

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

*Basic Cash Basis
Financial Statements
(Audited)*

For The Years Ended
December 31, 2006 and 2005

GLENN DEBOARD, CLERK/TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Clinton Water and Sewer District, Knox County, prepared by Julian & Grube, Inc., for the audit period January 1, 2005 through December 31, 2006. 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

August 7, 2007

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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 Auditors' 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, (the "District"), as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic cash basis financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the financial statements of the Clinton Water and Sewer District, Knox County, Ohio, as of December 31, 2006 and 2005, and the respective changes in cash basis financial position, thereof and 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 June 22, 2007, on our consideration of the 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditors' Report
Clinton Water and Sewer District
Page Two

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

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

Julian & Grube, Inc.
June 22, 2007

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005
(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, 2006 and 2005, 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 2006 and 2005 are as follows:

The District's net cash assets increased by \$200,788 (67.4%) in 2006 and \$49,105 (19.7%) in 2005.

The District's only fund is the water and sewer fund. This fund's Operating Cash Receipts increased by \$98,881 (51.8%) in 2006 and \$36,677 (23.8%) in 2005 and Operating Cash Disbursements decreased by \$21,310 (-35.9%) in 2006 and \$21,398 (-26.5%) in 2005.

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, Cash Disbursements and Changes in Net Cash Assets-Enterprise Fund 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 a 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.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)**

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.

STATEMENTS OF NET ASSETS-CASH BASIS

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

TABLE 1	<u>2006</u>	<u>2005</u>	<u>Change Amount</u>	<u>2004</u>	<u>Change Amount</u>
Cash and Cash Equivalents	\$ 498,911	\$ 298,123	\$200,788	\$ 249,018	\$ 49,105
Total Assets	<u>\$ 498,911</u>	<u>\$ 298,123</u>	<u>\$200,788</u>	<u>\$ 249,018</u>	<u>\$ 49,105</u>
Net Assets -					
Unrestricted	\$ 498,911	\$ 298,123	\$200,788	\$ 249,018	\$ 49,105
Total Net Assets	<u>\$ 498,911</u>	<u>\$ 298,123</u>	<u>\$200,788</u>	<u>\$ 249,018</u>	<u>\$ 49,105</u>

The District's Net Assets increased by \$200,788 in 2006 and \$49,105 in 2005. The increase in 2006 was primarily the result of an increase in charges for services and a decrease in debt service principal and interest payments due to the District's payment of the January 1, 2006 O.W.D.A. payment in December of 2005.

The increase in 2005 was primarily the result of an increase in charges for services and proceeds from an Ohio Water Development Authority (O.W.D.A.) loan which was made to assist the District with their short term cash flow needs. These changes were partially offset by an increase in O.W.D.A. loan repayments and a payment for litigation settlement of \$17,500.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)**

STATEMENTS OF CHANGES IN NET ASSETS – CASH BASIS

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

TABLE 2	<u>2006</u>	<u>2005</u>	<u>Difference</u>	<u>2004</u>	<u>Difference</u>
Operating Cash Receipts	\$289,701	\$190,820	\$98,881	\$154,143	\$36,677
Operating Cash Disbursements	<u>38,132</u>	<u>59,442</u>	<u>(21,310)</u>	<u>80,840</u>	<u>(21,398)</u>
Operating Cash Receipts Over/ (Under) Operating Cash Disbursements	251,569	131,378	120,191	73,303	58,075
Non-Operating Cash Receipts	196,878	636,797	(439,919)	205,230	431,567
Non-Operating Cash Disbursements	<u>247,659</u>	<u>719,070</u>	<u>(471,411)</u>	<u>463,211</u>	<u>255,859</u>
Changes in Net Assets	200,788	49,105	151,683	(184,678)	233,783
Net Assets, January 1	<u>298,123</u>	<u>249,018</u>	<u>49,105</u>	<u>433,696</u>	<u>(184,678)</u>
Net Assets, December 31	<u><u>\$498,911</u></u>	<u><u>\$298,123</u></u>	<u><u>\$200,788</u></u>	<u><u>\$249,018</u></u>	<u><u>\$49,105</u></u>

From 2005 to 2006 operating cash receipts increased \$98,881 due to an increase in receipts collected from charges for services. Operating cash disbursements decreased \$21,310 primarily due to decreased expenditures for professional services. Non-operating cash receipts decreased \$439,919 primarily due to the District not receiving proceeds from O.W.D.A. loans during fiscal year 2006. Non-operating cash disbursements decreased \$471,411 mainly because the District paid its January 1, 2006 O.W.D.A. loan payment in December of 2005.

From 2004 to 2005 operating cash receipts increased \$36,677 due to an increase in receipts collected from charges for services. Operating cash disbursements decreased \$21,398 primarily due to decreased expenditures for professional services. Non-operating cash receipts increased \$431,567 primarily due to proceeds from an O.W.D.A. loan for cash flow purposes, which was partially offset by a decrease in special assessment receipts. Non-operating cash disbursements increased because the District paid its January 1, 2006 OWDA loan payment in December of 2005 resulting in one extra payment in 2005. The District also had a one time litigation settlement of \$17,500.

CAPITAL ASSETS

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The District had no capital outlay disbursements during fiscal years 2006 and 2005.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)**

DEBT

Under the cash basis of accounting the District does not report bonds, long-term notes or short-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 the Note 5 of the Notes to the Basic Financial Statements.

TABLE 3	<u>2006</u>	<u>2005</u>	<u>Difference</u>	<u>2004</u>	<u>Difference</u>
1997 OWDA - #3154	\$ 2,256,001	\$ 2,292,461	\$ (36,460)	\$ 2,393,477	\$ (101,016)
1998 OWDA - #3157	776,172	788,258	(12,086)	821,962	(33,704)
1999 OWDA - #2146	833,770	845,276	(11,506)	862,054	(16,778)
2000 OWDA - #3312	1,199,069	1,213,810	(14,741)	1,255,351	(41,541)
2005 OWDA - #4325	465,137	469,965	(4,828)	-	469,965
Total Long Term Debt	<u><u>\$ 5,530,149</u></u>	<u><u>\$ 5,609,770</u></u>	<u><u>\$ (79,621)</u></u>	<u><u>\$ 5,332,844</u></u>	<u><u>\$ 276,926</u></u>

CASH AND CASH EQUIVALENTS

Cash and cash equivalents on December 31, 2006 and 2005 were \$498,911 and \$298,123, 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. Glenn DeBoard, Clerk/Treasurer, Clinton Water and Sewer District, 350 Johnson Avenue, Mount Vernon, Ohio 43050-4726 or (740) 398-9975.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

**Statements of Net Assets - Cash Basis
December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Assets		
Cash and Cash Equivalents	\$ 498,911	\$ 298,123
<i>Total Assets</i>	<u>\$ 498,911</u>	<u>\$ 298,123</u>
Net Assets		
Unrestricted	\$ 498,911	\$ 298,123
<i>Total Net Assets</i>	<u>\$ 498,911</u>	<u>\$ 298,123</u>

See accompanying notes to the basic financial statements.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

**Statements of Cash Receipts, Cash Disbursements and
Changes in Net Cash Assets - Enterprise Fund
For the Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Operating Cash Receipts		
Charges for services	\$ 289,701	\$ 190,820
Operating Cash Disbursements		
Personal services	2,470	2,600
Other contractual services	32,683	53,789
Office supplies and miscellaneous	160	282
General operating	266	-
Insurance	2,553	2,771
Total operating cash disbursements	<u>38,132</u>	<u>59,442</u>
Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>251,569</u>	<u>131,378</u>
Non-Operating Cash Receipts		
Proceeds from OWDA loan	-	485,804
Interest	1,559	539
Special assessments	159,879	145,954
Tap fees	34,940	4,000
Contractor bonds and fees	500	500
Total non-operating cash receipts	<u>196,878</u>	<u>636,797</u>
Non-Operating Cash Disbursements		
Debt service - principal	79,621	208,878
Debt service - interest	168,038	484,438
Debt service - loan fees and fiscal charges	-	7,754
Return of contractor bonds	-	500
Litigation settlement	-	17,500
Total non-operating cash disbursements	<u>247,659</u>	<u>719,070</u>
Changes in net assets	200,788	49,105
Net cash assets, January 1	<u>298,123</u>	<u>249,018</u>
<i>Net cash assets, December 31</i>	<u>\$ 498,911</u>	<u>\$ 298,123</u>

See accompanying notes to the basic financial statements.

CLINTON WATER AND SEWER DISTRICT KNOX COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2006 and 2005

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.

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

Under the guidelines of GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise fund. A summary of the significant accounting policies applied in preparation of the accompanying financial statements follows:

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.

The fund type, which the Clinton Water and Sewer District uses, is described below:

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

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.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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

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 for the years ended December 31, 2006 and 2005. A summary of 2006 and 2005 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. 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 \$1,559 and \$539 for the years ended December 31, 2006 and 2005, 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.

Operating Cash Receipts and Cash Disbursements

Operating cash receipts are those revenues that are generated directly from the primary activity of the proprietary 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 service that is the primary activity of the fund.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

NOTE 3 – BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2006 and 2005 follows:

Budgeted vs. Actual Receipts

	2006	2005
Budgeted receipts	\$ 636,586	\$ 359,900
Actual receipts	486,579	827,617
Variance - favorable/(unfavorable)	\$ (150,007)	\$ 467,717

Budgeted vs. Actual Budgetary Basis Expenditures

	2006	2005
Appropriation authority	\$ 523,263	\$ 448,000
Budgetary expenditures	285,791	778,512
Variance - favorable/(unfavorable)	\$ 237,472	\$ (330,512)

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 Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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;

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
8. 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; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 Clerk/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. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities.

The bank balances were \$497,208 and \$298,628 at December 31, 2006 and 2005 respectively. At both fiscal year ends, \$100,000 of the bank balance was covered by federal depository insurance. The remaining balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

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

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

	2006		2005	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$ 3,591	< One Year	\$ 3,420	< 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 limiting the weighted average maturity of its investment portfolio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

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 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. 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

At December 31, 2006 and 2005, debt obligations consisted of the following issuances:

<u>Description</u>	<u>Balance at 12/31/06</u>	<u>Balance at 12/31/05</u>
#3154 - 1997 Ohio Water Development Authority (OWDA) Loan, (original issue amount of \$2,696,939), for the construction of sewer system, due in 2024, bearing interest at 6.18%.	\$2,256,001	\$2,292,461
#3157 - 1998 OWDA Loan, (original issue amount of \$908,480), for the construction of sewer system, due in 2025, bearing interest at 5.66%.	776,172	788,258
#2146 - 1999 OWDA Loan, (original issue amount of \$944,000), for the construction of sewer system, due in 2026, bearing interest of 5.77%.	833,770	845,276
#3312 - 2000 OWDA Loan, (original issue amount of \$1,327,549), for the construction of sewer system, due in 2026, bearing interest of 6.397%.	1,199,069	1,213,810
#4325 – 2005 OWDA Loan, (original issue amount of \$469,965), for cash flow purposes, due in 2031, bearing interest of 4.99%.	<u>465,137</u>	<u>469,965</u>
Total debt obligations at December 31	<u>\$5,530,149</u>	<u>\$5,609,770</u>

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

NOTE 5 – DEBT – (Continued)

Transactions for the years ended December 31, 2006 and 2005 are summarized as follows:

2006	Balance at 12/31/05	Proceeds	Payments	Balance at 12/31/06	Due Within One Year
1997 OWDA - #3154	\$ 2,292,461	\$ -	\$ (36,460)	\$ 2,256,001	\$ 75,174
1998 OWDA - #3157	788,258	-	(12,086)	776,172	24,857
1999 OWDA - #2146	845,276	-	(11,506)	833,770	24,017
2000 OWDA - #3312	1,213,810	-	(14,741)	1,199,069	30,910
2005 OWDA - #4325	469,965	-	(4,828)	465,137	10,020
	<u>\$ 5,609,770</u>	<u>\$ -</u>	<u>\$ (79,621)</u>	<u>\$ 5,530,149</u>	<u>\$ 164,978</u>

2005	Restated Balance at 12/31/04	Proceeds	Payments	Balance at 12/31/05	Due Within One Year
1997 OWDA - #3154	\$ 2,393,477	\$ -	\$ (101,016)	\$ 2,292,461	\$ 36,460
1998 OWDA - #3157	821,962	-	(33,704)	788,258	12,086
1999 OWDA - #2146	862,054	15,839	(32,617)	845,276	11,506
2000 OWDA - #3312	1,255,351	-	(41,541)	1,213,810	14,741
2005 OWDA - #4325	-	469,965	-	469,965	4,828
	<u>\$ 5,332,844</u>	<u>\$ 485,804</u>	<u>\$ (208,878)</u>	<u>\$ 5,609,770</u>	<u>\$ 79,621</u>

Beginning balances have been restated to agree to OWDA outstanding balances.

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
2007	\$ 75,174	\$ 139,421	\$ 24,857	\$ 43,932	\$ 24,017	\$ 47,767
2008	79,820	134,775	26,263	42,525	25,423	46,361
2009	84,752	129,842	27,750	41,038	26,911	44,873
2010	89,990	124,605	29,321	39,467	28,485	43,298
2011	95,552	119,044	30,980	37,808	30,153	41,631
2012-2016	573,980	498,997	183,272	160,666	179,398	179,520
2017-2021	774,656	298,317	241,355	102,585	238,420	120,500
2022-2026	482,077	54,409	212,374	28,381	280,963	42,064
Totals	<u>\$ 2,256,001</u>	<u>\$ 1,499,410</u>	<u>\$ 776,172</u>	<u>\$ 496,402</u>	<u>\$ 833,770</u>	<u>\$ 566,014</u>

– continued

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

NOTE 5 – DEBT – (Continued)

Year Ending December 31,	OWDA #3312		OWDA #4325		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 30,910	\$ 76,134	\$ 10,020	\$ 23,087	\$ 164,978	\$ 330,341
2008	32,917	74,128	10,526	22,580	174,949	320,369
2009	35,054	71,991	11,058	22,049	185,525	309,793
2010	37,329	69,715	11,617	21,491	196,742	298,575
2011	39,753	67,291	12,204	20,903	208,642	286,677
2012-2016	240,997	294,230	70,914	94,616	1,248,561	1,228,029
2017-2021	330,063	205,159	90,733	74,806	1,675,227	801,367
2022-2026	452,046	83,177	116,089	49,447	1,543,549	257,478
2027-2031	-	-	131,976	17,004	131,976	17,004
Totals	<u>\$ 1,199,069</u>	<u>\$ 941,825</u>	<u>\$ 465,137</u>	<u>\$ 345,983</u>	<u>\$ 5,530,149</u>	<u>\$ 3,849,633</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.

**CLINTON WATER AND SEWER DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

NOTE 6 – RISK MANAGEMENT

The District is exposed to various risks of loss 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	\$ 491,119	\$ 500
Boiler and Machinery	491,119	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 Pool’s audited financial statements (the most recent available information) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<u>2005</u>	<u>2004</u>
Assets	\$ 8,219,430	\$ 6,685,522
Liabilities	(2,748,639)	(2,227,808)
Members' Equity	<u>\$ 5,470,791</u>	<u>\$ 4,457,714</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**

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2006 and 2005

NOTE 7 – CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year 2006, the District implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The application of this new standard did not have any effect on the financial statements, nor did its implementation require a restatement of prior year balances.

NOTE 8 – CONTINGENT LIABILITIES

The District has no contingent liabilities.



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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*

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

We have audited the financial statements of the Clinton Water and Sewer District, Knox County, Ohio, as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 22, 2007, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clinton Water and Sewer District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Trustees
Clinton Water and Sewer District

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clinton Water and Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as described in the accompanying schedule of findings and responses as item 2006-CWSD-001 and 2006-CWSD-002.

We noted certain matters that we reported to the management of the District in a separate letter dated June 22, 2007.

Clinton Water and Sewer District's response 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.

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



Julian & Grube, Inc.
June 22, 2007

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

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005**

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

Finding Number	2006-CWSD-001
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that 100% of expenses tested were not certified in a timely manner for 2006 and 2005.

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

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

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

Finding Number	2006-CWSD-002
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Ohio Revised Code Section 5705.41 (B) requires in part that no subdivision is to expend monies unless it has been appropriated.

It was noted during the audit that the District had expenditures in excess of appropriations in total of \$330,512 at December 31, 2005. This in part is a result of reissuing a portion of an existing note to correct cash flow.

The District is expending monies that have not been appropriated which could result in a fund deficit.

We recommend that the District review Auditor of State Bulletin 97-010 relating to Note Rollovers and budget for such issuances appropriately. This will ensure the District's funds are spent according to Ohio law.

Client Response: The Clerk/Treasurer will review Auditor of State Bulletin 97-010 and attempt to budget appropriately.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-CWSD-001	Internal Revenue Code Chapter 26 United States Code Section 1.6041-1 and 1.6041-2 states, in part, that 1099 or W-2 must be issued for compensation in excess of \$600.	No	Partially corrected; moved to management letter.
2004-CWSD-002	Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Repeated as Finding 2006-CWSD-001.



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
AUGUST 21, 2007**