CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2011 and 2010

Dave Yost • Auditor of State

Board of County Commissioners
Clermont County Water Resources Department
101 East Main Street
Batavia, Ohio 45103

We have reviewed the *Independent Auditors' Report* of the Clermont County Water Resources Department, Clermont County, prepared by Bastin & Company, LLC, for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Clermont County Water Resources Department is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

July 2, 2012

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TABLE OF CONTENTS

Bastin & Company, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Water Resources Department (Department), Sewer System, an enterprise fund of Clermont County, Ohio, as of and for the years ended December 31, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 1, the financial statements present only the Sewer System and do not purport to, and do not, present fairly the financial position of Clermont County, Ohio, as of December 31, 2011 and 2010 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with 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 financial position of the Clermont County Water Resources Department, Sewer System, as of December 31, 2011 and 2010 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2012 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bastin & Company, LLC

Cincinnati, Ohio
April 30, 2012

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CLERMONT COUNTY WATER RESOURCES DEPARTMENT

SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clermont County Water Resources Department's Sewer System's financial performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2011 and 2010.

FINANCIAL HIGHLIGHTS

- The Sewer System's net assets increased by $3.1 million, or 1.9%, in 2011 primarily as a result of capital contributions from proceeds of assessment debt issued by the County.

- During 2011, the System lost $2.9 million from operations and incurred non operating expense for interest on debt of $1.4 million.

- Operating revenues decreased $0.3 million from 2011, primarily due to a lower volume of water consumed which is the basis for sewer charges. Operating expenses decreased by $0.4 million in 2011 as a result of lower personnel, contractual and utilities expense.

- Debt increased by $10.3 million due to the issuance of $13.0 million of OWDA notes offset by the scheduled retirement of outstanding debt.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets (Page 9) and the Statement of Revenues, Expenses and Changes in Net Assets (page 10), provide information about the activities of the Sewer System and present a short and long-term view of the System's finances. The Statement of Net Assets includes all of the System's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations to creditors (liabilities). You will need to consider other nonfinancial factors, however, such as conditions of the capital assets, to assess the overall health of the Sewer System. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the System's operations over the past year and can be used to determine whether the System has successfully recovered all of its costs through its user fees and other charges. These statements report assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid. The final financial statement is the Statement of Cash Flows (Page 11). The primary purpose of this statement is to provide information about the System's cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

SYSTEM SUMMARY

The Sewer System's total net assets increased from $163.5 million to $166.6 million during 2011. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System comparing 2011 to 2010 and comparing 2010 to 2009.

Table 1

NET ASSETS (in Millions)	2011	2010	2009
Current and Other Assets	$ 48.4	$ 37.1	$ 44.8
Capital Assets	173.2	172.0	169.6
Total Assets	221.6	209.1	214.4
Long Term Debt Outstanding	48.9	39.0	42.0
Other Liabilities	6.1	6.6	6.0
Total Liabilities	55.0	45.6	48.0
Net Assets:			
Invested in capital assets, net of debt	121.8	131.2	125.9
Restricted for debt service	2.9	2.9	2.9
Unrestricted	41.9	29.4	37.6
Total Net Assets	$166.6	$163.5	$166.4

For 2011, overall net assets of the System increased by 1.9%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, increased by $12.5 million in 2011 while net assets invested in capital assets, net of debt, decreased $9.4 million. The significant changes in these areas are primarily a result of the issuance of $13.0 million of OWDA notes from which the proceeds will fund project costs that have been previously funded from unrestricted net assets. In addition, the change in net assets invested in capital assets, net of debt is a result of capital assets financed from the System's net assets, of which a part ($7.4 million) came from capital contributions in the form of system capacity fees, assessments and proceeds of assessment debt issued by the County. Restricted remained constant in 2011.

For 2010, net assets of the System decreased by 1.7%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, decreased by $8.2 million in 2010. Restricted remained constant in 2010. The investment in capital assets, net of debt, increased $5.3 million. This increase reflects capital assets financed from the System's net assets, of which a part ($1.8 million) came from capital contributions in the form of system capacity fees, donated assets and grants.

While the Statement of Net Assets shows the change in the financial position of the net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

Table 2

CHANGE IN NET ASSETS (in Millions)		2011	2010	2009
	Charges for Services	$14.1	$14.5	$14.2
	New services and reviews	0.0	0.0	0.0
	Other Operating Revenues	0.2	0.1	0.1
	Total Operating Revenues	14.3	14.6	14.3
Operating Expenses	Operating Expenses	9.6	10.0	9.1
	Depreciation Expense	7.6	7.6	7.7
	Total Operating Expense	17.2	17.6	16.8
	Operating Income (Loss)	(2.9)	(3.0)	(2.5)
Non-Operating Revenues	Interest Income	0.1	0.1	0.2
	Net Change in Market Value of Investments	0.0	0.0	(0.2)
	Interest and Fiscal Charges	(1.5)	(1.6)	(1.7)
	Gain (loss) on Disposal of Capital Assets	0.0	(0.2)	0.0
Operating Revenues				
	Income (Loss) before Contributions	(4.3)	(4.7)	(4.2)
	Capital Contributions	7.4	1.8	1.9
Change in Net Assets	**Total Change in Net Assets**	$3.1	($2.9)	($2.3)

As seen in Table 2 the Sewer System's operating and non-operating losses of $4.3 million were offset by contributions and created an overall $3.1 million increase to the system's net assets. Operating revenues decreased $0.3 million due to a lower volume of water consumed which is the basis for sewer charges. Operating expenses decreased by $0.4 million from 2010 to 2011 primarily due to lower personnel, contractual and utilities costs. Contributions increased by $5.6 million primarily from the receipt of assessments bond proceeds issued by the County.

For 2010, operating and non-operating losses of $4.7 million were not offset by contributions and created an overall $2.9 million reduction to the system's net assets. Operating revenues increased $0.3 million due to a higher volume of water consumed which is the basis for sewer charges. Operating expenses increased by $0.8 million from 2009 to 2010 primarily due to higher contractual and utility costs. Contributions also remained relatively constant.

The following financial ratios should be used to assess the financial stability of the System over an extended period of time. The reduction in Working Capital, Current Ratio and Days in Cash & Investments are all a result of the increase in investments made in capital assets. The level of Days Cash & Investments continues to represent the strong cash balances of the system.

FINANCIAL RATIOS ($ in thousands)

	2005	2006	2007	2008	2009	2010	2011
Working Capital	$52,625	$38,948	$39,056	$32,660	$35,162	$26,988	$25,213
Current Ratio	27.1	10.9	17.8	14.0	12.3	7.8	9.9
Days Cash & Investments	2,389	1,888	1,675	1,290	1,401	971	923
Liabilities to Net Assets	30%	29%	27%	29%	29%	28%	33%
Return on Assets	1%	1%	0%	0%	0%	-1%	-1%
Days in Receivables	79	67	60	68	66	67	67

Working Capital is the amount by which current assets exceed current liabilities
Current Ratio compares current assets to current liabilities and is an indicator of the ability to pay current obligations
Days Cash & Investments represents the number of days normal operations could continue with no revenue collection
Liabilities to Net Assets indicates the extent of borrowings
Return on Assets from operations illustrates to what extent there will be sufficient funds to replace assets in the future
Days in Receivables determines how many days it takes to collect amounts billed to customers

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the Sewer System had $322.5 million invested in capital assets including sewer lines, pump stations, treatment plants in operation or under construction. This amount represents a net increase in 2011 of $8.6 million.

During 2011, major additions/completions included:

$7.7 Million for the O'Bannon-State Route 28 sewer line Extension
$1.2 Million for the Middle East Fork Wastewater Treatment Plant renovation
$0.0 Million for lift station Improvements

At the end of 2010, the Sewer System had $313.9 million invested in capital assets including sewer lines, pump stations, treatment plants in operation or under construction. This amount represents a net increase in 2010 of $10.0 million.

During 2010, major additions/completions included:

$2.5 Million for the Bramblewood Trunkline
$0.6 Million for the Wards Corner Liftstation
$0.4 Million for the Bramblewood Liftstation

Capital Assets at Year-End (Net of Depreciation, in millions)	2011	2010	2009
Land	$ 4.8	$ 4.6	$ 4.5
Structures	122.6	120.7	119.6
Machinery	15.6	15.6	15.5
Collection Systems	155.4	147.5	144.5
Autos/Trucks	1.9	1.8	1.8
Construction in Progress	22.2	23.7	18.0
Subtotal Capital Assets	322.5	313.9	303.9
Accumulated Depreciation	(149.3)	(141.9)	(134.3)
Total Capital Assets	$173.2	$172.0	$169.6

The Sewer System's 2012 capital plan anticipates a spending level of $10.4 million for capital projects of which $13.8 million is expected to come from assessment bond proceeds.

Additional information on the Department's capital assets can be found in Note 3 on page 19 of this report.

Debt

At December 31, 2011 the System had $52.2 million in bonds and loans outstanding, an increase of $10.3 million from 2010. The increases are primarily a result of the issuance of $13.0 million of OWDA notes offset by the scheduled debt service payments on outstanding debt.

At December 31, 2010 the System had $41.9 million in bonds and loans outstanding, a reduction of $2.9 million from 2009. The reductions are primarily a result of scheduled debt service payments.

Outstanding Debt, at Year-End (in millions)	2011	2010	2009
2003 Revenue Bonds	$25.2	$27.1	$29.0
OWDA Loans	18.5	6.0	6.3
OPWC Loans	8.5	8.8	9.5
Total Debt	$52.2	$41.9	$44.8

One area that demonstrates the System's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a strong 197 percent for 2011 and 179 percent for 2010. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	2011	2010
Loss before contributions and transfers	($4.3)	($4.7)
Add items to convert income to pledged revenues:		
Interest Paid on Bonds	1.2	1.2
Deferred Debt Amortization	0.2	0.2
Depreciation Expense	7.6	7.6
System Capacity Charges	1.5	1.3
Net Pledged Revenues	$6.2	$5.6
Debt Service Requirements during year	$3.1	$3.1
Coverage Ratio	197%	179%
Required Coverage Ratio	110%	110%

Additional information on the Department's debt can be found in Note 5 on page 20 of this report.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Sewer System's finances. If you have any questions about this report or need additional financial information, contact the Controller, Clermont County Water Resources Department, 101 East Main Street, Batavia, Ohio, 45103.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	$ 4,964,199	$ 2,931,138
Cash and cash equivalents in segregated accounts	2,403,375	1,172,313
Investments in segregated accounts	17,995,680	23,991,585
Accounts receivable (net of allowance for doubtful accounts of $44,118 for 2011 and $51,644 for 2010)	2,571,963	2,633,227
Inventory of supplies at cost	111,699	204,290
Prepaid Expense	476	3,184
Total current assets	28,047,392	30,935,737
NONCURRENT ASSETS:		
Restricted assets:		
Cash and cash equivalents in segregated accounts	533,231	629,891
Investments in segregated accounts	2,800,834	2,775,487
Contractor retainage accounts	805,675	312,797
Accrued interest	1,814	2,069
Total restricted assets	4,141,554	3,720,244
Capital assets not being depreciated	27,050,437	28,256,585
Capital assets being depreciated	146,190,881	143,788,959
Grants receivable	1,069,706	453,794
Loans receivable	14,019,403	744,007
Unamortized financing costs	831,787	992,011
Residential improvement district receivable	-	29,210
Interfund receivables for deferred assessments	303,584	239,473
Total noncurrent assets	189,465,798	178,224,283
TOTAL ASSETS	221,654,744	209,160,020

LIABILITIES

	2011	2010
CURRENT LIABILITIES:		
Accounts payable	1,181,945	2,570,191
Accrued wages and benefits	354,042	334,510
Contractor maintenance bonds payable	26,500	41,380
Current portion of OWDA notes payable	687,865	453,112
Current portion of OPWC loans payable	583,612	548,401
Total current liabilities	2,833,964	3,947,594
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Current portion of revenue bonds payable	2,030,000	1,950,000
Accrued interest payable	453,321	485,821
Contractor retainage payable	805,675	312,797
Total current liabilities payable from restricted assets	3,288,996	2,748,618
NONCURRENT LIABILITIES:		
Long term portion of OWDA notes payable	17,781,899	5,477,814
Long term portion of OPWC loans payable	7,975,578	8,274,323
Long term portion of revenue bonds payable	23,150,000	25,180,000
Total noncurrent liabilities	48,907,477	38,932,137
TOTAL LIABILITIES	55,030,437	45,628,349

NET ASSETS

	2011	2010
Invested in capital assets, net of related debt	121,864,151	131,153,905
Restricted for debt service	2,882,559	2,921,626
Unrestricted	41,877,597	29,456,140
TOTAL NET ASSETS	$166,624,307	$163,531,671

The notes to the financial statements are an integral part of the financial statements.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES:		
Charges for services	$ 14,069,791	$ 14,416,174
New services and reviews	13,861	3,001
Other revenues	210,887	133,512
Total operating revenues	14,294,539	14,552,687
OPERATING EXPENSES:		
Personnel services	3,212,753	3,240,178
Contractual services	2,374,543	2,664,973
Maintenance and repair	554,338	484,833
Materials and supplies	1,329,547	1,228,979
Utilities	2,072,229	2,335,807
Depreciation	7,642,668	7,624,910
Total operating expenses	17,186,078	17,579,680
OPERATING INCOME (LOSS)	(2,891,539)	(3,026,993)
NONOPERATING REVENUES (EXPENSES):		
Interest income	82,650	81,453
Net increase (decrease) in fair value of investments	(19,805)	25,433
Interest and fiscal charges	(1,489,765)	(1,598,216)
Gain (loss) on disposal of capital assets	-	(173,550)
Total nonoperating revenues (expenses)	(1,426,920)	(1,664,880)
LOSS BEFORE CONTRIBUTIONS	(4,318,459)	(4,691,873)
CAPITAL CONTRIBUTIONS:		
Capital contributions	7,411,095	1,793,577
CHANGE IN NET ASSETS	3,092,636	(2,898,296)
NET ASSETS BEGINNING OF YEAR	163,531,671	166,429,967
NET ASSETS END OF YEAR	$166,624,307	$163,531,671

The notes to the financial statements are an integral part of the financial statements.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$14,074,001	$14,394,120
Payments to suppliers	(6,479,252)	(6,589,280)
Payments to employees	(3,193,221)	(3,233,268)
Other receipts	281,802	88,482
Net cash provided by operating activities	4,683,330	4,660,054
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(4,312,133)	(4,263,807)
Proceeds from capital related loans	-	197,204
Construction and acquisition of capital assets	(9,982,794)	(9,427,333)
Contractor maintenance bond receipts	4,450	6,551
Contractor maintenance bond payments	(19,330)	(6,351)
Proceeds from residential improvement districts	29,210	122,800
Proceeds from assessments	580,561	6,107
Proceeds from assessments bonds issued by County	4,285,615	-
Contractor retainage receipts	750,651	57,246
Contractor retainage payments	(257,773)	(257,765)
Proceeds from capital related grants	420,969	-
Advances for deferred assessments	(64,111)	(37,887)
System capacity charges	1,508,038	1,242,287
Net cash used by capital and related financing activities	(7,056,647)	(12,360,948))
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(32,947,485)	(33,853,908)
Investment sales	38,898,238	32,617,154
Interest received on investments	82,905	91,617
Net cash used by investing activities	6,033,658	(1,145,137)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,660,341	(8,846,031)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,046,139	13,892,170
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,706,480	$ 5,046,139
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income (loss) from operations	($2,891,539)	($3,026,993)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	7,642,668	7,624,910
Change in assets and liabilities:		
Net change in operating accounts receivable	61,264	(70,085)
Net change in inventory	92,591	(6,109)
Net change in prepaid expenses	2,708	3,181
Net change in operating accounts payable	(243,894)	128,240
Net change in accrued payroll and related expenses	19,532	6,910
Net cash provided by operating activities	$ 4,683,330	$ 4,660,054
NON-CASH TRANSACTIONS:		
Contributions from developers	$ -	$ 95,912
OWDA and OPWC loans and receivables	13,284,903	291,167
Capital grants receivable	615,912	-
Net change in the fair value of investments	(19,805)	25,433
Total non-cash transactions	$13,881,010	$ 412,512

The notes to the financial statements are an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Organization

The Clermont County Water Resources Department (Department), which includes a waterworks system and a sewer system, operates as enterprise funds under the direction of the Clermont County Board of Commissioners. The financial statements covering the waterworks system are issued separately from the sewer system. The County issues a separate Comprehensive Annual Financial Report which contains this sewer system as a separate enterprise fund of the County.

The customers serviced by the Department are located primarily within Clermont County with a small number of customers located in Hamilton County. Customers consist of residential, industrial, and commercial accounts.

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. In accordance with GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," the Department applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board of Opinions and Accounting Research Bulletins issued after November 30, 1989, unless they conflict with GASB pronouncements.

Cash and Investments

Cash and investments consist of the Department's portion of the County's pooled cash and investment balances, contractor retainage accounts and funds maintained with a trustee in accordance with revenue bond legislation. During 2011 investments were limited to treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 2 provides additional information regarding the Department's cash and investments.

Statements of Cash Flows

For the purpose of the Statement of Cash Flows, the Department considers all highly liquid investments with maturities of less than three months (including restricted assets) to be cash equivalents.

Inventory

Inventory of supplies are valued at the lower of cost or market using the first-in, first-out (FIFO) method. Inventory is expensed when consumed rather than when purchased.

Restricted Assets

Restricted assets represent various trust account balances and applicable interest receivable for revenue bond trust accounts established in accordance with bond legislation for specific purposes. Retainage accounts represent funds withheld from construction contractors payments restricted under the terms of the construction contracts.

Capital Assets

Capital assets include property, plant, equipment and collection systems. Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years. Capital assets are stated at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as the projects are constructed and updated for the cost of additions and retirements during the year. Interest incurred during construction is capitalized until substantial completion of the project.

Depreciation is computed on the straight-line basis over the following estimated useful lives:

Description	Years
Structures	15-50
Machinery	3-50
Collection systems	50
Autos and trucks	5-10

Interfund Receivables for Deferred Assessments

Interfund receivables for deferred assessments represent amounts advanced to other County funds to provide funds for deferred assessments. Upon receipt of the assessment by the County, amounts advanced will be repaid to the Department.

Loans Receivable

Loans Receivable represent OPWC and OWDA loans where the Department has entered into a loan agreement but has not drawn down all loan proceeds due to the interim status of the related construction project.

Unamortized Financing Costs

The unamortized financing costs include costs incurred in connection with prior revenue bond issues and the 2003 refunding. These costs are being amortized on the interest method over the lives of the revenue bonds and are included as interest expense. The amount amortized was $160,224 and $171,712 for 2011 and 2010, respectively.

Compensated Absences

Vacation, personal leave and compensatory benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate employees for the benefits through time off or some other means. Sick leave benefits are accrued using the vesting method. The liability is based on sick leave accumulated at December 31, by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

Ohio law requires that vacation time not be accumulated for more than three years. Employees with a minimum of one year of service become vested in accumulated unpaid vacation time. Unused vacation is payable upon termination of employment. Unused sick time may be accumulated until retirement. Employees eligible to retire under a County recognized retirement plan, with a minimum of ten years of service, are paid one-fourth of accumulated sick time upon retirement. Such payment may not exceed the value of thirty days of accrued but unused sick leave. However, if employees earned sick leave prior to January 23, 1984, they are eligible for 100 percent conversion of this amount. All sick, vacation personal and compensation payments are made at the employees' current wage rate.

Contractor Maintenance Bonds Payable

Contractor maintenance bonds payable represent contractor payments to the Department as security for contract performance. Upon successful completion of the construction contract and acceptance by the Department, the maintenance bond is returned to the contractor.

Insurance

During 2011, the County contracted with Humana Inc., Dental Care Plus, Mutual of Omaha, EyeMed Insurance and Bethesda TriHealth to provide coverage, claims review and processing or other services. The Department is charged its proportionate share for covered employees.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Department or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The Department applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from charges for waste water treatment and other services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Department. Revenues which do not meet this criteria are considered non-operating and reported as such. All revenue is used as security for revenue bonds.

Capital Contributions

Contributions of capital arise from the contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges. During 2011 and 2010, the following capital contributions were received:

	2011	2010
Grants earned	$1,036,881	$ 446,493
Donated assets	-	95,912
System capacity charges	1,508,038	1,242,287
Assessment proceeds	580,561	8,885
Assessment bond proceeds from County	4,285,615	-
Total	$7,411,095	$1,793,577

Interfund Activity

The Ohio Revised Code provides for the issuance of special assessment bonds for sewer improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as special assessment bonds of the County. If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the Department.

The Department is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2011 and 2010 were $240,260 and $307,054, respectively, and are classified as contractual services.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. Cash, Cash Equivalents and Investments

State statutes classify monies held by the Department into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Department’s Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Department 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 which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States.

2. Bonds, notes, debentures, or 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 the 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 market 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) or (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 any time.

8. Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse purchase 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 Department and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure the Department's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or a member bank of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Department.

The County maintains a cash and investment pool used by all funds of the County, including the Department. The Department's portion of the pooled is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents." As of December 31, 2011 and 2010, the carrying amount of the Department's portion of the pool totaled $4,964,199 and $2,931,138, respectively. The Department's portion of the pool can not be separately classified by risk. The County's financial statements provide risk disclosures pertaining to the entire cash and investment pool.

The Department maintains funds in contractor retainage accounts that represent cash retained from construction contractor payments until satisfactory completion of projects. As of December 31, 2011 and 2010, the bank and carrying amount of retainage accounts totaled $805,675 and $312,797, respectively, all of which was covered by FDIC Insurance.

Investments

The Department's investments at December 31, 2011 were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$20,375,092	0.79
Treasury Notes	421,422	4.82
Money Market Accounts	2,936,606	0.00
Total Fair Value	$23,733,120	
Portfolio Weighted Average Maturity		0.76

The Department's investments at December 31, 2010 were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$25,555,357	0.62
Treasury Notes	1,211,715	2.47
Money Market Accounts	1,802,204	0.00
Total Fair Value	$28,569,276	
Portfolio Weighted Average Maturity		0.66

Interest Rate Risk - In accordance with the County's investment policy, the Department manages its exposure to declines in fair values by limiting the weighted average of its investment portfolio to three years.

Credit Risk - It is the County's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top two ratings issued by nationally recognized statistical rating organizations. The Department's investments in the Money Market Funds were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investment Services.

Concentration of Credit Risk - The County's investment policy allows investments, other than U.S. Treasury Obligations, in Federal agencies or instrumentalities to be limited to fifty percent of total investments with the further limitation of twenty percent of the total investments in obligations of any one issuer.

*C*ustodial credit risk is the risk that in the event of failure of the counterparty, the Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Department's investments are collateralized by underlying securities pledged by the investment's counterparty, not in the name of the Department.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation of cash, cash equivalents and investments on the financial statements and the classification per GASB Statement No. 3 at December 31, 2011 follows:

	Fair Value Cash and Equivalents	Fair Value Investments
Per Statement of Net Assets	$8,706,480	$20,796,514
Money market funds	(2,936,606)	2,936,606
Per GASB Statement No. 3	$5,769,874	$23,733,120

A reconciliation of cash, cash equivalents and investments at December 31, 2010 follows:

	Fair Value Cash and Equivalents	Fair Value Investments
Per Statement of Net Assets	$5,046,139	$26,767,072
Money market funds	(1,802,204)	1,802,204
Per GASB Statement No. 3	$3,243,935	$28,569,276

3. Capital Assets

The following summarizes the changes to capital assets during 2011.

Class	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Capital assets not being depreciated:				
Land	$ 4,615,235	$ 220,522	$ -	$ 4,835,757
Construction in progress	23,641,350	9,442,222	(10,868,892)	22,214,680
Capital assets being depreciated:				
Structure	120,701,470	1,963,610	(18,192)	122,646,888
Machinery	15,598,357	172,479	(157,667)	15,613,169
Collection systems	147,527,476	7,814,031	-	155,341,507
Autos and trucks	1,813,518	94,470	-	1,907,988
Total cost	$313,897,406	$19,707,334	($11,044,751)	$322,559,989
Accumulated depreciation:				
Structure	($69,736,169)	($3,960,767)	$ 18,192	($73,678,744)
Machinery	(10,386,709)	(387,082)	157,667	(10,616,124)
Collection systems	(60,677,366)	(3,165,073)	-	(63,842,439)
Autos and trucks	(1,051,618)	(129,746)	-	(1,181,364)
Accumulated depreciation	($141,851,862)	($7,642,668)	$ 175,859	($149,318,671)
Net value	$ 172,045,544			$ 173,241,318

4. Residential Improvement District Receivable

The Residential Improvement District Receivable totaling $29,210 as of December 31, 2010 relates to a tax increment financing arrangement whereby the Department is being reimbursed for capital outlays incurred for the Forest Glen Residential Improvement District (RID). The Department incurred $200,000 for lift station improvements and received RID reimbursements of $29,210, $47,990, and $122,800 during 2011, 2010 and 2008, respectively.

5. Long-Term Debt

For the year ended December 31, 2011, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011	Amount Due Within One Year
Revenue bonds:						
2003 Sewer System Refunding Revenue Bonds - $39,345,000	2024 1.5-4.9%	$27,130,000	$ -	$1,950,000	$25,180,000	$2,030,000
OWDA Notes - $22,101,259	2032 3.15-6.5%	5,930,926	13,000,000	461,162	18,469,764	687,865
OPWC Loans - $12,349,736	2041 0-2%	8,822,724	284,903	548,437	8,559,190	583,612
Total		$41,883,650	$13,284,903	$2,959,599	$52,208,954	$3,301,477

Principal and interest payments on long-term debt are as follows:

Year	OWDA Notes	OWDA Notes Interest	OPWC Loans	OPWC Loans Interest	Revenue Bonds	Revenue Bonds Interest	Total
2012	$ 687,865	$ 384,690	$ 583,612	$ 3,616	$ 2,030,000	$1,087,970	$ 4,777,753
2013	772,403	567,563	584,940	2,323	2,115,000	1,006,770	5,048,999
2014	766,691	542,201	586,258	1,005	2,195,000	922,170	5,013,325
2015	791,533	517,345	519,357	-	2,280,000	834,370	4,942,605
2016	817,181	491,684	519,357	-	2,375,000	743,170	4,946,392
2017-2021	4,500,675	2,043,428	2,352,828	-	13,505,000	2,073,738	24,475,669
2022-2026	5,278,684	1,265,002	2,044,309	-	680,000	67,865	9,335,860
2027-2031	4,417,309	447,624	1,028,728	-	-	-	5,893,661
2032-2036	437,423	7,108	169,900	-	-	-	614,431
2037-2041	-	-	169,901	-	-	-	169,901
	$18,469,764	$6,266,645	$8,559,190	$ 6,944	$25,180,000	$6,736,053	$65,218,596

During 2003 the Department issued Sewer System Refunding Revenue Bonds, Series 2003, dated September 15, 2003, to retire the outstanding Series 1993 Sewer Revenue Bonds and to refund the balance of the 1984 O'Bannon Creek revenue bonds. The Series 2003 bonds will mature on August 1 in various amounts ranging from $2,030,000 in 2012 to $240,000 in 2024, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 4 percent to 4.90 percent per annum, is payable semi-annually on February 1 and August 1.

OWDA notes payable at December 31, 2011 consist of various individual loans totaling with an outstanding balance of $18,469,764 due to the Ohio Water Development Authority. Payments of principal and interest are payable semi-annually through 2032 and include interest at rates ranging from 3.15 percent to 6.50 percent per annum.

The Department has received various loans due to the Ohio Public Works Commission for specified sewer system construction costs with a balance due as of December 31, 2011 of $8,559,190. Payments of principal and interest are payable semi-annually in varying amounts through 2041 and include interest at rates ranging from 0 to 2 percent per annum.

The Sewer System Refunding Revenue Bonds, Series 2003, legislation provides that the County will charge rates and restrict operating and maintenance expenses as shall result in net revenues of the sewer system to equal not less than 110 percent of the aggregate amount of principal and interest requirements on the bonds payable during the year (coverage ratio).

The coverage ratio computed under the Sewer System Refunding Revenue Bonds, Series 2003 legislation is as follows:

Loss before contributions	($4,318,459)
Add items to convert income to pledged revenues:	
Interest paid on bonds	1,165,970
Deferred debt amortization	160,224
Depreciation expense	7,642,668
System capacity charges	1,508,038
Net pledged revenues	$ 6,158,441
Debt service requirement on bonds during 2011	$ 3,115,970
Coverage ratio	197%
Required coverage ratio	110%

6. Defined Benefit Pension Plans

All employees of the Department participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional pension plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642.

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2011, the members of all three plans were required to contribute 10 percent of their annual covered salaries. The Department's contribution rate for pension benefits for 2011 was 14 percent.

The Department's required contributions to the traditional and combined plans for the years ended December 31, 2011, 2010 and 2009 were \$343,470, \$347,563 and \$366,770 respectively; all of which have been contributed.

7. Post-Employment Benefits Other than Pension Benefits

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription rug program, and Medicare Park B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment 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 meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not exceed 14.00% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2011, the employer contribution allocated to the health care plan was 4% of covered payroll. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Department's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$98,134, \$126,196, and \$183,385 respectively; all of which has been contributed.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

8. Other Employee Benefits

As part of the County, Department employees have the option of participating in four state-wide deferred compensation plans created in accordance with the Internal Revenue Code Section 457. Under this program, employees elect to have a portion of their pay deferred until a future time. According to this plan, the deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The deferred pay and any income earned thereon is not subject to income tax until actually received by the employee. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) must be held in a trust, custodial account, or annuity contract for the exclusive benefit of plan participants and their beneficiaries. Deferred amounts from the plan are not considered “made available” just because a trust, custodial account or annuity contract holds these amounts. The Plan Agreement states that the County and the plan administrators have no liability for losses under the plan with the exception of fraud or wrongful taking.

9. Risk Management

As an enterprise fund of Clermont County, Ohio, the Department’s risk management policies are those that are implemented by the County.

The County is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Arthur J. Gallagher Risk Management Services, Inc. administers all County real and personal property, comprehensive general liability including law enforcement liability and public officials’ liability, blanket crime coverage, fleet insurance, and a comprehensive boiler and machinery coverage.

Other than blanket crime, coroner’s professional liability and boiler and machinery, all coverage falls under the County’s protected self-insurance program. Travelers Indemnity Company provides an $11,000,000 per occurrence limit Liability Package for General Liability, Automobile Liability, Law Enforcement Liability, Public Entity Management Liability and a $2,000,000 limit for Employment Practices Liability. Traveler’s Indemnity Company provides a $100,000,000 per occurrence limit for real and personal property coverage. Coverage in the protected self-insurance program is subject to the following per occurrence retentions/deductibles: Property - $50,000 deductible, Automobile - $25,000 retention, All other Liability - $100,000 retention, Combined Maximum (Liability) - $100,000 retention and Maximum per Year (Liability) - $500,000 retention.

Zurich American Insurance Company provides the County’s Boiler & Machinery coverage with limits up to $50,000,000, subject to a $10,000 deductible. Travelers Casualty and Surety Company of America provides the County’s crime insurance with limits up to $500,000 for dishonest acts of employees, subject to a $5,000 deductible and limits up to $75,000 for theft, disappearance or destruction of money and securities, subject to a $1,000 deductible. Evanston Insurance Company provides the County’s Professional Liability coverage related to the Coroner with limits of $1,000,000, subject to a $10,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past 5 years.

The County is included in the Ohio Bureau of Workers' Compensation (BWC) Retrospective Rating Program which provides for a 40% reduction in premium for assuming some of the claims payment risks. To lessen the potential financial risks, the County established through the BWC both an individual claims occurrence "cap" of $200,000 and a maximum premium claims "cap" of 150% of annual payment. The County pays to BWC this reduced premium and the claims costs as billed. The Department pays into the County's Workers' Compensation fund an allocated portion of the County's premium and claims based on the Department's salaries and claims history. The County has elected to provide employees major medical, dental and hospitalization through a self-insured program. The County maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. Third party administrators Humana Inc. and Dental Care Plus review and pay all claims utilizing County funds. Clermont County purchases stop-loss medical coverage (Humana) of $200,000 per member, and an aggregate limit of 125% of expected claims. In 2011, the Department paid into the self-insurance fund $860.18 for family coverage and $345.62 for individual coverage per employee per month, which represented 73-90% of the required premium based on the individual employee benefit selections. The department's share of the premium is paid by the fund that pays the salary for the employee and is based on plan charges established annually by the Board of County Commissioners. The self-insured dental and fully insured vision plans are voluntary and are paid 100% by the employee.

The County's Comprehensive Annual Financial Report contains information for the County's Health Insurance fund, including changes in the Health Insurance Fund's claims liability.

10. Construction Commitments

As of December 31, 2011, the Department had contractual commitments as follows:

Original Contract Amounts	Paid to Date	Remaining Commitments
$15,381,944	$10,967,295	$4,414,649

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CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2011 and 2010

TABLE OF CONTENTS

Bastin & Company, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Water Resources Department (Department), Water System, an enterprise fund of Clermont County, Ohio, as of and for the years ended December 31, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 1, the financial statements present only the Water System and do not purport to, and do not, present fairly the financial position of Clermont County, Ohio, as of December 31, 2011 and 2010 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with 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 financial position of the Clermont County Water Resources Department, Water System, as of December 31, 2011 and 2010 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2012 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bastin & Company, LLC

Cincinnati, Ohio
April 30, 2012

4286 Mt. Carmel – Tabasco Road, Suite A, Cincinnati, Ohio 45244-2372, Telephone/Fax (513) 753-3999

CLERMONT COUNTY WATER RESOURCES DEPARTMENT

WATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clermont County Water Resources Department's Water System's financial performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2011 and 2010.

FINANCIAL HIGHLIGHTS

- The Water System's net assets increased by $1.5 million, or 1.3%, in 2011.
- During the year, the System generated $1.5 million from operations and used $1.0 million for other financing activities, principally for interest expense.
- Operating income was relatively flat compared to 2011, with both revenues and expenditures decreasing by approximately $1.0 million.
- Debt increased $2.6 million due to new a new $5 million OWDA loan offset by the scheduled retirement of prior issues of debt.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets (Page 9) and the Statement of Revenues, Expenses and Changes in Net Assets (page 10), provide information about the activities of the Water System and present a short and long-term view of the System's finances. The Statement of Net Assets includes all of the System's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations to creditors (liabilities). You will need to consider other nonfinancial factors, however, such as conditions of the capital assets, to assess the overall health of the Water System. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the System's operations over the past year and can be used to determine whether the System has successfully recovered all of its costs through its user fees and other charges. These statements report assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid. The final financial statement is the Statement of Cash Flows (Page 11). The primary purpose of this statement is to provide information about the System's cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

SYSTEM SUMMARY

The Water System's total net assets increased from $111.1 million to $112.6 million during 2011. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System comparing 2011 to 2010 and 2010 to 2009.

Table 1

NET ASSETS (in Millions)	2011	2010	2009
Current and Other Assets	$ 23.0	$ 21.2	$ 21.8
Capital Assets	117.3	114.7	114.7
Total Assets	140.3	135.9	136.5
Long Term Debt Outstanding	23.1	20.7	22.7
Other Liabilities	4.6	4.1	4.6
Total Liabilities	27.7	24.8	27.3
Net Assets:			
Invested in capital assets, net of debt	91.8	91.9	90.1
Restricted for debt service	3.2	3.1	3.0
Unrestricted	17.6	16.1	16.1
Total Net Assets	$112.6	$111.1	$109.2

For 2011, net assets of the System increased by 1.3%. Unrestricted net assets which represent the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, increased by $1.5 million in 2011. Restricted assets in 2011 increased by $0.1 million. The investment in capital assets, net of debt, decreased $0.1 million. Overall, there were minimal changes as a result of 2011 operations.

For 2010, net assets of the System increased by 1.7%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, remained constant in 2010. Restricted assets in 2010 increased by $0.1 million. The investment in capital assets, net of debt, increased $1.8 million. This increase reflects capital assets financed from the System's net assets, of which $1.6 million came from capital contributions in the form of system capacity fees, donated assets, assessments and grants.

While the Statement of Net Assets shows the change in the financial position of the net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

Table 2

CHANGE IN NET ASSETS (in Millions)		2011	2010	2009
Operating Revenues	Charges for Services	$12.2	$13.0	$11.8
	New Meters, Services & Reviews	0.2	0.3	0.3
	Other Operating Revenues	0.2	0.3	0.2
	Total Operating Revenues	12.6	13.6	12.3
Operating Expenses	Operating Expenses	7.1	8.0	7.5
	Depreciation Expense	4.0	4.1	4.0
	Total Operating Expense	11.1	12.1	11.5
	Operating Income	1.5	1.5	0.8
Non-Operating Revenues	Interest Income	0.0	0.0	0.1
	Net Change in Market Value of Investments	0.0	0.0	(0.1)
	Interest and Fiscal Charges	(1.1)	(1.2)	(1.3)
	Income before Contributions	0.4	0.3	(0.5)
Contributions	Capital Contributions	1.1	1.6	1.4
Change in Net Assets	**Total Change in Net Assets**	$ 1.5	$ 1.9	$ 0.9

As seen in Table 2 the Water System's capital contributions of $1.1 million, in addition to income before capital contributions of $0.4 million, resulted in an increase in net assets of $1.5 million. Operating revenues decreased $1.0 million due to the decreased volume of water consumed. Operating expenses decreased by $1.0 million from 2010 to 2011 primarily due to cost savings across all expense categories. Contributions/transfers decreased by $0.5 million due to decreased capital grants and contractor contributed assets.

For 2010 income before capital contributions/transfers of $1.6 million, offset by a loss before capital contributions of $0.3 million, resulted in an increase in net assets of $1.9 million. Operating revenues increased by $1.3 million due to the lower volume of water consumed. Operating expenses increased by $0.6 million from 2009 to 2010 primarily due to lower levels of services and the lack of settlement payments that were expensed during 2010. Contributions/transfers increased by $0.2 million due to increased capital grants, capacity fees and donated assets.

The following financial ratios should be used to assess the financial stability of the System over an extended period of time. The balance of Working Capital demonstrates the continuing ability to finance operations with cash. The strong Current Ratio and the reduction in the Liabilities to Net Assets ratio demonstrate the fact that the System has not financed its Working Capital with an increasing proportion of debt. The decrease in the level of Days Cash and Investments reflects the continued investment in capital assets.

FINANCIAL RATIOS ($ in thousands)

	2005	2006	2007	2008	2009	2010	2011
Working Capital	$19,690	$19,213	$21,963	$20,652	$15,610	$14,585	$12,259
Current Ratio	13.1	9.9	22.1	18.7	11.3	14.5	9.0
Days Cash & Investments	1,145	1,154	1,083	924	842	752	759
Liabilities to Net Assets	37%	34%	29%	27%	25%	22%	25%
Return on Assets	2%	2%	3%	1%	1%	1%	1%
Days in Receivables	56	60	50	65	63	61	65

Working Capital is the amount by which current assets exceed current liabilities
Current Ratio compares current assets to current liabilities and is an indicator of the ability to pay current obligations
Days Cash & Investments represents the number of days normal operations could continue with no revenue collection
Liabilities to Net Assets indicates the extent of borrowings
Return on Assets from operations illustrates to what extent there will be sufficient funds to replace assets in the future
Days in Receivables determines how many days it takes to collect amounts billed to customers

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the Water System had $196.4 million invested in capital assets including water lines, booster stations, storage tanks, treatment plants in operation or under construction. This amount represents a net increase in 2011 of $6.5 million.

During 2011, major additions/completions included:

$3.8 Million for the Williams Corner 2 million gallon storage tank
$1.6 Million for the MGS treatment plant renovations
$0.6 Million for improvements at the PUB Wells

At the end of 2010, the Water System had $189.9 million invested in capital assets including water lines, booster stations, storage tanks, treatment plants in operation or under construction. This amount represents a net increase in 2010 of $4 million.

During 2010, major additions/completions included:

$0.5 Million for the Wards Corner and Mt. Repose tank upgrades/paintings
$0.3 Million for the Water portion of a new storage building
$0.2 Million of developer donated waterline

Capital Assets at Year-End (Net of Depreciation, in millions)	2011	2010	2009
Land	$ 2.9	$ 2.8	$ 2.8
Structures	75.0	69.1	68.8
Machinery	8.3	8.4	7.7
Distribution Systems	99.2	99.0	98.7
Autos/Trucks	1.5	1.4	1.4
Construction in Progress	9.5	9.2	6.5
Subtotal Capital Assets	196.4	189.9	185.9
Accumulated Depreciation	(79.1)	(75.2)	(71.2)
Total Capital Assets	$117.3	$114.7	$114.7

The Water System's 2012 capital plan anticipates a spending level of $15.8 million for capital projects of which $1.9 million is expected to come from grants and assessment bond proceeds.

Additional information on the Department's capital assets can be found in Note 3 on page 18 of this report.

Debt

At December 31, 2011 the System had $25.7 million in bonds and loans outstanding, an increase of $2.7 million, or 11.2%, from 2010.

At December 31, 2010 the System had $23.0 million in bonds and loans outstanding, a reduction of $2.0 million, or 8.0%, from 2009.

The 2011 increase is due to new a new $5 million OWDA loan offset by the scheduled retirement of prior issues of debt. The 2010 decrease was a result of scheduled debt service payments.

Outstanding Debt, at Year-End (in millions)	2011	2010	2009
2003 Revenue Bonds	$20.0	$22.3	$24.6
OPWC Loans	0.7	0.7	0.4
OWDA Notes	5.0	0.0	0.0
Total Debt	$25.7	$23.0	$25.0

One area that demonstrates the System's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a strong 181 percent for 2011 and 180 percent for 2010. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	2011	2010
Income (loss) before contributions and transfers	$0.4	$0.3
Add items to convert income to pledged revenues:		
Interest Paid on Bonds	1.1	1.2
Deferred Debt Amortization	0.1	0.1
Depreciation Expense	4.0	4.1
System Capacity Charges	.7	.5
Net Pledged Revenues	$6.3	$6.2
Debt Service Requirements	$3.5	$3.5
Coverage Ratio	181%	180%
Required Coverage Ratio	110%	110%

Additional information on the Department's debt can be found in Note 5 on page 19 of this report.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Water System's finances. If you have any questions about this report or need additional financial information, contact the Controller, Clermont County Water Resources Department, 101 East Main Street, Batavia, Ohio, 45103.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	$ 3,182,204	$ 3,716,647
Cash and cash equivalents in segregated accounts	652,418	1,510,424
Investments in segregated accounts	7,499,045	8,002,585
Accounts receivable (net of allowance for doubtful accounts of $29,503 for 2011 and $45,224 for 2010)	2,181,065	2,177,965
Inventory of supplies at cost	281,950	254,500
Prepaid Expense	476	3,184
Total current assets	13,797,158	15,665,305
NONCURRENT ASSETS:		
Restricted assets:		
Cash and cash equivalents in segregated accounts	639,404	661,753
Investments in segregated accounts	2,931,879	2,877,675
Contractor retainage accounts	178,028	243,256
Accrued interest	3,012	3,276
Total restricted assets	3,752,323	3,785,960
Capital assets not being depreciated	12,361,362	12,034,984
Capital assets being depreciated	104,885,212	102,660,356
Grants receivable	58,824	963,483
Loans receivable	5,079,235	379,500
Unamortized financing costs	239,576	311,523
Non current receivables	31,000	62,000
Residential improvement district receivable	45,280	64,380
Interfund receivables for deferred assessments	1,496	-
Total noncurrent assets	126,454,308	120,262,186
TOTAL ASSETS	140,251,466	135,927,491

LIABILITIES	2011	2010
CURRENT LIABILITIES:		
Accounts payable	1,096,886	697,476
Accrued wages and benefits	322,975	305,227
Contractor maintenance bonds payable	26,499	41,379
Current portion of OPWC debt	45,410	35,922
Current portion of OWDA debt	47,605	-
Total current liabilities	1,539,375	1,080,004
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Current portion of revenue bonds payable	2,470,000	2,375,000
Accrued interest payable	415,604	455,188
Contractor retainage payable	178,028	243,256
Total current liabilities payable from restricted assets	3,063,632	3,073,444
NONCURRENT LIABILITIES:		
Long term portion of OPWC debt	664,618	713,665
Long term portion of OWDA debt	4,952,395	-
Long term portion of revenue bonds payable	17,490,000	19,960,000
Total noncurrent liabilities	23,107,013	20,673,665
TOTAL LIABILITIES	27,710,020	24,827,113

NET ASSETS	2011	2010
Invested in capital assets, net of related debt	91,816,122	91,922,276
Restricted for debt service	3,158,691	3,087,516
Unrestricted	17,566,633	16,090,586
TOTAL NET ASSETS	$112,541,446	$111,100,378

The notes to the financial statements are an integral part of the financial statements.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES:		
Charges for services	$ 12,214,173	$ 13,006,646
New meters, services & reviews	237,550	262,405
Other revenues	152,072	294,906
Total operating revenues	12,603,795	13,563,957
OPERATING EXPENSES:		
Personnel services	2,866,518	2,911,824
Contractual services	905,755	931,179
Maintenance and repair	610,404	618,586
Materials and supplies	1,340,185	2,040,290
Utilities	1,357,145	1,425,265
Depreciation	4,047,470	4,073,612
Other	8,168	43,840
Total operating expenses	11,135,645	12,044,596
OPERATING INCOME	1,468,150	1,519,361
NONOPERATING REVENUES (EXPENSES):		
Interest income	33,465	45,804
Net increase (decrease) in value of investments	10,843	12,562
Interest and fiscal charges	(1,124,814)	(1,224,566)
Gain (loss) on disposal of capital assets	-	(26,414)
Total nonoperating revenues (expenses)	(1,080,506)	(1,192,614)
INCOME BEFORE CONTRIBUTIONS	387,644	326,747
Capital contributions	1,053,424	1,595,504
CHANGE IN NET ASSETS	1,441,068	1,922,251
NET ASSETS BEGINNING OF YEAR	111,100,378	109,178,127
NET ASSETS END OF YEAR	$112,541,446	$111,100,378

The notes to the financial statements are an integral part of the financial statements.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$12,169,411	$12,908,582
Payments to suppliers	(4,360,963)	(5,052,733)
Payments to employees	(2,848,770)	(2,901,562)
Other receipts	431,284	511,148
Net cash provided by operating activities	5,390,962	5,465,435
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(3,507,010)	(3,495,285)
Construction and acquisition of capital assets	(6,084,730)	(4,419,536)
Contractor maintenance bond receipts	4,450	6,550
Contractor maintenance bond payments	(19,330)	(6,351)
Proceeds from assessments	310,665	4,500
Proceeds from residential improvement districts	19,100	17,800
Contractor retainage receipts	24,450	74,163
Contractor retainage payments	(89,678)	(108,838)
Proceeds from loans	300,265	-
Proceeds from capital related grants	962,395	186,989
Interfund advances	(1,496)	-
System capacity charges, including those from non-current receivables	716,023	599,225
Net cash used by capital and related financing activities	(7,364,896)	(7,132,574)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(20,941,108)	(20,298,844)
Investment sales	21,401,287	19,050,256
Interest received on investments	33,729	48,463
Net cash provided by investing activities	493,908	(1,200,125)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,480,026)	(2,867,264)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,132,080	8,999,344
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,652,054	$ 6,132,080
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	$ 1,468,150	$ 1,519,361
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,047,470	4,073,612
Change in assets and liabilities:		
Net change in inventory	(27,450)	(8,903)
Net change in operating accounts receivable	(3,100)	(144,227)
Net change in prepaid expenses	2,708	3,181
Net change in operating accounts payable	(114,564)	12,149
Net change in accrued payroll and related expenses	17,748	10,262
Net cash provide by operating activities	$ 5,390,962	$ 5,465,435
NON-CASH TRANSACTIONS:		
Contributions from developers	$ -	$ 166,712
OWDA Loan approved, proceeds not received at year end	5,000,000	-
Net change in the fair value of investments	10,843	12,562
Total non-cash transactions	$ 5,010,843	$ 179,274

The notes to the financial statements are an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Organization

The Clermont County Water Resources Department (Department), which includes a waterworks system and a sewer system, operates as enterprise funds under the direction of the Clermont County Board of Commissioners. The financial statements covering the sewer system are issued separately from the waterworks system. The County issues a separate Comprehensive Annual Financial Report which contains this waterworks system as a separate enterprise fund of the County.

The customers serviced by the Department are located primarily within Clermont County with a small number of customers located in Hamilton County. Customers consist of residential, industrial, and commercial accounts.

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. In accordance with GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," the Department applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board of Opinions and Accounting Research Bulletins issued after November 30, 1989, unless they conflict with GASB pronouncements.

Cash and Investments

Cash and investments consist of the Department's portion of the County's pooled cash and investment balances, contractor retainage accounts and funds maintained with a trustee in accordance with revenue bond legislation. During 2011 investments were limited to treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 2 provides additional information regarding the Department's cash and investments.

Statements of Cash Flows

For the purpose of the Statement of Cash Flows, the Department considers all highly liquid investments with maturities of less than three months (including restricted assets) to be cash equivalents.

Inventory

Inventory of supplies are valued at the lower of cost or market using the first-in, first-out (FIFO) method. Inventory is expensed when consumed rather than when purchased.

Restricted Assets

Restricted assets represent various trust account balances and applicable interest receivable for revenue bond trust accounts established in accordance with bond legislation for specific purposes. Retainage accounts represent funds withheld from construction contractors payments restricted under the terms of the construction contracts.

Capital Assets

Capital assets include property, plant, equipment and distribution systems. Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years. Capital assets are stated at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as the projects are constructed and updated for the cost of additions and retirements during the year. Interest incurred during construction is capitalized until substantial completion of the project.

Depreciation is computed on the straight-line basis over the following estimated useful lives:

Description	Years
Structures	15-50
Machinery	3-50
Distribution systems	50
Autos and trucks	5-10

Interfund Receivables for Deferred Assessments

Interfund receivables for deferred assessments represent amounts advanced to other County funds to provide funds for deferred assessments. Upon receipt of the assessment by the County, amounts advanced will be repaid to the Department.

Loans Receivable

Loans Receivable represent OPWC and OWDA loans where the Department has entered into a loan agreement but has not drawn down all loan proceeds due to the interim status of the related construction project.

Unamortized Financing Costs

The unamortized financing costs include costs incurred in connection with prior revenue bond issues and the 2003 refunding. These costs are being amortized on the interest method over the lives of the revenue bonds and are included as interest expense. The amount amortized was $71,947 and $78,799 for 2011 and 2010, respectively.

Compensated Absences

Vacation, personal leave and compensatory benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate employees for the benefits through time off or some other means. Sick leave benefits are accrued using the vesting method. The liability is based on sick leave accumulated at December 31, by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

Ohio law requires that vacation time not be accumulated for more than three years. Employees with a minimum of one year of service become vested in accumulated unpaid vacation time. Unused vacation is payable upon termination of employment. Unused sick time may be accumulated until retirement. Employees eligible to retire under a County recognized retirement plan, with a minimum of ten years of service, are paid one-fourth of accumulated sick time upon retirement. Such payment may not exceed the value of thirty days of accrued but unused sick leave. However, if employees earned sick leave prior to January 23, 1984, they are eligible for 100 percent conversion of this amount. All sick, vacation personal and compensation payments are made at the employees' current wage rate.

Contractor Maintenance Bonds Payable

Contractor maintenance bonds payable represent contractor payments to the Department as security for contract performance. Upon successful completion of the construction contract and acceptance by the Department, the maintenance bond is returned to the contractor.

Insurance

During 2011, the County contracted with Humana Inc., Dental Care Plus, Mutual of Omaha, EyeMed Insurance and Bethesda TriHealth to provide coverage, claims review and processing or other services. The Department is charged its proportionate share for covered employees.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Department or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The Department applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from charges for water treatment and other services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Department. Revenues which do not meet this criteria are considered non-operating and reported as such. All revenue is used as security for revenue bonds.

Capital Contributions

Contributions of capital arise from the contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges. During 2011 and 2010, the following capital contributions were received:

	2011	2010
Grants earned	$ 57,736	$ 765,678
Assessment proceeds	310,665	12,709
Donated assets	-	166,712
System capacity charges	685,023	568,225
Residential Improvement District	-	82,180
Total	$1,053,424	$1,595,504

Interfund Activity

The Ohio Revised Code provides for the issuance of special assessment bonds for water improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as special assessment bonds of the County. If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the Department.

The Department is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2011 and 2010 were $220,819 and $255,682, respectively, and are classified as contractual services.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. Cash, Cash Equivalents and Investments

State statutes classify monies held by the Department into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Department’s Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Department 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 which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States.

2. Bonds, notes, debentures, or 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 the 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 market 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) or (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 any time.

8. Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse purchase 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 Department and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure the Department's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or a member bank of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Department.

The County maintains a cash and investment pool used by all funds of the County, including the Department. The Department's portion of the pooled is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents." As of December 31, 2011 and 2010, the carrying amount of the Department's portion of the pool totaled $3,182,204 and $3,716,647, respectively. The Department's portion of the pool can not be separately classified by risk. The County's financial statements provide risk disclosures pertaining to the entire cash and investment pool.

The Department maintains funds in contractor retainage accounts that represent cash retained from construction contractor payments until satisfactory completion of projects. As of December 31, 2011 and 2010, the bank and carrying amount of retainage accounts totaled $178,028 and $243,256, respectively, all of which was covered by FDIC Insurance.

Investments

The Department's investments at December 31, 2011 were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$ 9,798,486	.50
Treasury Notes	632,439	4.89
Money Market Accounts	1,291,821	.00
Total Fair Value	$11,722,746	
Portfolio Weighted Average Maturity		.67

The Department's investments at December 31, 2010 were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$ 9,461,389	.45
Treasury Notes	1,418,871	2.82
Money Market Accounts	2,172,177	.00
Total Fair Value	$13,052,437	
Portfolio Weighted Average Maturity		.63

Interest Rate Risk - In accordance with the County's investment policy, the Department manages its exposure to declines in fair values by limiting the weighted average of its investment portfolio to three years.

Credit Risk - It is the County's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top two ratings issued by nationally recognized statistical rating organizations. The Department's investments in the Money Market Funds were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investment Services.

Concentration of Credit Risk - The County's investment policy allows investments, other than U.S. Treasury Obligations, in Federal agencies or instrumentalities to be limited to fifty percent of total investments with the further limitation of twenty percent of the total investments in obligations of any one issuer.

Custodial credit risk is the risk that in the event of failure of the counterparty, the Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Department's investments are collateralized by underlying securities pledged by the investment's counterparty, not in the name of the Department.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation of cash, cash equivalents and investments on the financial statements and the classification per GASB Statement No. 3 at December 31, 2011 follows:

	Fair Value Cash and Equivalents	Fair Value Investments
Per Statement of Net Assets	$4,652,054	$10,430,924
Money market funds	(1,291,822)	1,291,822
Per GASB Statement No. 3	$3,360,232	$11,722,746

A reconciliation of cash, cash equivalents and investments at December 31, 2010 follows:

	Fair Value Cash and Equivalents	Fair Value Investments
Per Statement of Net Assets	$6,132,080	$10,880,260
Money market funds	(2,172,177)	2,172,177
Per GASB Statement No. 3	$3,959,903	$13,052,437

3. Capital Assets

The following summarizes the changes to capital assets during 2011.

Class	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Capital assets not being depreciated:				
Land	$ 2,830,336	$ 66,916	$ -	$ 2,897,252
Construction in progress	9,204,648	6,605,647	(6,346,185)	9,464,110
Capital assets being depreciated:				
Structure	69,077,333	5,927,249	-	75,004,582
Machinery	8,411,883	5,508	(157,667)	8,259,724
Distribution systems	99,011,935	264,578	(42,164)	99,234,349
Autos and trucks	1,386,216	74,991	-	1,461,207
Total cost	$189,922,351	$12,944,889	($6,546,016)	$196,321,224
Accumulated depreciation				
Structure	($34,056,458)	($1,853,351)	$ -	($35,909,809)
Machinery	(6,628,448)	(211,557)	157,667	(6,682,338)
Distribution systems	(33,566,815)	(1,900,855)	42,164	(35,425,506)
Autos and trucks	(975,290)	(81,707)	-	(1,056,997)
Accumulated depreciation	($75,227,011)	($4,047,470)	$ 199,831	($79,074,650)
Net value	$114,695,340			$117,246,574

4. Noncurrent and Residential Improvement District Receivables

The Department entered into an agreement with the Village of Williamsburg, Ohio for payment of system capacity charges. Total balances due to the Department were $62,000 and $93,000 at December 31, 2011 and 2010, respectively. The current portion of the receivable balance is reflected as current accounts receivables. The Village of Williamsburg makes annual payments of $31,000 through January 2013. The system capacity charges are recorded as a capital contribution.

The Residential Improvement District Receivable totaling $45,280 relates to a tax increment financing arrangement whereby the Department is being reimbursed for capital outlays incurred for the SunnyMeade Residential Improvement District (RID). The Department incurred $82,180 for water main improvements and received RID reimbursement of $19,100 and $17,800 during 2011 and 2010, respectively.

5. Long-Term Debt

For the year ended December 31, 2011, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011	Amount Due Within One Year
Revenue bonds:						
2003 Series Waterworks Refunding Revenue Bonds - $37,020,000	2018 1.2-5.25%	$22,335,000	$ -	$2,375,000	$19,960,000	$2,470,000
OWDA Notes - $5,000,000	2012-2042 3.52%	-	5,000,000	-	5,000,000	47,605
OPWC Loans - $908,196	2024-2031 0.0%	749,587	-	39,559	710,028	45,410
Total		$23,084,587	$5,000,000	$2,414,559	$25,670,028	$2,563,015

Principal and interest payments on long-term debt are as follows:

Year	OWDA Notes	OWDA Notes Interest	OPWC Loans	OPWC Loans Interest	Revenue Bonds	Revenue Bonds Interest	Total
2012	$ 47,605	$ 88,000	$ 45,410	$ -	$ 2,470,000	$ 997,450	$ 3,648,465
2013	97,738	173,472	45,410	-	2,575,000	892,475	3,784,095
2014	101,208	170,001	45,410	-	2,685,000	783,038	3,784,657
2015	104,802	166,407	45,410	-	2,830,000	642,075	3,788,694
2016	108,523	162,686	45,410	-	2,975,000	493,500	3,785,119
2017-2021	603,232	752,814	227,049	-	6,425,000	510,300	8,518,395
2022-2026	718,216	637,829	174,179	-	-	-	1,530,224
2027-2031	855,118	500,927	81,750	-	-	-	1,437,795
2032-2036	1,018,116	337,929	-	-	-	-	1,356,045
2037-2041	1,212,183	143,862	-	-	-	-	1,356,045
2042	133,259	2,345	-	-	-	-	135,604
	$5,000,000	$3,136,272	$710,028	$ -	$19,960,000	$4,318,838	$33,125,138

During 2003 the Department issued Waterworks System Refunding Revenue Bonds, Series 2003, dated September 1, 2003, to retire the outstanding Waterworks System Refunding Revenue Bonds, Series 1993. The Series 2003 bonds will mature on August 1 in various amounts ranging from $2,470,000 in 2012 to $3,295,000 in 2018, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 1.2 percent to 5.25 percent per annum, is payable semi-annually on February 1 and August 1.

OWDA notes payable at December 31, 2011 consist of a $5,000,000 loan due to the Ohio Water Development Authority. Payments of principal and interest are payable semi-annually through 2042 and include interest at 3.52 percent per annum.

The Department has received various non-interest bearing loans due to the Ohio Public Works Commission for specified water system construction costs with a balance due as of December 31, 2011 of $710,028. Payments of principal and interest are payable semi-annually in varying amounts through 2031.

The Waterworks System Refunding Revenue Bonds, Series 2003, legislation provides that the County will charge rates and restrict operating and maintenance expenses as shall result in net revenues of the water system to equal not less than 110 percent of the aggregate amount of principal and interest requirements on the bonds payable during the year (coverage ratio).

The coverage ratio computed under the Waterworks System Refunding Revenue Bonds, Series 2003 legislation is as follows:

Income before contributions	$ 387,644
Add items to convert income to pledged revenues:	
Interest paid on bonds	1,092,450
Deferred debt amortization	71,947
Depreciation expense	4,047,470
System capacity charges	685,023
Net pledged revenues	$6,284,534
Debt service requirement on bonds during 2011	$3,467,450
Coverage ratio	181%
Required coverage ratio	110%

6. Defeased Debt

The Department defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 2011 and 2010 the amount of defeased debt outstanding amounted to $40,000 and $75,000, respectively.

7. Defined Benefit Pension Plans

All employees of the Department participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional pension plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642.

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2011, the members of all three plans were required to contribute 10 percent of their annual covered salaries. The Department's contribution rate for pension benefits for 2011 was 14 percent.

The Department's required contributions to the traditional and combined plans for the years ended December 31, 2011, 2010 and 2009 were $302,692, $311,911and $315,928 respectively; all of which have been contributed.

8. Post-Employment Benefits Other than Pension Benefits

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription rug program, and Medicare Park B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment 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 meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not exceed 14.00% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2011, the employer contribution allocated to the health care plan was 4% of covered payroll. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Department's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were $86,483, $113,255, and $157,964 respectively; all of which has been contributed.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

9. Other Employee Benefits

As part of the County, Department employees have the option of participating in four state-wide deferred compensation plans created in accordance with the Internal Revenue Code Section 457. Under this program, employees elect to have a portion of their pay deferred until a future time. According to this plan, the deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The deferred pay and any income earned thereon is not subject to income tax until actually received by the employee. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) must be held in a trust, custodial account, or annuity contract for the exclusive benefit of plan participants and their beneficiaries. Deferred amounts from the plan are not considered "made available" just because a trust, custodial account or annuity contract holds these amounts. The Plan Agreement states that the County and the plan administrators have no liability for losses under the plan with the exception of fraud or wrongful taking.

10. Risk Management

As an enterprise fund of Clermont County, Ohio, the Department's risk management policies are those that are implemented by the County.

The County is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Arthur J. Gallagher Risk Management Services, Inc. administers all County real and personal property, comprehensive general liability including law enforcement liability and public officials' liability, blanket crime coverage, fleet insurance, and a comprehensive boiler and machinery coverage.

Other than blanket crime, coroner's professional liability and boiler and machinery, all coverage falls under the County's protected self-insurance program. Travelers Indemnity Company provides an $11,000,000 per occurrence limit Liability Package for General Liability, Automobile Liability, Law Enforcement Liability, Public Entity Management Liability and a $2,000,000 limit for Employment Practices Liability. Traveler's Indemnity Company provides a $100,000,000 per occurrence limit for real and personal property coverage. Coverage in the protected self-insurance program is subject to the following per occurrence retentions/deductibles: Property - $50,000 deductible, Automobile - $25,000 retention, All other Liability - $100,000 retention, Combined Maximum (Liability) - $100,000 retention and Maximum per Year (Liability) - $500,000 retention.

Zurich American Insurance Company provides the County's Boiler & Machinery coverage with limits up to $50,000,000, subject to a $10,000 deductible. Travelers Casualty and Surety Company of America provides the County's crime insurance with limits up to $500,000 for dishonest acts of employees, subject to a $5,000 deductible and limits up to $75,000 for theft, disappearance or destruction of money and securities, subject to a $1,000 deductible. Evanston Insurance Company provides the County's Professional Liability coverage related to the Coroner with limits of $1,000,000, subject to a $10,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past 5 years.

The County is included in the Ohio Bureau of Workers' Compensation (BWC) Retrospective Rating Program which provides for a 40% reduction in premium for assuming some of the claims payment risks. To lessen the potential financial risks, the County established through the BWC both an individual claims occurrence "cap" of $200,000 and a maximum premium claims "cap" of 150% of annual payment. The County pays to BWC this reduced premium and the claims costs as billed. The Department pays into the County's Workers' Compensation fund an allocated portion of the County's premium and claims based on the Department's salaries and claims history. The County has elected to provide employees major medical, dental and hospitalization through a self-insured program. The County maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. Third party administrators Humana Inc. and Dental Care Plus review and pay all claims utilizing County funds. Clermont County purchases stop-loss medical coverage (Humana) of $200,000 per member, and an aggregate limit of 125% of expected claims. In 2011, the Department paid into the self-insurance fund $860.18 for family coverage and $345.62 for individual coverage per employee per month, which represented 73-90% of the required premium based on the individual employee benefit selections. The department's share of the premium is paid by the fund that pays the salary for the employee and is based on plan charges established annually by the Board of County Commissioners. The self-insured dental and fully insured vision plans are voluntary and are paid 100% by the employee.

The County's Comprehensive Annual Financial Report contains information for the County's Health Insurance fund, including changes in the Health Insurance Fund's claims liability.

11. Construction Commitments

As of December 31, 2011, the Department had contractual commitments as follows:

Original Contract Amounts	Paid to Date	Remaining Commitments
$16,681,565	$7,710,030	$8,971,535

Bastin & Company, LLC
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the financial statements of the Clermont County Water Resources Department, Water and Sewer Systems, (Department) as of and for the year ended December 31, 2011 and have issued our reports thereon dated April 30, 2012, wherein we noted the financial statements present only the Water and Sewer Systems of Clermont County, Ohio and do not purport to, and do not, present fairly the financial position of Clermont County, Ohio as of December 31, 2011 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's Water and Sewer System financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

4286 Mt. Carmel – Tobasco Road, Suite A, Cincinnati, Ohio 45244-2372, Telephone/Fax (513) 753-3999

This report is intended solely for the information and use of management, the County Commissioners, and others within the County, and is not intended to be and should not be used by anyone other than these specified parties.

Bastin & Company, LLC

Cincinnati, Ohio
April 30, 2012

Dave Yost • Auditor of State

CLERMONT COUNTY WATER RESOURCES DEPARTMENT

CLERMONT 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
JULY 17, 2012

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