



**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**REGULAR AUDIT**

**JANUARY 1, 1999 - DECEMBER 31, 2000**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants .....	1
Statement of Cash Receipts, Cash Disbursements, and Change in Cash Balance For the Year Ended December 31, 2000 .....	3
Notes to the Financial Statements For the Year Ended December 31, 2000 .....	5
Statement of Cash Receipts, Cash Disbursements, and Change in Cash Balance For the Year Ended December 31, 1999 .....	13
Notes to the Financial Statements For the Year .....	15
Ended December 31, 1999	
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	21
Schedule of Findings .....	23

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## REPORT OF INDEPENDENT ACCOUNTANTS

Crains Run Water and Sewer District  
Montgomery County  
10383 Dayton-Cincinnati Pike  
Franklin, OH 45005

To the Board of Trustees:

We have audited the accompanying financial statements of Crains Run Water and Sewer District, Montgomery County, (the District) as of and for the years ended December 31, 2000 and December 31, 1999. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the District prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the District as of December 31, 2000 and 1999, and the cash receipts and disbursements for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2001, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

**Jim Petro**  
Auditor of State

August 14, 2001

**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGE IN CASH BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2000**

<b>Operating Cash Receipts:</b>	
Operating Revenues	\$18,568
Miscellaneous Income	5
	18,573
<b>Operating Cash Disbursements:</b>	
Personal Services	43,830
Contract Labor	975
Contractual Services	6,511
Office Supplies	749
Postage	250
Insurance	2,056
Utilities and Phone	14,678
Rent	2,600
Plant Operations and Testing	5,496
Chemical and Operating Supplies	8,515
Repairs and maintenance	4,630
General equipment purchased	702
Dues and licenses	600
Advertising and communications	90
Vehicle expense	467
Capital outlay	601,969
Total Operating Cash Disbursements	694,118
Operating Income (Loss)	(675,545)
<b>Non-Operating Cash Receipts:</b>	
Plan and review fees	2,221
Reimbursement for hydrant damages	531
Tap fees	11,700
Inspection fees	6,209
Meter fees	255
Special assessments	83,565
Loans from the Ohio Water Development Authority	652,278
Interest Income	167,996
Total Non-Operating Cash Receipts	924,755
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	309,298
Retainage paid	67,263
Miscellaneous	176
Total Non-Operating Cash Disbursements	376,737
Net Receipts Over (Under) Disbursements	(127,527)
Cash Balance, January 1	2,860,272
Cash Balance, December 31	\$2,732,745

*See Accompanying Notes to the Financial Statements.*

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**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000**

**1. DESCRIPTION OF THE ENTITY**

The Crains Run Water & Sewer District, Montgomery 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 established to provide water and sewer services to the residents of Miami Township. The District is directed by an appointed five-member Board of Trustees. The Trustees of Miami Township appoint the Trustees of the District.

The District's management believes this financial statement presents all activities for which the District is financially accountable.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, similar to the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when a payment is made rather than when a liability is incurred.

**B. Cash and Investments**

For reporting purposes, the District considers "fund cash balances" to be cash on hand, demand deposits, and all investments held by the District. Investments are reported as assets and are valued at cost. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

**C. 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 Crains Run Water and Sewer District uses, is described below:

**1. Propriety 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.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Enterprise Fund**

This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**D. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget and adopted and passed annual appropriations resolutions for the year ended December 31, 2000.

**1. 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. Appropriations lapse at year-end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

**E. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statement.

**F. Income Tax**

The District operates as a public water and sewer system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

**3. EQUITY IN POOLED CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS**

Active deposits are public deposits necessary to meet current demands. 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.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)**

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current two-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 can be deposited or invested in the following securities:

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

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. An investment 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.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)**

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.

The carrying amount of cash and investments at December 31, 2000 was as follows:

Crains Run carrying amount:

Demand deposits	\$ 14,659
Restricted deposits	94,769
Certificate of deposit	540,783
Petty cash	200
Investments at Morgan Stanley	1,707,154
Money market account at Morgan Stanley	<u>375,225</u>
Total Cash and Investments	<u>\$2,732,745</u>

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

**Deposits** – The bank carrying amounts for demand deposits, restricted deposits, and the certificates of deposits as of December 31, 2000 were \$38,036, \$94,769, and \$540,738, respectively. At fiscal year end, \$100,000 of the bank balance was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized per the GASB 3 classification; however, the remaining balance was collateralized with securities (valued at 102% of the deposits) held by the pledging financial institution's trust department but not in the name of the District. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC. In addition, \$200 was carried in a petty cash fund.

Restricted Deposits and Certificate of Deposit total \$635,507 as of December 31, 2000. Of these monies, \$94,769 is reserved to service the respective debt for Phase I construction and \$540,738 represents prepaid assessments and accumulated interest earnings.

**Investments** - The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the District's name. Money market funds and government securities are uninsured, unregistered investments held by an agent in the District's name and are considered Category 3 investments. The fair value of the money market funds and government securities is \$375,225 and \$1,630,027, respectively.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000  
(Continued)**

**4. DEFINED BENEFIT RETIREMENT PLAN**

All District full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by the state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2000. The rate rollback was 20%. The 2000 employer contribution rate was 10.84% of covered payroll. The District's contributions to PERS for the year ended December 31, 2000, was \$3,478.

**5. POST EMPLOYMENT BENEFITS**

The Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the System is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate was rolled back for the year 2000. The rate was 10.84% of covered payroll; 4.3% was the portion that was used to fund health care for 2000. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 1999. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 1999 was 7.75%. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 401,339. The District contributions actually made to fund postemployment benefits during fiscal year 2000 were \$1,380. \$10,805.5 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 1999 (the most recent data available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000  
(Continued)**

**5. POST EMPLOYMENT BENEFITS (Continued)**

The Retirement Board initiated significant policy changes during 2000 and enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for both the state and local government divisions and 6% for law enforcement divisions. The Board reallocated employer contributions from 4.2% to 4.3% at the beginning of the year to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons. PERS elected to return to an actuarially pre-funded type of disclosure because they believe it is a better presentation of PERS's actual funding methodology.

**6. DEBT**

Debt outstanding at December 31, 2000 consisted of two loans from the Ohio Water Development Authority, as described below:

	<u>Principal</u>	<u>Interest Rate</u>
Phase I construction loan	\$2,748,961	5.66%
Phase II construction loan	<u>1,277,749</u>	5.66%
Total	<u>\$4,026,710</u>	

The maximum the District may borrow under the construction loans are \$2,802,540 and \$1,303,009, respectively. As the District needs monies for various planning or construction activities, a request for these funds is made. The District, under terms of the loan agreement, states that it will charge such rates for the services of the system as shall result in pledged revenues at least adequate to provide for the payments required.

The construction loans' amortization schedules include the principal and interest payment requirements, based the assumption that the entire loan amounts will be borrowed. The scheduled payments will be adjusted to reflect any revisions in amounts actually borrowed. The Phase I construction loan includes \$439,211 of principal and interest rolled over from the Phase I planning loan. The Phase II construction loan also includes \$226,916 of principal and interest rolled over from the Phase II planning loan. Amortization of the above debt, including interest, is scheduled as follows:

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000  
(Continued)**

**6. DEBT (Continued)**

<u>Year Ending December 31:</u>	<u>Phase I Construction</u>	<u>Phase II Construction</u>
2001	\$ 106,101	\$ 48,854
2002	212,203	97,708
2003	212,203	97,708
2004	212,203	97,708
2005	212,203	97,708
Subsequent	<u>4,137,953</u>	<u>1,905,295</u>
	<u>\$5,092,866</u>	<u>\$2,344,981</u>

**7. RISK MANAGEMENT**

The District contracted with Swartzel Insurance for commercial general liability insurance. The coverage insures up to \$1,000,000 for each occurrence and \$3,000,000 for an aggregate total.

**8. CONTINGENT LIABILITIES**

The District's general legal counsel is Lawrence Law Office, Columbus, Ohio. The District, in the normal course of its activities was involved in three lawsuits during fiscal year 2000. In the opinion of District management, the disposition of these matters is not expected to have a material adverse effect on the financial position of the District.

None of the above-referenced actions involve any Federal funds, and there exist, to counsel's knowledge, no other unasserted claims or assessments probable of assertion, which might affect the financial condition of any funds of the District.

**9. RELATED PARTIES**

On August 27, 1996, the District entered into an exclusive agreement with the Board of Trustees of Miami Township to lease specified land in consideration for \$1. The primary term of the lease is twenty-five years, but shall remain in force as long thereafter as the District performs operations specifically described, including the production, exploration, and treatment of water.

The District entered into a contract labor agreement with Ronald Roads, who was also a member of the Board of Trustees for the District through June 2000. Mr. Roads worked as a temporary superintendent until September 2000. He was paid \$2,069 for his services.

**CRAINS RUN WATER & SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000  
(Continued)**

**10. AGREEMENT WITH MONTGOMERY COUNTY**

On July 14, 1998, the District entered into an agreement with the Board of County Commissioners of Montgomery County, Ohio for the assignment of water rights to the Crains Run well field and water and wastewater services at an initial cost of \$2,500,000 to the County. At the conclusion of the District projects, anticipated to be during the year 2002, the County will pay the balance of the District's Phase I and Phase II project costs, less the District's assessments and grants. The future payment will be from \$0 to \$500,000, and will not exceed \$500,000. In exchange, the District has agreed to purchase 320,000 gallons maximum per day capacity of treated water from the County.

**11. BUDGETARY ACTIVITY**

Budgetary activity for the year ended December 31, 2000 follows:

**Budgeted vs. Actual Receipts**

Budgeted Receipts	\$173,235
Actual Receipts	<u>943,328</u>
Variance	<u>\$770,093</u>

**Budgeted vs. Actual Budgetary Basis Expenditures**

Appropriation Authority	\$ 590,154
Budgetary Expenditures	<u>1,070,855</u>
Variance	<u>\$(480,701)</u>

Appropriations exceeded estimated resources in violation of Ohio Rev. Code Section 5705.39, and expenditures exceeded appropriations in violation of Ohio Rev. Code Section 5705.41(B).



**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGE IN CASH BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<b>1999</b>
<b>Operating Cash Receipts:</b>	
Operating Revenues	\$1,773
Miscellaneous Income	262
Total Operating Cash Receipts	2,035
<b>Operating Cash Disbursements:</b>	
Contractual Services	403,836
Office Supplies and Materials	1,341
Office Equipment and Furniture	3,401
Insurance	1,500
Utilities and Phone	2,334
Land	6,000
Capital Outlay	1,819,372
Plant Operations and Testing	220
Chemical and Operating Supplies	1,096
Plan and Review Fees	6,725
Total Operating Cash Disbursements	2,245,825
Operating Income (Loss)	(2,243,790)
<b>Non-Operating Cash Receipts:</b>	
Special Assessments	161,700
Loans from the Ohio Water Development Authority	2,166,128
Plan and Review Fees	7,998
Ohio Public Works Commission Grant	300,000
Interest Income	181,460
Total Non-Operating Cash Receipts	2,817,286
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	226,916
Miscellaneous	184
Total Non-Operating Cash Disbursements	227,100
Net Receipts Over (Under) Disbursements	346,396
Cash Balance, January 1	2,513,876
Cash Balance, December 31	\$2,860,272

*See Accompanying Notes to the Financial Statements.*

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**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1999**

**1. DESCRIPTION OF THE ENTITY**

The Crains Run Water and Sewer District, Montgomery 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 established to provide water and sewer services to the residents of Miami Township. The District is directed by an appointed five-member Board of Trustees. The Trustees of Miami Township appoint the Trustees of the District.

The District's management believes these financial statements present all activities for which the District is financially accountable.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when a payment is made rather than when a liability is incurred.

**B. Deposits and Investments**

Investments are reported as assets and are valued at cost. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

**C. Basis of Presentation - Fund Accounting**

The accounts of the District are organized into an Enterprise Fund. This fund accounts for operations that are similar to private business enterprises where management intends for the significant costs of providing certain goods or services to be recovered through user charges.

**D. Budgetary Process**

The District's Board of Trustees was not required to adopt an operating budget in fiscal year 1999. However, Ohio Attorney General Opinion No. 99-020, dated March, 1999, states the budget process described in Ohio Revised Code Chapter 5705 applies to the District, effective January 1, 2000, regardless of whether the District levies property taxes. The District has adopted a budget for the year ending December 31, 2000, adopted and passed annual appropriations resolutions, and filed the necessary paperwork with the Montgomery County Auditor.

**E. Income Tax**

The District operates as a public water-sewer system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1999  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS**

Active deposits are public deposits necessary to meet current demands. 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 two-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.

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.

Interim monies can 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 instrumentality's;
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 division (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. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at anyone time.

**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1999  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)**

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. An investment 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.

The carrying amount of cash and investments at December 31, 1999 was as follows:

**Crains Run carrying amount:**

Demand Deposits	\$ 10,622
Restricted Deposits and Certificate of Deposit	235,213
Certificate of Deposit	516,299
Petty Cash	200
Money Market Funds	68,421
Government Securities	<u>2,029,517</u>
Total Cash and Investments	<u>\$2,860,272</u>

**Bank carrying amount:**

Demand Deposits	\$ 10,998
Restricted Deposits and Certificate of Deposit	235,213
Certificate of Deposit	<u>516,299</u>
Total Deposits	<u>\$ 762,510</u>

The following information classifies deposits and investments by categories of risk as defined in Governmental Accounting Standards Board (GASB) Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

**Deposits** - At fiscal year end, \$100,000 of the bank balance was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized per the GASB 3 classification; however, the remaining balance was collateralized with securities (valued at 102% of the deposits) held by the pledging financial institution's trust department but not in the name of the District. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC. In addition, \$200 was carried in a petty cash fund.

Restricted Deposits and Certificate of Deposit total \$235,213, of which \$162,613 represents prepaid assessments and earned interest in 1999. These monies are reserved to service the respective debt for Phase I construction. Also included is \$72,600, which represents restricted monies due to a contractor for retainage payable in the future, and earned interest in 1999. Once construction is complete and the Trustees have accepted the lines, these monies will be paid to the contractor.

**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1999  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)**

**Investments** - The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. Money Market Funds and Government Securities are uninsured, unregistered investments held by an agent in the District's name and are considered Category 3 investments. The fair value of the Money Market Funds and Government Securities is \$68,421 and \$1,927,281, respectively.

**4. DEBT**

Debt outstanding at December 31, 1999 consisted of two loans from the Ohio Water Development Authority, as described below:

	<u>Principal</u>	<u>Interest Rate</u>
Phase I Construction Loan	\$2,545,816	5.66%
Phase II Construction Loan	<u>525,865</u>	5.56%
Total	<u>\$3,071,681</u>	

The maximum the District may borrow under the construction loans is \$2,768,000 and \$1,324,000, respectively. As the District needs monies for various planning or construction activities, a request for these funds is made. The District, under terms of the loan agreement, states that it will charge such rates for the services of the system as shall result in pledged revenues at least adequate to provide for the payments required.

The construction loans' amortization schedules include the principal and interest payment requirements, based on the loan and capital interest balances as of December 31, 1999. The scheduled payments will be adjusted to reflect any revisions in amounts actually borrowed. The Phase I construction loan includes \$439,211 of principal and interest rolled over from the Phase II planning loan. The Phase II construction loan also includes \$226,916 of principal and interest rolled over from the Phase II planning loan.

Amortization of the above debt, including interest, is scheduled as follows:

<b>Year ending December 31:</b>	<b>Phase I Construction</b>	<b>Phase II Construction</b>
2000	\$ 96,381	\$ -
2001	192,763	19,716
2002	192,763	39,433
2003	192,763	39,433
2004	192,763	39,433
Subsequent	<u>3,951,638</u>	<u>847,804</u>
	<u>\$4,819,071</u>	<u>\$985,819</u>

**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1999  
(Continued)**

**5. RISK MANAGEMENT**

The District contracted with Swartzel Insurance for commercial general liability insurance. The coverage insures up to \$1,000,000 for each occurrence and \$3,000,000 for an aggregate total.

**6. CONTINGENT LIABILITIES**

The District's general legal counsel is Lawrence Law Office. During the year ending December 31, 1999, no formal lawsuits claiming financial damages were filed against the District.

**7. RELATED PARTIES**

On August 27, 1996, the District entered into an exclusive agreement with the Board of Trustees of Miami Township to lease specified land in consideration for \$1. The primary term of the lease is twenty-five years, but shall remain in force as long thereafter as the District performs operations specifically described, including the production, exploration, and treatment of water.

The District entered into a contract labor agreement with Ronald Roads, who also is a member of the Board of Trustees for the District. Mr. Roads worked as a temporary superintendent until December 31, 1999.

**8. AGREEMENT WITH MONTGOMERY COUNTY**

On July 14, 1998, the District entered into an agreement with the Board of County Commissioners of Montgomery County, Ohio for the assignment of water rights to the Crains Run well field and water and wastewater services at an initial cost of \$2,500,000 to the County. At the conclusion of the District projects, around the year 2002, the County will pay the balance of the District's Phase I and Phase II project costs, less the District's assessments and grants. The future payment will be from \$0 to \$500,000, and will not exceed \$500,000. In exchange, the District has agreed to purchase 320,000 gallons maximum per day capacity of treated water from the County.

**9. OHIO PUBLIC WORKS COMMISSION GRANT**

The District received a \$300,000 construction grant from the Ohio Public Works commission and had disbursed all grant monies as of December 31, 1999. In addition, an \$80,000 grant has been approved and will be disbursed in the future from the Ohio Public Works Commission to the Ohio Water Development Authority for capitalized interest and interest expense incurred on the Phase I Construction loan.

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STATE OF OHIO  
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Crains Run Water and Sewer District  
Montgomery County  
10383 Dayton-Cincinnati Pike  
Franklin, Ohio 45005

To the Board of Trustees:

We have audited the accompanying financial statements of Crains Run Water and Sewer District, Montgomery County, (the District ), as of and for the years ended, December 31, 2000 and 1999, and have issued our report thereon dated August 14, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-60357-001 and 2000-60357-002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated August 14, 2001.

This report is intended for the information and use of the audit committee, management, the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

August 14, 2001

**CRAINS RUN WATER AND SEWER DISTRICT  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2000 and 1999**

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

**FINDING NUMBER 2000-60357-001**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 states appropriations are limited by estimated resources.

For the year ended December 31, 2000, the Certificate of Estimated Resources reflected only the operating account, and the appropriation resolution reflected all accounts, thus causing the appropriations to exceed the estimated resources by \$416,919.

The district is required to establish the legal level of budgetary control in which appropriation measures are passed by the legal authority; and the appropriation should not exceed the estimated revenue.

**FINDING NUMBER 2000-60357-002**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) states that no subdivision is to expend money unless it has been appropriated. For the year ended December 31, 2000, expenditures exceeded appropriations in the amount of \$480,701.

Budgetary accounting procedures should be placed in operation by the District, and budgetary reports should be provided to the Board to monitor the financial position of the District.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**CRAINS RUN WATER AND SEWER DISTRICT**

**MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 8, 2001**