

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

Financial Statements
(Audited)

For The Years Ended
December 31, 2008 and 2007

CHRIS BUTTKE, CLERK/TREASURER



Mary Taylor, CPA
Auditor of State

Board of Trustees
Clinton Water and Sewer District
350 Johnson Avenue
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, 2007 through December 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 Clinton Water and Sewer District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 4, 2010

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

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Julian & Grube, Inc.

Serving Ohio Local Governments

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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, 2008 and 2007, which collectively comprise the Clinton Water and Sewer District's basic financial statements as listed in the table of contents. 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 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 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 financial statements referred to above present fairly, in all material respects, the respective cash financial position of the financial statements of the Clinton Water and Sewer District, Knox County, Ohio, as of December 31, 2008 and 2007, and the respective changes in cash financial position, thereof for the years then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2010, on our consideration of the Clinton Water and Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the 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.

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

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
September 10, 2010

Clinton Water and Sewer District
Knox County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2008 and 2007
(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 years ended December 31, 2008 and 2007, 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 2008 and 2007 are as follows:

The District's net cash assets decreased by \$68,100 (-14.3%) in 2008 and \$21,552 (-4.3%) in 2007.

The District's only fund is the water and sewer fund. This fund's operating cash receipts decreased by \$6,323 (-2.2%) in 2008 and increased \$3,230 (1.1%) in 2007 and operating cash disbursements increased by \$1,658 (5.2%) in 2008 and decreased \$5,769 (-15.1%) in 2007.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Statements of Net Assets-Cash Basis and the Statements of Cash Receipts, Disbursements and Changes in Net Assets-Cash Basis provide information on the District's cash basis operations over the past two years and the success of recovering all its costs through user fees, charges, and other income. Receipts are reported when received and disbursements are reported when paid.

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 the cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's cash 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 and their related revenues (such as accounts receivable) and 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 limitations resulting from the use of the cash basis of accounting.

Clinton Water and Sewer District
Knox County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2008 and 2007
(Unaudited)

STATEMENTS OF NET ASSETS-CASH BASIS

Table 1 summarizes the Statements of Net Assets of the District.

| TABLE 1 | <u>2008</u> | <u>2007</u> | <u>Change Amount</u> | <u>2006</u> | <u>Change Amount</u> |
|---------------------------|--------------------|--------------------|---------------------------------|--------------------|---------------------------------|
| Cash and Cash Equivalents | \$ 409,259 | \$ 477,359 | \$ (68,100) | \$ 498,911 | \$ (21,552) |
| Total Assets | <u>\$ 409,259</u> | <u>\$ 477,359</u> | <u>\$ (68,100)</u> | <u>\$ 498,911</u> | <u>\$ (21,552)</u> |
| Net Assets - | | | | | |
| Unrestricted | \$ 409,259 | \$ 477,359 | \$ (68,100) | \$ 498,911 | \$ (21,552) |
| Total Net Assets | <u>\$ 409,259</u> | <u>\$ 477,359</u> | <u>\$ (68,100)</u> | <u>\$ 498,911</u> | <u>\$ (21,552)</u> |

The District's net assets decreased by \$68,100 in 2008 and \$21,552 in 2007. The decreases in both 2008 and 2007 were primarily the result of operating disbursements, debt service and interest payments exceeding receipts.

Clinton Water and Sewer District
Knox County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2008 and 2007
(Unaudited)

STATEMENTS OF CHANGES IN NET ASSETS – CASH BASIS

Table 2 below summarizes the changes in Cash Receipts, Cash Disbursements and the resulting change in Net Assets.

| Table 2 | <u>2008</u> | <u>2007</u> | <u>Difference</u> | <u>2006</u> | <u>Difference</u> |
|----------------------------------|-------------------|-------------------|--------------------|-------------------|--------------------|
| Operating Cash Receipts | \$ 286,608 | \$ 292,931 | \$ (6,323) | \$ 289,701 | \$ 3,230 |
| Operating Cash Disbursements | 34,021 | 32,363 | 1,658 | 38,132 | (5,769) |
| Operating Cash Receipts Over | | | | | |
| Operating Cash Disbursements | 252,587 | 260,568 | (7,981) | 251,569 | 8,999 |
| Non-Operating Cash Receipts | 174,631 | 213,198 | (38,567) | 196,878 | 16,320 |
| Non-Operating Cash Disbursements | 495,318 | 495,318 | - | 247,659 | 247,659 |
| Changes in Net Assets | (68,100) | (21,552) | (46,548) | 200,788 | (222,340) |
| Net Assets, January 1 | 477,359 | 498,911 | (21,552) | 298,123 | 200,788 |
| Net Assets, December 31 | <u>\$ 409,259</u> | <u>\$ 477,359</u> | <u>\$ (68,100)</u> | <u>\$ 498,911</u> | <u>\$ (21,552)</u> |

From 2007 to 2008 operating cash receipts decreased \$6,323 due to decrease in receipts collected from charges for services. Operating cash disbursements increased \$1,658 primarily due to increased expenditures for contractual services. Non-operating cash receipts decreased \$38,567 primarily due to a decrease in cash receipts for interest and tap fees. These decreases were partially offset by an increase in cash receipts for special assessments. Non-operating cash disbursements were unchanged as debt payments are consistent year to year.

From 2006 to 2007 operating cash receipts increased \$3,230 due to an increase in receipts collected from charges for services. Operating cash disbursements decreased \$5,769 primarily due to decreased expenditures for professional services. Non-operating cash receipts increased \$16,320 primarily due to an increase in cash receipts for interest and tap fees. These increases were partially offset by a decrease in cash receipts for special assessments. Non-operating cash disbursements increased \$247,659 due to the District making two O.W.D.A. loan payments during fiscal year 2007 while only one payment was made during fiscal year 2006.

CAPITAL ASSETS

The District does not record capital assets in the accompanying basic financial statements under the cash basis of accounting, but records payments for capital assets as disbursements. The District had no capital outlay disbursements during 2008 and 2007.

Clinton Water and Sewer District
Knox County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2008 and 2007
(Unaudited)

DEBT

Under the cash basis of accounting, the District does not report its long-term notes in the accompanying basic financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about loans. Additional information regarding debt can be found in Note 5 of the Notes to the Basic Financial Statements.

| TABLE 3 | 2008 | 2007 | Difference | 2006 | Difference |
|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| 1997 OWDA - #3154 | \$ 2,101,007 | \$ 2,180,827 | \$ (79,820) | \$ 2,256,001 | \$ (75,174) |
| 1998 OWDA - #3157 | 725,053 | 751,316 | (26,263) | 776,172 | (24,856) |
| 1999 OWDA - #2146 | 784,330 | 809,753 | (25,423) | 833,770 | (24,017) |
| 2000 OWDA - #3312 | 1,135,242 | 1,168,159 | (32,917) | 1,199,069 | (30,910) |
| 2005 OWDA - #4325 | 444,591 | 455,117 | (10,526) | 465,137 | (10,020) |
| Total Long Term Debt | <u>\$ 5,190,223</u> | <u>\$ 5,365,172</u> | <u>\$ (174,949)</u> | <u>\$ 5,530,149</u> | <u>\$ (164,977)</u> |

CASH AND CASH EQUIVALENTS

Cash and cash equivalents on December 31, 2008 and 2007 were \$409,259 and \$477,359, respectively.

CURRENT ISSUES

The Clinton Water and Sewer District strives to provide the highest quality of service at the lowest possible cost to its customers. Increasing the District's customer base through managed growth in the Township will benefit the District and its customers.

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. Chris Buttke, Clerk/Treasurer, Clinton Water and Sewer District, 350 Johnson Avenue, Mount Vernon, Ohio 43050-4726 or (614) 332-7499.

Clinton Water and Sewer District
Knox County, Ohio
Statements of Net Assets - Cash Basis
As December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---------------------------|-------------------|-------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ 409,259 | \$ 477,359 |
| <i>Total Assets</i> | <u>\$ 409,259</u> | <u>\$ 477,359</u> |
| | | |
| Net Assets | | |
| Unrestricted | \$ 409,259 | \$ 477,359 |
| <i>Total Net Assets</i> | <u>\$ 409,259</u> | <u>\$ 477,359</u> |

See accompanying notes to the basic financial statements.

Clinton Water and Sewer District
Knox County, Ohio
Statements of Cash Receipts, Cash Disbursements and
Changes in Net Cash Assets - Enterprise Fund
For the Years Ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|
| Operating Cash Receipts | | |
| Charges for Services | \$ 286,608 | \$ 292,931 |
| Operating Cash Disbursements | | |
| Personal Services | 2,131 | 2,145 |
| Other Contractual Services | 28,769 | 27,614 |
| General Operating | 209 | 12 |
| Insurance | 2,912 | 2,592 |
| <i>Total Operating Cash Disbursements</i> | <u>34,021</u> | <u>32,363</u> |
| Operating Cash Receipts Over Operating Cash Disbursements | <u>252,587</u> | <u>260,568</u> |
| Non-Operating Cash Receipts | | |
| Interest | 5,701 | 12,674 |
| Special Assessments | 151,053 | 149,024 |
| Tap Fees | 17,600 | 51,500 |
| Miscellaneous | 277 | - |
| <i>Total Non-Operating Cash Receipts</i> | <u>174,631</u> | <u>213,198</u> |
| Non-Operating Cash Disbursements | | |
| Debt Service - Principal | 174,949 | 164,977 |
| Debt Service - Interest | 320,369 | 330,341 |
| <i>Total Non-Operating Cash Disbursements</i> | <u>495,318</u> | <u>495,318</u> |
| <i>Changes in Net Assets</i> | (68,100) | (21,552) |
| <i>Net Cash Assets, January 1</i> | <u>477,359</u> | <u>498,911</u> |
| <i>Net Cash Assets, December 31</i> | <u>\$ 409,259</u> | <u>\$ 477,359</u> |

See accompanying notes to the basic financial statements.

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

NOTE 1 - NATURE OF ORGANIZATION

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.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision to the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The District is solely responsible for its finances. The District is empowered to issue debt payable solely from District revenues.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if it appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Based upon the application of these criteria, the District has no component units.

The District's 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

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The District has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the District's accounting policies are described below.

Basis of Accounting

These financial statements follow the cash basis of accounting, which is 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.

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 cash 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.

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

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 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 these services 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 resolutions for the years ended December 31, 2008 and 2007.

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

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 and Investments

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. 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 \$5,701 and \$12,674 for the years ended December 31, 2008 and 2007, respectively.

Capital Assets

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

Net Assets

Net assets represent the difference between assets and liabilities. Since under the District’s current basis of accounting, the District does not record any other assets other than cash and cash equivalents and does not record any liabilities, net assets is equivalent to cash and cash equivalents. The District currently does not record any restrictions on their net assets.

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

Operating and Nonoperating Cash Receipts and Cash Disbursements

Operating cash receipts are those receipts that are generated directly from the primary activity of the enterprise fund. For the District, these cash receipts are charges for water and sewer services provided. Operating cash disbursements are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. Nonoperating revenues are those revenues that are not generated directly from primary activities. For the District, this revenue is interest, tap fees, miscellaneous and special assessments. Nonoperating expenses are cost other than those necessary cost incurred to provide goods and services that are the primary activity of the District. For the District, these expenses are principal and interest payments related to the OWDA debt.

NOTE 3 - COMPLIANCE

The District did not utilize purchase orders, therefore all of the expenditures tested were not certified in a timely manner for 2008 and 2007 resulting in a noncompliance with Ohio Revised Code Section 5705.41(D).

NOTE 4 - CASH AND INVESTMENTS – 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 District 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.

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, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in 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;

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

NOTE 4 - CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS – (Continued)

7. The State Treasurer’s investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District’s total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District’s average portfolio.

Protection of the District’s deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the 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.

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 Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

The bank balances were \$286,890 and \$216,742 at December 31, 2008 and 2007, respectively. At both fiscal year ends, the bank balances were either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

Investments – The District’s investments and risk categories are shown below.

| | 2008 | | 2007 | |
|-----------|------------|----------------------------------|------------|----------------------------------|
| | Fair Value | Weighted Average Maturity (Yrs.) | Fair Value | Weighted Average Maturity (Yrs.) |
| STAR Ohio | \$ 128,353 | < One Year | \$ 260,774 | < One Year |

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by investing only in STAR Ohio.

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

NOTE 4 - CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS – (Continued)

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s investment policy does not address credit risk beyond the requirements of the Ohio Revised Code. The District limits its investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s investment policy allows investments in STAR Ohio, repurchase agreements, certificates of deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% of its investments in STAR Ohio.

Custodial credit risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investment policy does not address custodial credit risk beyond the requirements of the Ohio Revised Code. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

NOTE 5 - DEBT

In connection with the OWDA loans, the District has pledged future water collection revenues to repay this debt. The loans are payable through their final maturities solely from water collection revenues received from water customers. The revenue available for these loans for 2008 and 2007 was \$437,661 and \$441,955, respectively, and principal and interest paid was \$495,318 and \$495,318, respectively. The coverage ratios for these loans were 0.88 and 0.89 for the years ended December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, debt obligations consisted of the following issuances:

| <u>Description</u> | <u>Balance at</u> <u>12/31/08</u> | <u>Balance at</u> <u>12/31/07</u> |
|---|--------------------------------------|--------------------------------------|
| #3154 - 1997 Ohio Water Development Authority (OWDA) Loan, (original issue amount of \$2,696,939), for the construction of sewer system, due in annual installments of \$214,595 through 2024, bearing interest at 6.18%. | \$2,101,007 | \$2,180,827 |
| #3157 - 1998 OWDA Loan, (original issue amount of \$908,480), for the construction of sewer system, due in annual installments of \$68,788 through 2025, bearing interest at 5.66%. | 725,053 | 751,316 |
| #2146 - 1999 OWDA Loan, (original issue amount of \$944,000), for the construction of sewer system, due in annual installments of \$71,784 through 2026, bearing interest of 5.77%. | 784,330 | 809,753 |
| #3312 - 2000 OWDA Loan, (original issue amount of \$1,327,549), for the construction of sewer system, due in annual installments of \$107,049 through 2027, bearing interest of 6.397%. | 1,135,242 | 1,168,159 |
| #4325 - 2005 OWDA Loan, (original issue amount of \$469,965), for cash flow purposes, due in annual installments of \$33,107 through 2031, bearing interest of 4.99%. | <u>444,591</u> | <u>455,117</u> |
| Total debt obligations at December 31 | <u>\$5,190,223</u> | <u>\$5,365,172</u> |

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

NOTE 5 – DEBT – (Continued)

Transactions for the years ended December 31, 2008 and 2007 are summarized as follows:

| 2008 | Balance at | Proceeds | Payments | Balance at | Due Within |
|-------------------|---------------------|-------------|---------------------|---------------------|-------------------|
| | 12/31/07 | | | 12/31/08 | One Year |
| 1997 OWDA - #3154 | \$ 2,180,827 | \$ - | \$ (79,820) | \$ 2,101,007 | \$ 84,752 |
| 1998 OWDA - #3157 | 751,316 | - | (26,263) | 725,053 | 27,750 |
| 1999 OWDA - #2146 | 809,753 | - | (25,423) | 784,330 | 26,911 |
| 2000 OWDA - #3312 | 1,168,159 | - | (32,917) | 1,135,242 | 35,054 |
| 2005 OWDA - #4325 | 455,117 | - | (10,526) | 444,591 | 11,058 |
| | <u>\$ 5,365,172</u> | <u>\$ -</u> | <u>\$ (174,949)</u> | <u>\$ 5,190,223</u> | <u>\$ 185,525</u> |

| 2007 | Balance at | Proceeds | Payments | Balance at | Due Within |
|-------------------|---------------------|-------------|---------------------|---------------------|-------------------|
| | 12/31/06 | | | 12/31/07 | One Year |
| 1997 OWDA - #3154 | \$ 2,256,001 | \$ - | \$ (75,174) | \$ 2,180,827 | \$ 79,820 |
| 1998 OWDA - #3157 | 776,172 | - | (24,856) | 751,316 | 26,263 |
| 1999 OWDA - #2146 | 833,770 | - | (24,017) | 809,753 | 25,423 |
| 2000 OWDA - #3312 | 1,199,069 | - | (30,910) | 1,168,159 | 32,917 |
| 2005 OWDA - #4325 | 465,137 | - | (10,020) | 455,117 | 10,526 |
| | <u>\$ 5,530,149</u> | <u>\$ -</u> | <u>\$ (164,977)</u> | <u>\$ 5,365,172</u> | <u>\$ 174,949</u> |

Future principal and interest payments on all loans are as follows:

| Year Ending December 31, | OWDA #3154 | | OWDA #3157 | | OWDA #2146 | |
|-----------------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | \$ 84,752 | \$ 129,843 | \$ 27,750 | \$ 41,038 | \$ 26,911 | \$ 44,873 |
| 2010 | 89,990 | 124,605 | 29,321 | 39,467 | 28,485 | 43,299 |
| 2011 | 95,552 | 119,043 | 30,980 | 37,808 | 30,153 | 41,631 |
| 2012 | 101,457 | 113,138 | 32,734 | 36,054 | 31,918 | 39,866 |
| 2013 | 107,727 | 106,868 | 34,586 | 34,202 | 33,786 | 37,998 |
| 2014-2018 | 647,114 | 425,861 | 204,608 | 139,332 | 201,015 | 157,905 |
| 2019-2023 | 873,362 | 199,603 | 269,446 | 74,494 | 267,146 | 91,774 |
| 2024-2028 | 101,053 | 6,244 | 95,628 | 4,564 | 164,916 | 14,544 |
| Total | <u>\$ 2,101,007</u> | <u>\$ 1,225,205</u> | <u>\$ 725,053</u> | <u>\$ 406,959</u> | <u>\$ 784,330</u> | <u>\$ 471,890</u> |

| Year Ending December 31, | OWDA #3312 | | OWDA #4325 | | Total | |
|-----------------------------|---------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | \$ 35,054 | \$ 71,990 | \$ 11,058 | \$ 22,049 | \$ 185,525 | \$ 309,793 |
| 2010 | 37,329 | 69,715 | 11,617 | 21,490 | 196,742 | 298,576 |
| 2011 | 39,753 | 67,291 | 12,204 | 20,903 | 208,642 | 286,676 |
| 2012 | 42,334 | 64,710 | 12,820 | 20,287 | 221,263 | 274,055 |
| 2013 | 45,082 | 61,962 | 13,468 | 19,639 | 234,649 | 260,669 |
| 2014-2018 | 273,304 | 261,916 | 78,260 | 87,275 | 1,404,301 | 1,072,289 |
| 2019-2023 | 374,311 | 160,909 | 100,132 | 65,403 | 1,884,397 | 592,183 |
| 2024-2028 | 288,075 | 33,045 | 128,115 | 37,420 | 777,787 | 95,817 |
| 2029-2031 | - | - | 76,917 | 5,853 | 76,917 | 5,853 |
| Total | <u>\$ 1,135,242</u> | <u>\$ 791,538</u> | <u>\$ 444,591</u> | <u>\$ 300,319</u> | <u>\$ 5,190,223</u> | <u>\$ 3,195,911</u> |

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

NOTE 5 – DEBT – (Continued)

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 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments (“Members”).

Pursuant to § 2744.081 of the Ohio Revised Code, the Plan is 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. Coverages are as follows:

| <u>Coverage Type</u> | <u>Limit</u> | <u>Deductible</u> |
|--|--------------|--|
| <u>Property Coverages</u> | | |
| Blanket Building and Personal Property | \$ 510,766 | \$ 500 |
| Boiler and Machinery | 510,766 | 1,000 All Other Property 10,000 Deep Well Pumps |
| <u>Inland Marine Coverages</u> | | |
| Electronic Equipment/Media | 5,000 | 250 |
| <u>Liability Coverages</u> | | |
| Governmental General Liability | | |
| Each Occurrence | 1,000,000 | - |
| Aggregate | 3,000,000 | - |
| Employer's Liability | 1,000,000 | - |
| Public Officials Liability | | |
| Each Wrongful Act | 1,000,000 | 1,000 |
| Annual Aggregate | 3,000,000 | |
| <u>Crime Coverage</u> | | |
| Theft, Disappearance and Destruction | 1,000 | - |
| Public Employee Dishonesty | 5,000 | - |
| Forgery or Alteration | 5,000 | - |
| Computer Fraud | 1,000 | 100 |
| Funds Transfer Fraud | 5,000 | - |

Settlement amounts did not exceed insurance coverage for the past three fiscal years. There has not been any significant reduction in coverage from the prior year.

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 obligation to the Plan. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Plan’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

NOTE 6 - RISK MANAGEMENT - (Continued)

| | <u>2008</u> | <u>2007</u> |
|-----------------|---------------------|---------------------|
| Assets | \$ 10,471,114 | \$ 11,136,455 |
| Liabilities | <u>(5,286,781)</u> | <u>(4,273,553)</u> |
| Members' Equity | <u>\$ 5,184,333</u> | <u>\$ 6,862,902</u> |

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

NOTE 7 – PENSION

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the Public Employees Retirement System have an option to choose Social Security or the Public Employees Retirement System. As of December 31, 2008, all members of the Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 8 – CONTINGENT LIABILITIES

The District has no contingent liabilities.

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2007, the District implemented Governmental Accounting Standards Board Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," as applicable to the District's cash basis of accounting, which establishes criteria that governments use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and disclosure requirements for future revenues that are pledged or sold. The implementation of this GASB Statement had no effect on the net assets of the District as previously reported at December 31, 2006.

NOTE 10 – SUBSEQUENT EVENT

In May of 2010, Chris Buttke replaced Glenn DeBoard as Clerk/Treasurer for the Clinton Water and Sewer District.



Julian & Grube, Inc.
Serving Ohio Local Governments

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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

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

To the Board of Trustees:

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, 2008 and 2007, and have issued our report thereon dated September 10, 2010, wherein we noted the Clinton Water and Sewer 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Clinton Water and Sewer District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clinton Water and Sewer District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Board of Trustees
Clinton Water and Sewer District

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider significant deficiencies in internal control over financial reporting. We consider finding 2008-CWSD-001 and 2008-CWSD-002 to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

Compliance and Other Matters

As part of reasonably assuring whether Clinton Water and Sewer District's financial statements are free of material misstatements, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2008-CWSD-003.

We also noted certain matters not requiring inclusion in this report that we reported to the Clinton Water and Sewer District's management in a separate letter dated September 10, 2010.

Clinton Water and Sewer District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Clinton Water and Sewer District's responses and accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and Board of Trustees of the Clinton Water and Sewer District. We intend it for no one other than these specified parties.



Julian & Grube, Inc.
September 10, 2010

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

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2008 AND 2007**

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

| | |
|----------------|---------------|
| Finding Number | 2008-CWSD-001 |
|----------------|---------------|

Significant Deficiency - Use of Receipts

The District does not issue receipts for revenues collected. Furthermore, when recording the amount received to the general ledger, a description of the amount collected is not always included. We recommend when cash, checks, direct deposits, or credit cards are received, that the clerk/treasurer prepare a receipt. The receipts should be numbered consecutively and include the following, but not limited to: Receipt number, total amount received, date of receipt, name of entity/person presenting the money, reason for receipt, account code, and signature of the clerk/treasurer.

The original copy should be given to the person(s) making the payment, if in person, while the duplicate should remain in the receipts book. Any source documents supporting the receipt should be attached to the duplicate in the receipts book, where possible. The receipt should be prepared carefully, as the duplicate is the source document for posting the entry in the cash journal and receipts ledger.

Another option is to keep the receipt book in triplicate. The original should be given to the person(s) making the payment. The second copy can be attached to the support and kept in numerical order and the third copy can remain intact in the receipt book.

We recommend the District Board adopt a policy directing the receipt process of all revenue.

Client Response: The District Board will adopt a receipt policy and monitor revenues monthly.

| | |
|----------------|---------------|
| Finding Number | 2008-CWSD-002 |
|----------------|---------------|

Significant Deficiency - Tap-in Fees

The District did not maintain sufficient records to identify tap-ins completed during 2008 and 2007. The District has no formal tap-in applications for the Board of Trustees to review and no policies directing the tap-in application process.

Failure to maintain tap-in applications and record of Board approval could lead to incorrect fees being collected and prevent the District from ensuring all tap-in fees were collected.

We recommend the District create a tap-in policy that indicates the tap-in application procedure and the appropriate approvals required. The Board of Trustees should review each tap-in application and approve the tap-in and related fee in the minutes of their Trustee meetings. The District should also obtain annual information from the Mount Vernon City Water and Sewer Department as to the number of new tap-ins for each year and verify that all new tap-ins were approved by the Board. These steps should help reduce the risk of incorrect rates being assessed to citizens and the risk that the District will not properly receive a tap-in when a citizen connects to the District's system.

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

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2008 AND 2007**

| | |
|---|-----------------------------|
| 1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
| Finding Number | 2008-CWSD-002 - (Continued) |

Client Response: The District plans to monitor tap-ins more closely in the future and try to work with the Mount Vernon City Water and Sewer Department to ensure all tap-in fees are properly collected.

| | |
|----------------|---------------|
| Finding Number | 2008-CWSD-003 |
|----------------|---------------|

Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of money are 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.

The District did not utilize purchase orders, therefore all of the expenditures tested were not certified in a timely manner for 2008 and 2007.

Without certification, the District may expend more funds than available in the treasury, in the process of collection or the funds appropriated. It may also result in unnecessary purchases.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. A policy or procedure statement adopted by the Trustees and distributed at least annually may be beneficial. The District should consider using “Then and Now’ certificates where applicable.

Client Response: The Clerk/Treasurer will attempt to certify expenses prior to the purchase.

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

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|-----------------------|--|-------------------------|---|
| 2006-CWSD-001 | 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. | No | Repeated as finding 2008-CWSD-003 |
| 2006-CWSD-002 | Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated. | No | Partially corrected - Moved to Management Letter |



Mary Taylor, CPA
Auditor of State

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
NOVEMBER 16, 2010**