did not prepare a budget or appropriations because the Trustees had targeted December 31, 2007 as the merger date with Montgomery County.

**FINDING NUMBER 2008-CRWMC-002
Noncompliance Citation and Material Weakness**

Ohio Revised Code Section 5705.41 (D), requires, in part, that no subdivision or taxing unit shall make any contract or order any expenditure unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

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

**SCHEDULE OF FINDINGS
MAY 31, 2008 & DECEMBER 31, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

**FINDING NUMBER 2008-CRWMC-002 (Continued)
Noncompliance Citation and Material Weakness**

There are several exceptions to the standard requirement state above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

"Then and Now" Certificate – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution upon completion of the "then and now" certificate provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditure by the District.

Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

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

**SCHEDULE OF FINDINGS
MAY 31, 2008 & DECEMBER 31, 2007**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2008-CRWMC-002 (Continued)
Noncompliance Citation and Material Weakness**

During 2008, the Fiscal Officer did not certify any expenditure prior to incurring the obligation. It was also found that none of the three exceptions noted above were utilized for the items to be found in noncompliance.

We recommend the District's management implement procedures to gain fiscal control over expenditures. Purchase orders containing the required certification should be utilized to certify the availability of funds prior to commitments being incurred. Appropriations should then be encumbered and balances maintained of unencumbered appropriations. Additional purchase orders should be issued only after the fiscal officer determines that sufficient unencumbered appropriations exist in the amount of the requested purchase.

Client Response:

The District did not utilize purchase orders because the Trustees had targeted December 31, 2007 as the merger date with Montgomery County.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the years ending December 31, 2006 and 2005, 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
NOVEMBER 6, 2008**