



**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Carroll Water and Sewer District
Ottawa County
10340 W. State Route 2
Oak Harbor, Ohio 43449-9013

To the Board of Trustees:

We have audited the accompanying basic financial statements of the business-type activities of Carroll Water and Sewer District, Ottawa County, Ohio (the District), as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 1, 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 business-type activities of Carroll Water and Sewer District, Ottawa County, Ohio, as of December 31, 2006 and 2005, and the respective changes in cash financial position.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

October 5, 2007

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

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

This discussion and analysis, along with the accompanying financial reports, of Carroll Water and Sewer District (CWSD or "the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The District's net cash assets increased by \$202,058 (11.0%) in 2006 and by \$909,702 (98.9%) in 2005.

The District's Operating Cash Receipts increased by \$14,765 (2.6%) in 2006 and by \$92,163 (19.7%) in 2005 and Operating Cash Disbursements increased by \$83,880 (13.4%) in 2006 and by \$51,609 (9.0%) 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, Disbursements and Changes in Fund 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. Revenues are reported when earned and expenses are reported when incurred.

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.

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.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

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

STATEMENTS OF NET CASH ASSETS-CASH BASIS

Table 1 summarizes the Statements of Net Cash 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	\$2,031,558	\$ 1,829,500	\$202,058	\$ 919,798	\$909,702
Total Assets	<u>\$2,031,558</u>	<u>\$ 1,829,500</u>	<u>\$202,058</u>	<u>\$ 919,798</u>	<u>\$909,702</u>
Net Assets -					
Unrestricted	\$2,031,558	\$ 1,829,500	\$202,058	\$ 919,798	\$909,702
Total Net Assets	<u>\$2,031,558</u>	<u>\$ 1,829,500</u>	<u>\$202,058</u>	<u>\$ 919,798</u>	<u>\$909,702</u>

The District's net cash assets increased by \$202,058 in 2006 and \$909,702 in 2005. The increase in 2006 was primarily the result of an increase in property taxes collected of \$187,872. The increase in 2005 was primarily the result of a one-time settlement of litigation of \$695,700 and an increase in property taxes collected of \$111,004.

STATEMENTS OF CHANGES IN NET CASH ASSETS

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

TABLE 2	<u>2006</u>	<u>2005</u>	<u>Change Amount</u>	<u>2004</u>	<u>Change Amount</u>
Operating Cash Receipts	\$ 573,702	\$ 558,937	\$ 14,765	\$ 466,774	\$ 92,163
Operating Cash Disbursements	710,253	626,373	83,880	574,764	51,609
Operating Loss	(136,551)	(67,436)	(69,115)	(107,990)	40,554
Non-Operating Cash Receipts	1,858,191	2,494,284	(636,093)	1,720,127	774,157
Non-Operating Cash Disbursements	1,519,582	1,517,146	2,436	1,517,154	(8)
Changes in Net Cash Assets	202,058	909,702	(707,644)	94,983	814,719
Net Cash Assets, January 1	1,829,500	919,798	909,702	824,815	94,983
Net Cash Assets, December 31	<u>\$ 2,031,558</u>	<u>\$ 1,829,500</u>	<u>\$ 202,058</u>	<u>\$ 919,798</u>	<u>\$ 909,702</u>

In 2006 the District saw a decrease in non-operating cash receipts primarily due to the settlement of litigation and intergovernmental receipts and proceeds from a loan from the Ohio Public Works Commission which occurred in 2005 and did not recur in 2006. Property taxes collected increased \$187,872. Operating cash receipts and disbursements as well as non-operating cash disbursements remained relatively steady resulting in an increase in net cash assets of \$202,058.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

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

From 2004 to 2005 operating cash receipts increased \$92,163 due to an increase in revenues collected from charges for services. Operating cash disbursements increased \$51,609 primarily due to increased expenditures for capital outlay for corrosion, personal services and other outlays, which were offset by a decrease in legal fees. Non-Operating Cash Receipts increased \$774,157 primarily due to increases in property taxes collected of \$111,004, and a one-time settlement from litigation of \$695,700, which were partially offset by a decrease in federal intergovernmental receipts.

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 capital outlay disbursements of \$260,330 during fiscal year 2006 and \$194,442 during fiscal year 2005.

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 bonds, long-term notes and short-term notes. Additional information regarding debt can be found in Note F to the Basic Financial Statements.

TABLE 3	2006	2005	Change Amount	2004	Change Amount
Water System Improvement Bonds	\$ 5,155,000	\$ 6,255,000	\$ 1,100,000	\$ 7,295,000	\$ 1,040,000
Ohio Public Works Commission Loan	67,956	71,532	3,576		(71,532)
Carroll Township Loan	1,892,935	1,892,935		1,892,935	
Total Long Term Debt	\$ 7,115,891	\$ 8,219,467	\$ 1,103,576	\$ 9,187,935	\$ 968,468

CASH AND CASH EQUIVALENTS

Cash and cash equivalents on December 31, 2006 and 2005, were \$2,031,558 and \$1,829,500, respectively.

CURRENT ISSUES

The Carroll Water and Sewer District strives to treat the water from Lake Erie to maintain the high standards required by the Ohio Environmental Protection Service for a Public Drinking Water System. In order to maintain this quality of service the District reviews the adequacy of its water rates on an annual basis to ensure that expenses are being met.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to the Carroll Water and Sewer District, 10340 West State Route 2, Oak Harbor, Ohio 43449 or (419) 898-5028.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

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

	<u>2006</u>	<u>2005</u>
Assets		
Cash and Cash Equivalents	<u>\$ 2,031,558</u>	<u>\$ 1,829,500</u>
<i>Total Assets</i>	<u><u>\$ 2,031,558</u></u>	<u><u>\$ 1,829,500</u></u>
Net Assets		
Unrestricted	<u>\$ 2,031,558</u>	<u>\$ 1,829,500</u>
<i>Total Net Assets</i>	<u><u>\$ 2,031,558</u></u>	<u><u>\$ 1,829,500</u></u>

See accompanying notes to the basic financial statements

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

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

	2006	2005
Operating Cash Receipts		
Charges for service/revenues	\$ 573,702	\$ 558,937
Operating Cash Disbursements		
Personal services	272,252	243,091
Insurance	9,782	10,423
Utilities	56,391	54,006
General office expense, telephone and miscellaneous	16,360	14,442
Other contractual services	4,196	13,994
Testing and chemical expenses	36,959	27,136
Meters, piping and supplies expense	40,581	32,510
Auto expense	4,569	4,709
Capital outlay - Corrosion		146,297
Capital outlay - US Fish & Wildlife	260,330	48,145
Legal Fees		21,897
Other outlays	8,833	9,723
Total operating cash disbursements	710,253	626,373
Operating Cash Receipts Over (Under) Operating Cash Disbursements	(136,551)	(67,436)
Non-Operating Cash Receipts		
Tap fees - new taps	21,588	21,050
Tap fees - outside district	7,600	9,800
Rent and miscellaneous	12,770	11,952
Settlement from litigation		695,700
Contractor bonds		1,000
Property taxes	900,565	712,693
Intergovernmental revenues		
State	799,360	828,982
OPWC		73,922
Interest	116,308	67,653
Loan Proceed		71,532
Total non-operating cash receipts	1,858,191	2,494,284
Non-Operating Cash Disbursements		
Debt service - principal	1,103,576	1,040,000
Debt service - interest	390,938	455,937
Auditor and treasurer fees	24,068	20,709
Contractor bonds	1,000	500
Total non-operating cash disbursements	1,519,582	1,517,146
Change in net cash assets	202,058	909,702
Net assets, January 1	1,829,500	919,798
Net assets, December 31	\$ 2,031,558	\$ 1,829,500
Reserve for Encumbrances December 31		\$183,788

See accompanying notes to the basic financial statements

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

NOTE A - NATURE OF ORGANIZATION

The Carroll Water and Sewer District, Ottawa 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 during 1991 by the Court of Common Pleas of Ottawa County to provide water and sewer services to the residents of Carroll Township in accordance with the provisions of Ohio Revised Code Section 6119 et.seq. A three (3) member appointed Board of Trustees who are appointed by the Trustees of Carroll Township manage 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 these financial statements present all activities for which the District is financially accountable.

NOTE B – 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 proprietary activities. The adoption of this approach to accounting for proprietary activities by the District required no change from prior years. A summary of the significant accounting policies applied in preparation of the accompanying financial statements follows:

1. 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, (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 paid rather than when a liability is incurred.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

1. (Continued)

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 net 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 basis of accounting as described above.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State in accordance with the basis of accounting as described above.

2. Cash and Investments

For reporting purposes, the District considers "Net cash assets" and "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.

3. 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 Carroll Water 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.

4. Budgetary Process

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

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The District must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

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

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

4. (Continued)

Encumbrances – The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2006 and 2005 budgetary activity appears in Note D.

5. Capital Assets

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

6. Unpaid Vacation and Sick Leave

An employee with at least ten (10) years of service for the District may elect at the time of retirement from active service, to be paid in cash for One Hundred Percent (100%) of the value of up to One Thousand (1,000) hours of the employee's accrued but unused sick leave.

Upon the death of an employee, the employee's family or estate shall be paid for One Hundred Percent (100%) of the value of up to Two Thousand Eighty (2,080) hours of the employee's accrued but unused sick leave.

Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

7. 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).

8. Long-Term Obligations

In general, bonds and loans are recorded as cash disbursements in the basic financial statements when paid.

9. Net Cash Assets

Net cash 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 investments and does not record any liabilities, net cash assets is equivalent to cash and investments. The District currently does not record any restrictions on their net cash assets.

10. 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.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

NOTE C – 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;
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 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;
7. The State Treasurer's investment pool (STAR Ohio);

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

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 180 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 (FDIC), by eligible securities pledged by the financial institution as a 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. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits: For 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 bank balances were \$34,807 and \$54,137 as of December 31, 2006 and 2005, respectively. Of the bank balances, 100 percent was covered by federal depository insurance for each year.

Investments: As of December 31, 2006 and 2005, the District had the following investments and maturities:

	2006		2005	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	<u>\$1,994,411</u>	< One Year	<u>\$ 1,773,734</u>	< One Year
Total Fair Value	<u><u>\$1,994,411</u></u>		<u><u>\$ 1,773,734</u></u>	

Interest rate risk – 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. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

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, and Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% 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 D – BUDGETARY ACTIVITY

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

<u>Budgeted vs. Actual Receipts</u>	<u>2006</u>	<u>2005</u>
Budgeted Receipts	\$ 2,031,000	\$ 2,759,371
Actual Receipts	<u>2,431,893</u>	<u>3,053,221</u>
Variance	<u>\$ 400,893</u>	<u>\$ 293,850</u>

<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>	<u>2006</u>	<u>2005</u>
Appropriation Authority	\$ 2,393,405	\$ 2,045,888
Budgetary Expenditures	<u>2,229,835</u>	<u>2,327,307</u>
Variance	<u>\$ 163,570</u>	<u>\$ (281,419)</u>

The District's expenditures and encumbrances exceeded appropriations in the General Fund in 2005 contrary to the Ohio Revised Code.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

NOTE E – PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by the District. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected separately in the accompanying financial statements. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20. Tangible personal property tax is assessed by the property owners, who must file a list of such property with the County by each April 30. The County is responsible for assessing property, and for billing, collecting and distributing all property taxes on behalf of the District.

NOTE F - DEBT

Under the District's current basis of accounting, debt obligations are not reported as a liability in the accompanying basic financial statements. However, information regarding current and long-term debt at December 31, 2006 and 2005 is as follows:

	<u>Balance 12/31/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2006</u>	<u>Amount due within 1 year</u>
Water System Improvement Bonds Issue 1 - 6.25%	\$4,455,000		\$ 785,000	\$3,670,000	\$ 835,000
Water System Improvement Bonds Issue 2 - 6.25%	1,800,000		315,000	1,485,000	340,000
Ohio Public Works Commission Loan - 0%	71,532		3,576	67,956	3,577
Carroll Township Loan - 0%	1,892,935			1,892,935	
Totals	<u>\$8,219,467</u>		<u>\$ 1,103,576</u>	<u>\$7,115,891</u>	<u>\$1,178,577</u>

Water System Improvement Bonds (Issue 1) consist of general obligation bonds issued in 1996, for \$10,185,000. The general obligation bonds will be repaid over a fifteen-year period.

Water System Improvement Bonds (Issue 2) were issued in March 1998, for \$3,750,000. The general obligation bonds will be repaid over a thirteen-year period.

In 2005, the District obtained a \$71,532, interest free loan from the Ohio Public Works Commission, for a water distribution system corrosion control improvement project. The loan will be repaid in semi-annual installments of \$1,788 over a twenty-year period.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

NOTE F – DEBT – (Continued)

In 1992, the District obtained a \$30,000, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1993, the District obtained a \$200,000, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1998, the District obtained a \$1,003,322, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1999, the District obtained a \$265,890, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 2000, the District obtained a \$375,531, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 2001, the District obtained a \$18,192, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date.

Amortization of the above debt is as follows:

Year Ending December 31:	Principal	Interest	Total
2007	\$ 1,178,577	\$ 322,188	\$ 1,500,765
2008	1,253,576	248,749	1,502,325
2009	1,328,577	170,625	1,499,202
2010	1,408,576	87,813	1,496,389
2011	3,577		3,577
2012-2016	17,883		17,883
2017-2021	17,884		17,884
2022-2025	14,306		14,306
	<u>\$ 5,222,956</u>	<u>\$ 829,375</u>	<u>\$ 6,052,331</u>

The Carroll Township loan is not included in the above amortization schedule because it has no specified due date.

NOTE G – DEFINED BENEFIT RETIREMENT PLAN

A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
- 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

NOTE G – DEFINED BENEFIT RETIREMENT PLAN – (Continued)

- B. OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.
- D. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2006 and 2005 member contribution rates were 9.0% and 8.5% for the District.

The 2006 and 2005 employer contribution rates for the District were 13.70% and 13.55% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2006, 2005 and 2004 were \$43,527, \$37,045 and \$30,464 respectively which were the required contributions for those years.

NOTE H - POSTEMPLOYMENT BENEFITS

- A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the District, the rates were 13.70% and 13.55% of covered payroll for fiscal years 2006 and 2005; 4.0% was used to fund health care for the years 2006 and 2005.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

NOTE H - POSTEMPLOYMENT BENEFITS – (Continued)

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

C. Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2004 (the latest year available).

Funding Method – 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.

Assets Valuation Method – 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 annually.

Investment Return – The investment assumption rate for 2004 (the latest year available) was 8.00%.

Active Employee Total Payroll – An annual increase of 4.0%, 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 4.0% base increase, were assumed to range from .50% to 6.30%.

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109 for 2005 (the latest year available) and 355,287 for 2004.
2. The employer contributions that were used to fund postemployment benefits were \$12,849 for 2006 and \$10,936 for 2005.
3. \$10.8 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2004 (the latest year available).
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively as of December 31, 2004 (the latest year available).

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

NOTE H - POSTEMPLOYMENT BENEFITS – (Continued)

E. OPERS Retirement Board adopts a Health Care Preservation Plan

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

NOTE I – RISK MANAGMENT

Risk Pool Membership

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 with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to §2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses its own policies and reinsures with A-VII or better rated carriers, except for a 5 percent portion the Plan retains. With policies effective September 1, 2003, and after, the Plan pays the lesser of 5 percent or \$25,000 for casualty losses up to the coverage limit and the lesser of 5 percent or \$50,000 for property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years and there were no significant reductions in coverage from the prior year.

The Pool's financial statements (audited by other auditors – most recent dates available) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004 (the latest information available):

	<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.

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

NOTE J – 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.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Carroll Water and Sewer District
Ottawa County
10340 W. State Route 2
Oak Harbor, Ohio 43449-9013

To the Board of Trustees::

We have audited the basic financial statements of the business-type activities of the Carroll Water and Sewer District, Ottawa County, Ohio (the District) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated October 5, 2007, wherein, we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. 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 District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 District'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 the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted a certain internal control matter that we reported to the District's management in a separate letter dated October 5, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, and Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 5, 2007

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

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

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

FINDING NUMBER 2006-001

Noncompliance and Significant Deficiency.

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

As of December 31, 2005, the General Fund had expenditures plus encumbrances exceeding appropriations at the legal level of control:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General	\$2,045,888	\$2,327,307	(\$281,419)

Management was advised that failure to have adequate appropriations in place at the time of the expenditures being made could cause expenditures to exceed available resources, further resulting in deficit spending practices.

The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request the Board approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials Response:

We recognize that based upon a technicality our appropriations for our USD fish funds did not include an encumbrance for certain capital outlay expenditures. We did include the encumbrance within our records; however, we inadvertently omitted it from our filing with the County Auditor. We will take steps to ensure that this does not occur again in the future.



Mary Taylor, CPA
Auditor of State

CARROLL WATER AND SEWER DISTRICT

OTTAWA 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, 2007**