

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

Financial Statements
(Audited)

For The Years Ended
December 31, 2009 and 2010

CHRIS BUTTKE, CLERK/TREASURER



Dave Yost • Auditor of State

Board of Trustees
Clinton Water and Sewer District
350 Johnson Ave.
Mt. Vernon, Ohio 43050-4726

We have reviewed the *Independent Accountants' Report* of the Clinton Water and Sewer District, Knox County, prepared by Julian & Grube, Inc., for the audit period January 1, 2009 through December 31, 2010. 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 "Dave Yost".

Dave Yost
Auditor of State

April 17, 2012

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

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Accountants' Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 6
Basic Financial Statements:	
Statements of Net Assets - Cash Basis.....	7
Statement of Cash Receipts, Cash Disbursements, and Changes in Net Cash Assets - Cash Basis	8
Notes to the Basic Financial Statements	9 - 18
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19 - 20
Schedule of Findings and Responses	21
Status of Prior Audit Findings	22

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' 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, 2010 and 2009, 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, 2010 and 2009, 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 January 31, 2012, 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

We conducted our audit to opine on the Clinton Water and Sewer District's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, governmental activities and long-term debt. These tables provide additional information, but are not part of the basic financial statements. However, these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

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

Julian & Grube, Inc.
January 31, 2012

Clinton Water and Sewer District
Knox County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and 2009
(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, 2010 and 2009, 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 2010 and 2009 are as follows:

The District's net cash assets decreased by \$37,916 (-10.4%) in 2010 and \$45,843 (-11.2%) in 2009.

The District's only fund is the water and sewer fund. This fund's operating cash receipts increased by \$32,985 (10.7%) in 2010 and increased by \$21,497 (7.5%) in 2009 and operating cash disbursements decreased by \$4,760 (-11.7%) in 2010 and increased by \$6,692 (19.7%) in 2009.

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 accounting principles generally accepted in the United States of America. 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, 2010 and 2009
 (Unaudited)

STATEMENTS OF NET ASSETS-CASH BASIS

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

TABLE 1	<u>2010</u>	<u>2009</u>	<u>Change Amount</u>	<u>2008</u>	<u>Change Amount</u>
Cash and Cash Equivalents	\$ 325,500	\$ 363,416	\$ (37,916)	\$ 409,259	\$ (45,843)
Total Assets	<u>\$ 325,500</u>	<u>\$ 363,416</u>	<u>\$ (37,916)</u>	<u>\$ 409,259</u>	<u>\$ (45,843)</u>
Net Assets -					
Unrestricted	\$ 325,500	\$ 363,416	\$ (37,916)	\$ 409,259	\$ (45,843)
Total Net Assets	<u>\$ 325,500</u>	<u>\$ 363,416</u>	<u>\$ (37,916)</u>	<u>\$ 409,259</u>	<u>\$ (45,843)</u>

The District's net assets decreased by \$37,916 in 2010 and \$45,843 in 2009. The decreases in both 2010 and 2009 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, 2010 and 2009
(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>2010</u>	<u>2009</u>	<u>Difference</u>	<u>2008</u>	<u>Difference</u>
Operating Cash Receipts	\$ 341,090	\$ 308,105	\$ 32,985	\$ 286,608	\$ 21,497
Operating Cash Disbursements	<u>35,953</u>	<u>40,713</u>	<u>(4,760)</u>	<u>34,021</u>	<u>6,692</u>
Operating Cash Receipts Over Operating Cash Disbursements	305,137	267,392	37,745	252,587	14,805
Non-Operating Cash Receipts	152,265	182,083	(29,818)	174,631	7,452
Non-Operating Cash Disbursements	<u>495,318</u>	<u>495,318</u>	<u>-</u>	<u>495,318</u>	<u>-</u>
Changes in Net Assets	(37,916)	(45,843)	7,927	(68,100)	22,257
Net Assets, January 1	<u>363,416</u>	<u>409,259</u>	<u>(45,843)</u>	<u>477,359</u>	<u>(68,100)</u>
Net Assets, December 31	<u><u>\$ 325,500</u></u>	<u><u>\$ 363,416</u></u>	<u><u>\$ (37,916)</u></u>	<u><u>\$ 409,259</u></u>	<u><u>\$ (45,843)</u></u>

From 2009 to 2010 operating cash receipts increased \$32,985 due to an increase in receipts collected from charges for services as a result of a rate increase during 2010. Operating cash disbursements decreased \$4,760 primarily due to decreased expenditures for contractual services. Non-operating cash receipts decreased \$29,818 primarily due to a decrease in cash receipts for special assessments and tap fees. The decrease in special assessments was the result of timing differences in collections by the County Auditor. The decrease in tap fees was the result of a large tap fee during 2009 which was not duplicated in 2010. Non-operating cash disbursements were unchanged as debt payments are consistent year to year.

From 2008 to 2009 operating cash receipts increased \$21,497 due to an increase in receipts collected from charges for services. Operating cash disbursements increased \$6,692 primarily due to increased expenditures for contractual services. Non-operating cash receipts increased \$7,452 primarily due to an increase in cash receipts for special assessments and tap fees which were partially offset by a decrease in cash receipts for interest resulting from lower interest rates and cash on hand at December 31, 2009. Non-operating cash disbursements were unchanged as debt payments are consistent year to year.

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.

Clinton Water and Sewer District
Knox County, Ohio
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and 2009
(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	2010	2009	Difference	2008	Difference
1997 OWDA - #3154	\$ 1,926,265	\$ 2,016,255	\$ (89,990)	\$ 2,101,007	\$ (84,752)
1998 OWDA - #3157	667,982	697,303	(29,321)	725,053	(27,750)
1999 OWDA - #2146	728,934	757,419	(28,485)	784,330	(26,911)
2000 OWDA - #3312	1,062,858	1,100,188	(37,330)	1,135,242	(35,054)
2005 OWDA - #4325	421,915	433,532	(11,617)	444,591	(11,059)
Total Long Term Debt	<u>\$ 4,807,954</u>	<u>\$ 5,004,697</u>	<u>\$ (196,743)</u>	<u>\$ 5,190,223</u>	<u>\$ (185,526)</u>

CASH AND CASH EQUIVALENTS

Cash and cash equivalents on December 31, 2010 and 2009 were \$325,500 and \$363,416, 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. It is important to note that the District receives their service charges through collections made by the City of Mount Vernon and remitted to the District on a quarterly basis. There are a number of delinquent accounts receivable for which the District is working diligently with the City to ensure that these delinquencies are followed up on so that the District's cash flow does not continue to be negatively impacted.

The District is also reviewing their current insurance policy to determine if any cost savings may be achieved by being more efficient in the coverage required given the nature of the operations of the District.

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, Board Member/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 of December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and Cash Equivalents	\$ 325,500	\$ 363,416
<i>Total Assets</i>	<u>\$ 325,500</u>	<u>\$ 363,416</u>
Net Assets		
Unrestricted	\$ 325,500	\$ 363,416
<i>Total Net Assets</i>	<u>\$ 325,500</u>	<u>\$ 363,416</u>

See accompanying notes to the basic financial statements.

Clinton Water and Sewer District
Knox County, Ohio
Statements of Cash Receipts, Disbursements and
Changes in Net Assets - Cash Basis
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Cash Receipts		
Charges for Services	\$ 341,090	\$ 308,105
Operating Cash Disbursements		
Personal Services	2,514	2,172
Other Contractual Services	27,378	35,085
Other	3,179	795
General Operating	251	36
Insurance	2,631	2,625
<i>Total Operating Cash Disbursements</i>	<u>35,953</u>	<u>40,713</u>
Operating Cash Receipts Over Operating Cash Disbursements	<u>305,137</u>	<u>267,392</u>
Non-Operating Cash Receipts		
Interest	171	678
Special Assessments	148,094	161,405
Tap Fees	4,000	20,000
<i>Total Non-Operating Cash Receipts</i>	<u>152,265</u>	<u>182,083</u>
Non-Operating Cash Disbursements		
Debt Service - Principal	196,743	185,526
Debt Service - Interest	298,575	309,792
<i>Total Non-Operating Cash Disbursements</i>	<u>495,318</u>	<u>495,318</u>
<i>Changes in Net Assets</i>	(37,916)	(45,843)
<i>Net Cash Assets, January 1</i>	<u>363,416</u>	<u>409,259</u>
<i>Net Cash Assets, December 31</i>	<u>\$ 325,500</u>	<u>\$ 363,416</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, 2010 and 2009

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, 2010 and 2009. A summary of 2010 and 2009 budgetary activity appears in Note 3, entitled “Budgetary Activity.”

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.

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 \$171 and \$678 for the years ended December 31, 2010 and 2009, 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.

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

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

Operating 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. All receipts and disbursements not meeting these definitions are reported as nonoperating receipts and disbursements.

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2010 and 2009 follows:

Budgeted vs. Actual Receipts

	2010	2009
Budgeted receipts	\$ 519,800	\$ 467,500
Actual receipts	493,355	490,188
Variance - favorable/(unfavorable)	\$ (26,445)	\$ 22,688

Budgeted vs. Actual Budgetary Basis Expenditures

	2010	2009
Appropriation authority	\$ 540,318	\$ 540,318
Budgetary expenditures	531,271	536,031
Variance - favorable/(unfavorable)	\$ 9,047	\$ 4,287

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;

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

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

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;
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.

Clinton Water and Sewer District
 Knox County, Ohio
 Notes to the Basic Financial Statements
 For the Years Ended December 31, 2010 and 2009

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

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 \$325,810 and \$285,913 at December 31, 2010 and 2009, 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.

	2010		2009	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$ -	< One Year	\$ 78,668	< 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 for the year ended December 31, 2009. The District had no investments at December 31, 2010.

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 for the year ended December 31, 2009.

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.

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

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 2010 and 2009 was \$489,184 and \$469,510, respectively, and principal and interest paid was \$495,318 and \$495,318, respectively. The coverage ratios for these loans were 0.99 and 0.95 for the years ended December 31, 2010 and 2009, respectively. The original issue amount of all of the OWDA debt shown below was a total of \$6,346,933.

At December 31, 2010 and 2009, debt obligations consisted of the following issuances:

<u>Description</u>	<u>Balance at 12/31/10</u>	<u>Balance at 12/31/09</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%.	\$1,926,265	\$2,016,255
#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%.	667,982	697,303
#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%.	728,934	757,419
#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 2026, bearing interest of 6.397%.	1,062,858	1,100,188
#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>421,915</u>	<u>433,532</u>
Total debt obligations at December 31	<u>\$4,807,954</u>	<u>\$5,004,697</u>

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

NOTE 5 - DEBT – (Continued)

Transactions for the years ended December 31, 2010 and 2009 are summarized as follows:

	<u>Balance at</u> <u>12/31/2009</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at</u> <u>12/31/2010</u>	<u>Due Within</u> <u>One Year</u>
1997 OWDA - #3154	\$ 2,016,255	\$ -	\$ (89,990)	\$ 1,926,265	95,551
1998 OWDA - #3157	697,303	-	(29,321)	667,982	30,980
1999 OWDA - #2146	757,419	-	(28,485)	728,934	30,153
2000 OWDA - #3312	1,100,188	-	(37,330)	1,062,858	39,753
2005 OWDA - #4325	433,532	-	(11,617)	421,915	12,204
	<u>\$ 5,004,697</u>	<u>\$ -</u>	<u>\$ (196,743)</u>	<u>\$ 4,807,954</u>	<u>\$ 208,641</u>

	<u>Balance at</u> <u>12/31/2008</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at</u> <u>12/31/2009</u>	<u>Due Within</u> <u>One Year</u>
1997 OWDA - #3154	\$ 2,101,007	\$ -	\$ (84,752)	\$ 2,016,255	\$ 89,990
1998 OWDA - #3157	725,053	-	(27,750)	697,303	29,321
1999 OWDA - #2146	784,330	-	(26,911)	757,419	28,485
2000 OWDA - #3312	1,135,242	-	(35,054)	1,100,188	37,330
2005 OWDA - #4325	444,591	-	(11,059)	433,532	11,617
	<u>\$ 5,190,223</u>	<u>\$ -</u>	<u>\$ (185,526)</u>	<u>\$ 5,004,697</u>	<u>\$ 196,743</u>

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

NOTE 5 - DEBT – (Continued)

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
2011	\$ 95,551	\$ 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	114,384	100,211	36,544	32,244	35,764	36,020
2015	121,453	93,142	38,612	30,176	37,857	33,926
2016-2020	729,570	343,403	228,425	115,514	225,236	133,684
2021-2025	656,123	94,957	266,101	43,444	299,334	59,584
2026	-	-	-	-	34,886	1,006
Total	<u>\$ 1,926,265</u>	<u>\$ 970,762</u>	<u>\$ 667,982</u>	<u>\$ 329,442</u>	<u>\$ 728,934</u>	<u>\$ 383,715</u>

Year Ending December 31,	OWDA #3312		OWDA #4325		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 39,753	\$ 67,292	\$ 12,204	\$ 20,903	\$ 208,641	\$ 286,677
2012	42,334	64,711	12,820	20,287	221,263	274,056
2013	45,082	61,962	13,468	19,639	234,649	260,669
2014	48,009	59,036	14,148	18,958	248,849	246,469
2015	51,126	55,919	14,863	18,244	263,911	231,407
2016-2020	309,941	225,382	86,369	79,167	1,579,541	897,150
2021-2025	424,488	110,735	110,505	55,030	1,756,551	363,750
2026-2030	102,125	4,920	141,387	24,148	278,398	30,074
2031	-	-	16,151	402	16,151	402
Total	<u>\$ 1,062,858</u>	<u>\$ 649,957</u>	<u>\$ 421,915</u>	<u>\$ 256,778</u>	<u>\$ 4,807,954</u>	<u>\$ 2,590,654</u>

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

Prior to 2009, the District belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

NOTE 6 - RISK MANAGEMENT - (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management (“OPRM”), are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009 respectively.

The Plan formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009 respectively. The District does not participate in this coverage.

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

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.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009 and include amounts for both OPRM and OPHC:

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members’ Equity	<u>\$7,191,485</u>	<u>\$300,035</u>	<u>\$6,323,701</u>	<u>\$105,185</u>

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

Clinton Water and Sewer District
Knox County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

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, 2010, 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 - NONCOMPLIANCE

- i.* The District did not utilize purchase orders during 2010 and 2009, in noncompliance with Ohio Revised Code Section 5705.41(D).
- ii.* The District did not timely deposit monies received during 2010 and 2009, in noncompliance with Ohio Revised Code Section 9.38.



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *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, 2010 and 2009, and have issued our report thereon dated January 31, 2012, 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 internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Clinton Water and Sewer District 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 was not designed to identify all deficiencies in internal control over financial reporting 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.

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 two instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2010-CWSD-001 and 2010-CWSD-002.

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.
January 31, 2012

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

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009 AND 2010**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
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Finding Number	2010-CWSD-001
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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 2010 and 2009.

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.

Finding Number	2010-CWSD-002
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Ohio Revised Code Section 9.38 requires that deposits of public money be made in a timely manner. Public money must be deposited with the Clerk/Treasurer of the public office or to a designated depository within three business days following the day of receipt.

The District did not make timely deposits of receipts during the period under audit.

There is an increased risk of loss from burglary, misplacement, misappropriation, or the cash is not available for investment.

We recommend the District monitor its collections and ensure that monies are deposited in a timely manner. This will help improve cash flow and reduce the risk of loss. Further guidance regarding specific dollar amounts can be located within the Ohio Compliance Supplement.

Client Response: The District is utilizing electronic transfer of funds from the City of Mt. Vernon beginning in 2011.

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

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-CWSD-001	<u>Significant Deficiency - Use of Receipts</u> - 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.	Yes	Finding no longer valid
2008-CWSD-002	<u>Significant Deficiency - Tap-in Fees</u> - The District did not maintain sufficient records to identify tap-ins completed during 2008 and 2007.	Yes	Finding no longer valid
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.	No	Finding repeated as 2010-CWSD-001



Dave Yost • 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
MAY 1, 2012**