

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY, OHIO**

*Financial Statements
(Audited)*

For The Year Ended
December 31, 2004

GLENN DEBOARD, CLERK/TREASURER



**Auditor of State
Betty Montgomery**

Board of Trustees
Clinton Water and Sewer District
350 Johnson Ave.
Mt. Vernon, Ohio 43050

We have reviewed the *Independent Auditor's Report* of the Clinton Water and Sewer District, Knox County, prepared by Julian & Grube, Inc., for the audit period January 1, 2004 through December 31, 2004. 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 Clinton Water and Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 2, 2005

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**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY, OHIO**

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JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Road, West
Westerville, Ohio 43082

Telephone 614.846.1899
Facsimile 614.846.2799

Independent Auditor’s Report

Board of Trustees
Clinton Water and Sewer District
350 Johnson Ave.
Mt. Vernon, Ohio 43050

We have audited the accompanying financial statements of the business-type activities and its major fund of the Clinton Water and Sewer District, Knox County, Ohio, (the “District”), as of and for the year ended December 31, 2004, which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States’ *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

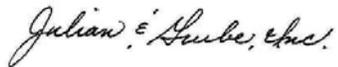
As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business-type activities and its major fund, of the Clinton Water and Sewer District, Knox County, Ohio, as of December 31, 2004, and the respective changes in cash basis financial position, thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2005, on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Clinton Water and Sewer District
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Julian & Grube, Inc.
June 27, 2005

CLINTON WATER AND SEWER DISTRICT, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

The management's discussion and analysis of the Clinton Water and Sewer District (the "District") financial performance provides an overall review of the District's financial activities for the year ended December 31, 2004, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash-basis basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net cash assets of the District decreased \$184,678.
- General cash receipts accounted for \$1,423 or .40% of total business-type activities cash receipts. Program specific cash receipts accounted for \$357,950 or 99.6% of total business-type activities cash receipts.
- The District had \$544,051 in cash disbursements related to business-type activities; \$357,950 of these cash disbursements were offset by program specific charges for services. General cash receipts (primarily interest) of \$1,423 were not adequate to provide for these programs.
- The District's major fund is the water and sewer fund. This fund had operating cash receipts of \$154,143 in 2004. The operating cash disbursements totaled \$80,840 in 2004. The water and sewer fund's cash balance decreased \$184,678 from 2003 to 2004.

Using this Basic Financial Statements (BFS)

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

The Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis provide information about the activities of the whole District, presenting both an aggregate view of the District's cash basis finances.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis answer the question, "How did we do financially during 2004?" These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the District's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the District as a whole, the cash basis financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, sales tax receipts, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and 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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

CLINTON WATER AND SEWER DISTRICT, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

In the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, the District is operates one type of activity. Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the cash disbursements of the goods or services provided. The District’s water and sewer enterprise fund is reported as business activities

The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis can be found on pages 10-11 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one category: proprietary funds.

Fund financial reports provide detailed information about the District’s major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant funds.

Proprietary Funds

The District maintains one type of proprietary fund. Enterprise funds use the same basis of accounting (cash basis) and these statements will essentially match the information provided in statements for the District as a whole. The District uses enterprise funds to account for its water and sewer operations. The enterprise fund statements can be found on pages 12 - 13 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

Government-Wide Financial Analysis

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the District as a whole.

The table below provides a summary of the District’s net cash assets for 2004.

	Business-type Activities <u>2004</u>
<u>Assets</u>	
Equity in pooled cash and cash equivalents	\$ 544,051
Total assets	<u>\$ 544,051</u>
<u>Net Assets</u>	
Unrestricted	\$ 249,018
Total net assets	<u>\$ 249,018</u>

CLINTON WATER AND SEWER DISTRICT, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The total net cash assets of the District decreased \$184,678.

The balance of government-wide unrestricted net cash assets of \$249,018 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net cash assets for fiscal year 2004. Since this is the first year the District has prepared cash basis financial statements following GASB 34, cash receipt and cash disbursement comparisons to fiscal year 2003 have not been compiled. In future years, when prior year information has been compiled, a comparative analysis of governmental data will be presented.

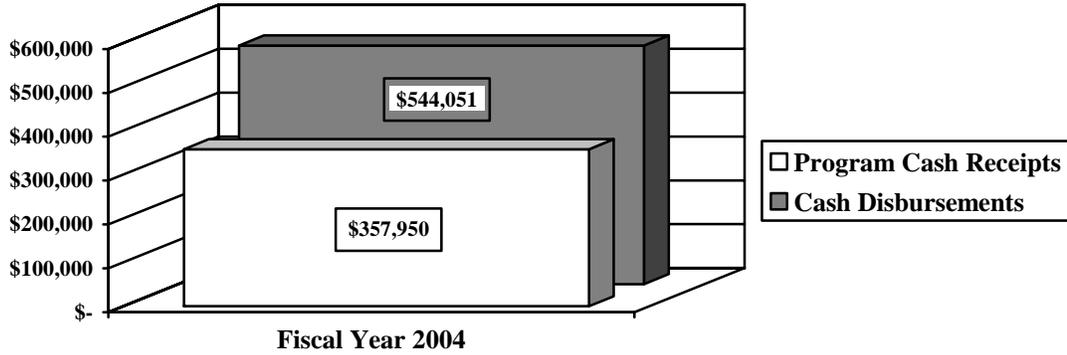
Change in Net Cash Assets

	Business-type Activities <u>2004</u>
Cash Receipts:	
Program cash receipts:	
Charges for services and sales	\$ <u>357,950</u>
Total program cash receipts	<u>357,950</u>
General cash receipts:	
Investment earnings	<u>1,423</u>
Total general cash receipts	<u>1,423</u>
Total cash receipts	<u>359,373</u>
Cash Disbursements:	
Water and sewer	<u>544,051</u>
Total cash disbursements	<u>544,051</u>
Change in net cash assets	(184,678)
Net cash assets at beginning of year	<u>433,696</u>
Net cash assets at end of year	<u><u>\$ 249,018</u></u>

CLINTON WATER AND SEWER DISTRICT, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Business-Type Activities – Program Cash Receipts vs. Total Cash Disbursements

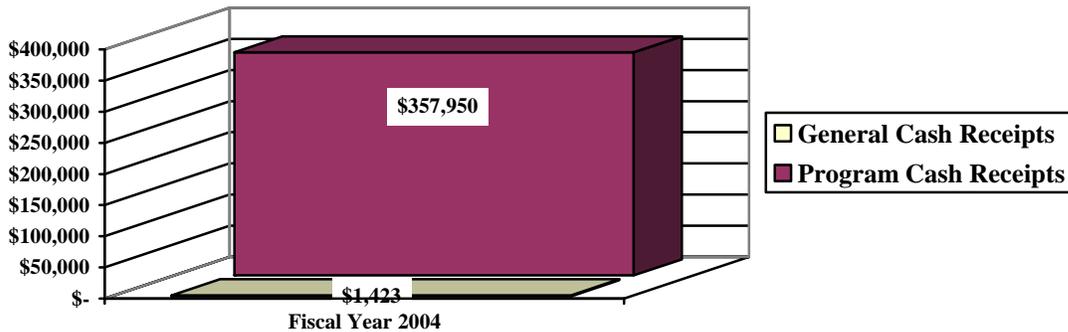


Business-Type Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Cash disbursements:		
Water and Sewer	\$ 544,051	\$ 186,101
Total	\$ 544,051	\$ 186,101

The dependence upon program cash receipts for business-type activities is apparent; with 65.79% of cash disbursements supported through charges for services cash receipts during 2004.

Business-Type Activities - General and Program Cash Receipts



CLINTON WATER AND SEWER DISTRICT, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Financial Analysis of the Proprietary Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

	<u>Fund Cash Balance</u> <u>December 31, 2004</u>	<u>Fund Cash Balance</u> <u>December 31, 2003</u>	<u>Increase</u> <u>(Decrease)</u>
Major Fund:			
Water and Sewer	\$ 249,018	\$ 433,696	\$ (184,678)
Total	<u>\$ 249,018</u>	<u>\$ 433,696</u>	<u>\$ (184,678)</u>

Water and Sewer Fund

The Water and Sewer fund, the District's only major fund, had operating cash receipts of \$154,143 in 2004. The cash disbursements totaled \$80,840 in 2004.

The table that follows assists in illustrating the cash receipts of the water and sewer fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Receipts:</u>			
Charges for services	\$ 154,143	\$ 164,049	(6.04) %
Intergovernmental	-	849	(100.00) %
Special assessments	203,807	159,923	27.44 %
Tap fees	-	8,000	(100.00) %
Investment income	1,423	3,965	(64.11) %
Contractor bond and fees	-	176	(100.00) %
Total	<u>\$ 359,373</u>	<u>\$ 336,962</u>	6.65 %

Investment income cash receipts decreased due to lower interest earning investments. Special assessment increased based on larger increases of special assessments by the Knox County Auditor. All other revenue remained comparable to 2003.

CLINTON WATER AND SEWER DISTRICT, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The table that follows assists in illustrating the expenditures of the water and sewer fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Disbursements</u>			
Personal Services	\$ 2,730	\$ 2,730	- %
Other contractual services	73,160	68,715	6.47 %
Capital outlay	1,336	1,843	(27.51) %
Office supplies and miscellaneous	325	47	591.49 %
General operating expenses	560	518	8.11 %
Insurance	2,729	2,697	1.19 %
Debt service	462,211	462,191	(0.04) %
Utilities and telephone	-	349	(100.00) %
Return on contractor bond	<u>1,000</u>	<u>500</u>	100.00 %
Total	<u>\$ 544,051</u>	<u>\$ 539,590</u>	0.83 %

All variances were primarily due to differences in the way that transactions were classified in 2004 versus 2003. Overall, cash disbursements increased \$4,191 from 2003.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The District had capital outlay disbursements of \$1,336 during fiscal year 2004.

Debt Administration

The District had the following long-term obligations outstanding at December 31, 2004 and 2003:

	Business-Type Activities <u>2004</u>	Business-Type Activities <u>2003</u>
OWDA loans	<u>5,343,689</u>	<u>5,473,401</u>
Total long-term obligations	<u>\$ 5,343,689</u>	<u>\$ 5,473,401</u>

CLINTON WATER AND SEWER DISTRICT, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Glenn DeBoard, Clerk/Treasurer, Clinton Water and Sewer District, 350 Johnson Avenue, Mount Vernon, Ohio 43050-4726, or (740) 398-9975.

CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY
STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2004

	Business-Type Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 249,018
Total assets.	249,018
Net assets:	
Unrestricted	249,018
Total net assets	\$ 249,018

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Cash Disbursements</u>	<u>Program Cash Charges for Services</u>	<u>Net (Cash Disbursements) Cash Receipts and Changes and Changes in Net Cash Business-type Activities</u>
Business-Type activities:			
Water and Sewer	\$ 544,051	\$ 357,950	\$ (186,101)
Total business-type activities	<u>544,051</u>	<u>357,950</u>	<u>(186,101)</u>
Totals	<u>\$ 544,051</u>	<u>\$ 357,950</u>	<u>(186,101)</u>
 General Cash Receipts:			
Investment receipts			<u>1,423</u>
Total general cash receipts.			<u>1,423</u>
Change in net cash assets			(184,678)
Net cash assets at beginning of year.			<u>433,696</u>
Net cash assets at end of year			<u>\$ 249,018</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

STATEMENT OF CASH BASIS ASSETS AND NET CASH ASSETS
ENTERPRISE FUND
DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds
	Water and Sewer
Cash assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 249,018
Total assets	249,018
Net cash assets:	
Unrestricted.	249,018
Total net cash assets.	\$ 249,018

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN NET CASH ASSETS
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Enterprise Funds
	Water and Sewer
Operating cash receipts:	
Charges for services	\$ 154,143
Total operating cash receipts	154,143
Operating cash disbursements:	
Personal services	2,730
Other contractual services	73,160
Capital outlay	1,336
Office supplies and miscellaneous	325
General operating expenses	560
Insurance	2,729
Total operating cash disbursements	80,840
Operating cash receipts over operating cash disbursements	73,303
Nonoperating cash receipts (disbursements):	
Interest	1,423
Special assessments.	203,807
Debt Service:	
Principal	(129,712)
Interest	(332,499)
Return of contractor bond	(1,000)
Total nonoperating cash receipts (disbursements). . .	(257,981)
Changes in net cash assets.	(184,678)
Net cash assets at beginning of year	433,696
Net cash assets at end of year	\$ 249,018

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CLINTON WATER AND SEWER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF ENTITY

The Clinton Water and Sewer District, Knox County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was created on October 16, 1990, by the Court of Common Pleas, Knox County, to provide water and sewer services to the residents of Clinton Township in accordance with the provisions of Ohio Revised Code Section 6119.01. A three (3) member appointed Board of Trustees manages the District.

Management believes the cash basis basic financial statements included in this report represent all of the activities for which the District is financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in preparation of the accompanying basic financial statements follows:

Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting, (a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America). Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. For fiscal year 2004 the District has implemented the provisions of GASB 34 for financial reporting on the basis of accounting as described above. However, there were no adjustments to beginning net cash assets since the basis of accounting has not changed.

As a result of the use of the basis of accounting as described above, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the basis of accounting as described above.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State in accordance with the basis of accounting as described above.

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund accounts for the governmental resources allocated to it and the segregation of cash and investments for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The fund type, which the Clinton Water and Sewer 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.

CLINTON WATER AND SEWER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing certain goods or services to the general public on a continuing basis are financed or received primarily through user charges. The District had the following significant enterprise fund:

Water and Sewer Fund - This fund receives charges for services and special assessments to cover the cost of providing this utility and repayment of outstanding debt.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget and has adopted and passed annual appropriations and resolutions for the year ended December 31, 2004. A summary of 2004 budgetary activity appears in the note entitled "Budgetary Activity".

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments.

Estimated Resources - Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1.

Encumbrances - The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. The District did not properly encumber all commitments in accordance with Ohio Law.

Cash

For reporting purposes, the District considers "Net cash assets" to be cash on hand, demand deposits, and all investments held by the District with a maturity date less than or equal to three months from the date of purchase. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer. Interest income received by the District totaled \$1,423 for the year ended December 31, 2004.

Capital Assets

Capital assets are not capitalized or recorded in the accompanying basic financial statements by the District. Instead, capital acquisition and construction costs are reflected as disbursements in the year expended. Depreciation is not recorded.

CLINTON WATER AND SEWER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2004 follows:

Budgeted vs. Actual Receipts

	<u>2004</u>
Budgeted receipts	\$ 358,000
Actual receipts	<u>359,373</u>
Variance favorable/(unfavorable)	<u>\$ 1,373</u>

Budgeted vs. Actual Budgetary Basis Expenditures

	<u>2004</u>
Appropriation authority	\$ 542,500
Budgetary expenses	<u>544,051</u>
Variance - favorable/(unfavorable)	<u>\$ (1,551)</u>

This District also did not properly encumber all commitments as required by Ohio law, contrary to Ohio Revised Code Section 5705.41(D). The Clerk/Treasurer will monitor expenses throughout the year to determine compliance throughout the year.

The District did not issue 1099 or W-2 forms to its elected officials although they received compensation in excess of \$600, contrary to Internal Revenue Code Chapter 26 United States Code Section 1.6041-1 and 1.6041-2. The Clerk/Treasurer will issue 1099 statements in future years for all compensation paid exceeding \$600.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must 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.

CLINTON WATER AND SEWER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The District maintains a cash and investment pool used by all funds. The following are the carrying amount of deposits and their classifications at December 31, 2004:

CLINTON WATER AND SEWER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

	<u>2004</u>
Demand deposits	\$ 205,708
Star Ohio	<u>43,310</u>
Total carrying amounts of deposits and investments	<u>\$ 249,018</u>
Bank carrying amount of deposits	<u>\$ 210,186</u>
STAR Ohio Balance	<u>\$ 43,310</u>

The following information classifies deposits and investments by categories of risk as defined in Governmental Accounting Standards Board (GASB) Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits - At year end, \$100,000 of the bank balance was covered by federal deposit insurance. The remaining balance was collateralized by third party trustees in single institution collateral pools, securing all public funds on deposit with specific depository institutions. Although the securities servicing as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Investments - The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in Clinton Water and Sewer's name. Category 2 includes uninsured and unregistered investments, which are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department or agent but not in the District's name.

The District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

CLINTON WATER AND SEWER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 5 - DEBT

Under the District's current basis of accounting, debt obligations are not reported as a liability in the accompanying cash basis basic financial statements. However information regarding debt of the District at December 31, 2004 was as follows:

<u>Description</u>	<u>Balance at 12/31/04</u>
#3154 - 1997 Ohio Water Development Authority (OWDA) Loan (original issue amount of \$2,696,939) , for the construction of sewer system, due in 2024, bearing interest at 6.18%.	\$2,393,477
#3157 - 1998 OWDA Loan (original issue amount of \$908,480), for the construction of sewer system, due in 2025, bearing interest at 5.66%.	821,962
#2146 - 1999 OWDA Loan (original issue amount of \$944,000), for the construction of sewer system, due in 2026, bearing interest of 5.77%.	872,899
#3312 - 2000 OWDA Loan (original issue amount of \$1,327,549), for the construction of sewer system, due in 2027, bearing interest of 6.397%.	<u>1,255,351</u>
Total debt obligations at December 31	<u>\$5,343,689</u>

CLINTON WATER AND SEWER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 5 - DEBT (Continued)

Transactions for the year ended December 31, 2004 are summarized as follows:

	Balance at 12/31/03	Proceeds	Payments	Balance at 12/31/04
1997 OWDA - #3154	\$ 2,456,274	\$ -	\$ (62,797)	\$ 2,393,477
1998 OWDA - #3157	843,034	-	(21,072)	821,962
1999 OWDA - #2146	893,147	-	(20,248)	872,899
2000 OWDA - #3312	1,280,946	-	(25,595)	1,255,351
	\$ 5,473,401	\$ -	\$ (129,712)	\$ 5,343,689

Future principal and interest payments on all loans are as follows, including interest of \$4,169,542:

Loan #	2005	2006	2007	2008	2009	2010 - 2014
#3154	\$ 214,595	\$ 214,595	\$ 214,595	\$ 214,595	\$ 214,595	\$ 1,072,974
#3157	68,788	68,788	68,788	68,788	68,788	343,940
#2146	71,784	71,784	71,784	71,784	71,784	367,774
#3312	107,045	107,045	107,045	107,045	107,045	521,425
Total	\$ 462,212	\$ 462,212	\$ 462,212	\$ 462,212	\$ 462,212	\$ 2,306,113

Loan #	2015 - 2019	2020 - 2024	2025 - 2027	Totals
#3154	\$ 1,072,974	\$ 987,633	\$ -	\$ 4,206,556
#3157	343,937	343,940	41,652	1,417,409
#2146	323,159	374,559	170,486	1,594,898
#3312	479,305	535,225	223,188	2,294,368
Total	\$ 2,219,375	\$ 2,241,357	\$ 435,326	\$ 9,513,231

The long-term debts listed above are construction loans with Ohio Water Development Authority (O.W.D.A.). Loans are collateralized by charges and special assessment monies received.

NOTE 6 - RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and omissions

CLINTON WATER AND SEWER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 7 - CONTINGENT LIABILITIES

There is one lawsuit pending against the District by a contractor related to payment by the District for construction of a sanitary sewer project. Settlement discussions have occurred and in March of 2005, a settlement agreement was reached in the lawsuit discussed in the "Contingent Liabilities" section of the footnotes. The District paid the contractor \$17,500 as part of the settlement agreement. No other outstanding litigation existed at December 31, 2004.

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Road, West
Westerville, Ohio 43082

Telephone 614.846.1899
Facsimile 614.846.2799

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*

Board of Trustees
Clinton Water and Sewer District
350 Johnson Ave.
Mt. Vernon, OH 43050

We have audited the financial statements of the business-type activities and its major fund of the Clinton Water and Sewer District, Knox County, Ohio, (the “District”) as of and for the year ended December 31, 2004, which collectively comprise the District’s basic financial statements and have issued our report thereon dated June 27, 2005 wherein we noted the District prepared its financial statements on the cash basis, a comprehensive basis of accounting 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 Control Over Financial Reporting

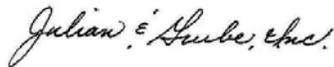
In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated June 27, 2005.

Board of Trustees
Clinton Water and Sewer District

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 and grant agreements, 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 instances of noncompliance that is required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-CWSD-001 and 2004-CWSD-002. We also noted certain matters which we have reported to the management of the District in a separate letter dated June 27, 2005.

This report is intended for the information of the Board and management of the Clinton Water and Sewer District and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
June 27, 2005

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

Finding Number	2004-CWSD-001
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Internal Revenue Code Chapter 26 United States Code Section 1.6041-1 and 1.6041-2 states in part that wages, commissions, and other forms of compensation for services rendered aggregating \$600 or more are to be reported on form 1099, or form W-2.

The District did not issue W-2 or 1099 forms to the Clerk/Treasurer or the Board members during the year from which the District paid for services in excess of \$600.

The District is not reporting such compensation paid to the Internal Revenue Service.

We recommend that the District issue from 1099's for all compensation paid in excess of \$600. This will help ensure proper reporting and accountability for the elected officials of the District.

Client response: The clerk/treasurer will issue 1099 or W-2 statement for all compensation paid in excess of \$600.

Finding Number	2004-CWSD-002
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that 100% of expenses tested were not certified in a timely manner for 2004.

Without timely certification, the District may expend more funds than available in the treasury, in the process of collection or than funds appropriated.

We recommend that the District implement a policy and procedure for contracts involving the disbursement of money be timely certified to insure that all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The District should issue approved purchase orders and consider using blanket and super blanket purchase orders and/or "Then" and "Now" certificates where applicable.

Client Response: The clerk/treasurer will monitor expenses to determine compliance throughout the year.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-CWSD-001	Internal Revenue Code Chapter 26 United States Code Section 1.6041-1 and 1.6041-2 states, in part, that 1099 or W-2 must be issued for compensation in excess of \$600.	No	Repeated as finding number 2004-CWSD-001
2003-CWSD-002	Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Repeated as finding number 2004-CWSD-002



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 16, 2005**