

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

*Financial Statements
(Audited)*

For The Years Ended
December 31, 2002 and 2001

GLENN DEBOARD, CLERK/TREASURER



**Auditor of State
Betty Montgomery**

Board of Trustees
Clinton Water and Sewer District
350 Johnson Avenue
Mount Vernon, Ohio 43050

We have reviewed the Independent Auditor's Report of the Clinton Water and Sewer District, Knox County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2001 to December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 26, 2003

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

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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 Clinton Water and Sewer District, Knox County, Ohio as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Clinton Water and Sewer 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 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the Clinton Water and Sewer District prepares its financial statements on the basis of accounting prescribed or permitted by Auditor of State, which is a comprehensive basis of accounting 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 cash balances and fund balance of the Clinton Water and Sewer District, Knox County, as of December 31, 2002 and 2001, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 15, 2003 on our consideration of the Clinton Water and Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, grants and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of Clinton Water and Sewer District and its management, and other officials authorized to receive this report under §117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Trimble, Julian & Grube, Inc.
July 15, 2003

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

STATEMENT OF CASH FUND BALANCE
DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<u>Cash and Investments:</u>		
Cash and Cash Equivalents	\$ 243,006	\$ 40,060
Investments	<u>393,318</u>	<u>866,179</u>
Total Cash and Investments	<u>\$ 636,324</u>	<u>\$ 906,239</u>
 <u>Fund Balances</u>		
 <u>Proprietary Fund Type:</u>		
Enterprise Fund	<u>\$ 636,324</u>	<u>\$ 906,239</u>
Total Fund Balance	<u>\$ 636,324</u>	<u>\$ 906,239</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN CASH FUND BALANCE - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	Proprietary Fund Type
	Enterprise
Operating receipts:	
Charges for services	\$ 140,233
Total operating receipts	140,233
Operating cash disbursements:	
Personal services	2,760
Utilities and telephone	735
Other contractual services	119,478
Capital outlay	35,629
Office supplies and miscellaneous	352
General operating expenses	215
Insurance	1,659
Total operating cash disbursements	160,828
Operating loss	(20,595)
Nonoperating cash receipts:	
Proceeds from loans	57,790
Intergovernmental	152,371
Interest	9,651
Special assessments	180,844
Tap fees	16,500
Contractor bonds and fees	75
Total nonoperating cash receipts	417,231
Nonoperating cash disbursements:	
Debt service:	
Principal retirement	388,105
Interest charges	277,519
Refund of contractor bonds	500
Other nonoperating disbursements	427
Total nonoperating cash disbursements	666,551
Net of cash receipts (under) cash disbursements	(269,915)
Cash fund balance, January 1, 2002	906,239
Cash fund balance, December 31, 2002	\$ 636,324

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN CASH FUND BALANCE - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001

	Proprietary Fund Type
	Enterprise
Operating receipts:	
Charges for services	\$ 97,859
Total operating receipts	97,859
Operating cash disbursements:	
Personal services	4,215
Utilities and telephone	1,585
Other contractual services	104,341
Capital outlay	1,106,401
Office supplies and miscellaneous	818
General operating expenses	2,267
Insurance	1,578
Total operating cash disbursements	1,221,205
Operating loss	(1,123,346)
Nonoperating cash receipts:	
Proceeds from loans	1,207,011
Intergovernmental	125,666
Interest	29,345
Special assessments	451,325
Tap fees	23,750
Contractor bonds and fees	530
Other nonoperating receipts	59
Total nonoperating cash receipts	1,837,686
Nonoperating cash disbursements:	
Debt service:	
Principal retirement	130,871
Interest charges	241,709
Refund of contractor bonds	500
Total nonoperating cash disbursements	373,080
Net of cash receipts over cash disbursements	341,260
Cash fund balance, January 1, 2001	564,979
Cash fund balance, December 31, 2001	\$ 906,239

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1 - DESCRIPTION OF THE ENTITY

The Clinton Water and Sewer District, Knox County, Ohio, (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 established October 16, 1990, under Chapter 6119 of the Ohio Revised Code to provide water and sewer services to the residents of Clinton Township. A three member appointed Board of Trustees manages the District.

Management believes the financial statements included in this report represent all of the funds of the District over which the District officials have direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant of the District's accounting policies are described below.

A. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the District are maintained on the basis of fund accounting, where each fund is considered a separate accounting entity. The operations of the funds are accounted for with a set of self-balancing accounts. The following fund type is used by the District:

Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant enterprise fund:

Water & Sewer Fund - This fund receives charges for services and special assessments to cover the cost of providing this utility, and loan and grant proceeds to construct the water and sewer system.

B. 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. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. BUDGETARY PROCESS

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

Appropriations:

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

Estimated Resources:

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

Encumbrances:

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year. The District did not encumber all commitments required by Ohio law.

D. CASH AND CASH EQUIVALENTS

For reporting purposes, the District considers "Cash and Cash Equivalents" 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. Interest income earned and received by the District totaled \$9,651 and \$29,345 for the years ended December 31, 2002 and 2001, respectively.

E. PROPERTY, PLANT AND EQUIPMENT

Fixed assets are not capitalized by the District. Instead, capital acquisition and construction costs are reflected as expenditures in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 3 - COMPLIANCE

Budgetary activity for the year ending December 31, 2002 and 2001 follows:

<u>Budgeted vs. Actual Receipts</u>	<u>2002</u>	<u>2001</u>
Budgeted Receipts	\$ 490,405	\$ 1,555,724
Actual Receipts	<u>557,464</u>	<u>1,935,545</u>
Variance - favorable/(unfavorable)	<u>\$ 67,059</u>	<u>\$ 379,821</u>
<u>Budgeted vs. Actual Budgetary Basis Expenses</u>	<u>2002</u>	<u>2001</u>
Appropriation Authority	\$ 386,638	\$ 1,326,224
Budgetary Expenses	<u>827,379</u>	<u>1,594,285</u>
Variance - favorable/(unfavorable)	<u>\$ (440,741)</u>	<u>\$ (268,061)</u>

The District had expenses in excess of appropriations for the years ended December 31, 2002 and 2001, contrary to Ohio Revised Code Section 5705.41(B):

Fund Type/Fund

2002:

<u>Enterprise Fund</u>	<u>Appropriations</u>	<u>Expenses</u>	<u>Excess</u>
Water and Sewer - operating	\$ 18,465	\$ 118,541	\$ (100,076)
Water and Sewer - capital outlay	-	43,214	(43,214)
Water and Sewer - debt	368,173	665,624	(297,451)

2001:

<u>Enterprise Fund</u>	<u>Appropriations</u>	<u>Expenses</u>	<u>Excess</u>
Water and Sewer - operating	11,859	115,304	(103,445)
Water and Sewer - capital outlay	900,000	1,106,401	(206,401)

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

CASH AND INVESTMENTS

The District maintains a cash and investment pool. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 are as follows:

	<u>2002</u>	<u>2001</u>
Demand Deposits	\$ 243,006	\$ 40,060
Investments in STAR Ohio	<u>393,318</u>	<u>866,179</u>
Total Cash and Investments	<u>\$ 636,324</u>	<u>\$906,239</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institutions public entity deposit pool.

Investments: Investments in STAR Ohio are not endorsed by securities that exist in physical or book-entry form. Investments in STAR Ohio are valued at amounts reported by the State Treasurer.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 5 - DEBT OBLIGATIONS

At December 31, 2002 and 2001, debt obligations consisted of the following issuances:

<u>Description</u>	<u>Balance at 12/31/02</u>	<u>Balance at 12/31/01</u>
1998 Ohio Water Development Authority (OWDA) Loan, for construction of sewer system, due in 2025, bearing interest at 5.66%.	\$ 862,948	\$ 881,734
1997 OWDA Loan, for the construction of sewer system, due in 2024, bearing interest at 6.18%.	2,515,063	2,570,763
1999 OWDA Loan, for the construction of sewer system, due in 2026, bearing interest of 5.77%.	901,431	843,641
2000 OWDA Loan, for the construction of sewer system, due in 2027, bearing interest of 6.397%.	<u>1,304,931</u>	<u>1,618,550</u>
Total debt obligations at December 31	<u>\$ 5,584,373</u>	<u>\$ 5,914,688</u>

Transactions for the year ended December 31, 2002 are summarized as follows:

	<u>Balance at 12/31/01</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at 12/31/02</u>
1998 OWDA - #3157	\$ 881,734	\$ -	\$ (18,786)	\$ 862,948
1997 OWDA - #3154	2,570,763	-	(55,700)	2,515,063
1999 OWDA - #2146	843,641	57,790	-	901,431
2000 OWDA - #3312	<u>1,618,550</u>	<u>-</u>	<u>(313,619)</u>	<u>1,304,931</u>
Total	<u>\$ 5,914,688</u>	<u>\$ 57,790</u>	<u>\$ (388,105)</u>	<u>\$ 5,584,373</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 5 - DEBT OBLIGATIONS - (Continued)

Transactions for the year ended December 31, 2001 are summarized as follows:

	Restated Balance at <u>12/31/00</u>	<u>Proceeds</u>	<u>Payments</u>	Balance at <u>12/31/01</u>
1998 OWDA - #3157	\$ 881,958	\$ 8,840	\$ (9,064)	\$ 881,734
1997 OWDA - #3154	2,597,778	-	(27,015)	2,570,763
1999 OWDA - #2146	861,899	35,583	(53,841)	843,641
2000 OWDA - #3312	<u>496,913</u>	<u>1,162,588</u>	<u>(40,951)</u>	<u>1,618,550</u>
 Total	 <u>\$ 4,838,548</u>	 <u>\$ 1,207,011</u>	 <u>\$(130,871)</u>	 <u>\$ 5,914,688</u>

The Clinton Water and Sewer District had an outstanding note with Clinton Township of \$9,000 at December 31, 2000. However, during 2001, Clinton Township forgave the remaining note balance.

The beginning balances at 12/31/00 were restated based upon changes by OWDA to the District's financing terms and repayment requirements, which included the assignment of new loan numbers. Upon final disbursement of the existing loan, OWDA will finalize an amortization schedule for future principal and interest repayment on all loans.

NOTE 6 - RISK MANAGEMENT - RISK POOL MEMBERSHIP

The District belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

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 coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

NOTE 6 - RISK MANAGEMENT - RISK POOL MEMBERSHIP - (Continued)

The Plan uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded). The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

NOTE 7 - CONTINGENT LIABILITY

LITIGATION

The District is currently involved in several pending lawsuits that the District's legal counsel is unable to determine the likely outcome of such litigation or whether it would have a material effect upon the financial condition of the District.

TRIMBLE, JULIAN & GRUBE, INC.

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Report on Compliance and on Internal Control Over Financial Reporting 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 Clinton Water and Sewer District, Knox County, Ohio, as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated July 15, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Clinton Water and Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2002-CSWD-001 and 2002-CSWD-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Clinton Water and Sewer District in a separate letter dated July 15, 2003.

Board of Trustees
Clinton Water and Sewer District

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clinton Water and Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the 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 other matters involving the internal control over financial reporting that we have reported to the management of the Clinton Water and Sewer District in a separate letter dated July 15, 2003.

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.

Trimble, Julian & Grube, Inc.
July 15, 2003

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

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

Finding Number	2002-CWSD-001
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Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated.

It was noted during the audit that the Clinton Water and Sewer District had expenses in excess of appropriations for the years ended December 31, 2002 and 2001:

Fund Type/Fund

2002:

<u>Enterprise Fund</u>	<u>Appropriations</u>	<u>Expenses</u>	<u>Excess</u>
Water and Sewer - operating	\$ 18,465	\$ 118,541	\$ (100,076)
Water and Sewer - capital outlay	-	43,214	(43,214)
Water and Sewer - debt	368,173	665,624	(297,451)

2001:

Enterprise Fund

Water and Sewer - operating	\$ 11,859	\$ 115,304	\$ (103,445)
Water and Sewer - capital outlay	900,000	1,106,401	(206,401)

With expenses exceeding appropriations, the Clinton Water and Sewer District is unlawfully expending monies that have not been appropriated.

We recommend that the Clinton Water and Sewer District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring expenses so they do not exceed lawful appropriations. This may be achieved by monitoring the budget more closely on a continual basis and making appropriation amendments as necessary.

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

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

Finding Number	2002-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 expenses incurred by the Clinton Water and Sewer District were not certified in a timely manner for 2002. During 2001, purchase orders were not presented for audit.

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

We recommend that the Clinton Water and Sewer 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 Clinton Water and Sewer District should issue approved purchase orders and consider using blanket and super blanket purchase orders and/or "Then" and "Now" certificates where applicable.



**Auditor of State
Betty Montgomery**

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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
OCTOBER 9, 2003**