

**CLERMONT COUNTY SEWER DISTRICT**  
***SEWER SYSTEM***

**FINANCIAL STATEMENTS WITH**  
**INDEPENDENT AUDITORS' REPORT**

**for the years ended December 31, 2004 and 2003**





**Auditor of State  
Betty Montgomery**

Board of County Commissioners  
Clermont County Sewer District Water System and Sewer System

We have reviewed the Independent Auditor's Report of the Clermont County Sewer District Water System and Sewer System, Clermont County, prepared by Bastin & Company, LLC for the audit period January 1, 2004 through December 31, 2004. 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 Sewer District Water System and Sewer System is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

May 20, 2005

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# 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 Sewer District (District), Sewer System, Batavia, Ohio, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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 are not intended to present fairly the financial position of Clermont County, Ohio and the results of its operations and cash flows of its proprietary fund types 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 Sewer District, Sewer System, as of December 31, 2004 and 2003 and the results of its operations and its 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 18, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 to 8, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Cincinnati, Ohio  
April 18, 2005



# CLERMONT COUNTY SEWER DISTRICT SEWER SYSTEM

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Our discussion and analysis of Clermont County Sewer District's Sewer System's financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2004.

### FINANCIAL HIGHLIGHTS

- The Sewer System's net assets increased by \$3.7 million or 2.7% in 2004.
- During the year, the System generated \$0.8 million from operations and used \$1.7 million in other financing activities, primarily for interest expense.
- The operating income was down \$0.5 million from 2003, primarily due to increased operating expense.
- Debt increased \$0.2 million. Retirement of scheduled debt decreased the debt \$2.1 million and new issues of OPWC loans increased the debt \$2.3 million.

### 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 Revenue, Expenses and Changes in Net Assets (page 10), previously called the Balance Sheet and Income Statement, provide information about the activities of the Sewer System and present a longer-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 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 its costs through its user fees and other charges. These statements report all 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 Flow (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 \$139.6 million to \$143.3 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System.

Net assets of the System increased by 2.7%. 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-increased by \$3.8 million in 2004. Restricted assets-those restricted mainly for capital projects and bond covenants-decreased by \$0.1 million. The investment in capital assets, net of debt increased by \$0.1 million.

### Table 1 Net Assets (in Millions)

<b>Sewer System</b>	<b>2004</b>	<b>2003</b>
Current and Other Assets	\$ 64.9	\$ 60.8
Capital Assets	\$ 125.9	\$ 125.6
<b>Total Assets</b>	<b>\$190.8</b>	<b>\$ 186.4</b>
Long Term Debt Outstanding	(\$ 43.4)	(\$ 43.0)
Other Liabilities	(\$ 4.1)	(\$ 3.8)
<b>Total Liabilities</b>	<b>(\$ 47.5)</b>	<b>(\$46.8)</b>
<b>Net Assets:</b>		
Invested in capital assets, net of debt	\$ 80.5	\$ 80.4
Restricted	\$ 4.2	\$ 4.3
Unrestricted (deficit)	\$ 58.6	\$ 54.8
<b>Total Net Assets</b>	<b>\$ 143.3</b>	<b>\$ 139.6</b>

While the Statement of Net Assets shows the change in the financial position of the net assets, the Statement of Revenues, Expenses, and Net Assets provides answers as to the nature and source of these changes. As seen in table 2, below, the Sewer System's capital contributions of \$4.7 million was the primary source of the increase in net assets in 2004. Operating revenues increased by 3.4% (\$0.6 million) from 2003 to 2004. Non-Operating revenues were down \$0.5 million due to lower interest earnings on held funds. The increase in operating expenses of 7.8% (\$1.0 million) was primarily a result of increases in personnel service cost

## Table 2 Change in Net Assets (in Millions)

Sewer System		2004	2003
<b>Operating Revenues</b>	<b>Charges for Services</b>	\$13.6	\$13.3
	<b>Plan Review &amp; Inspection</b>	\$ 0.1	\$ 0.1
	<b>Other Operating Revenues</b>	\$ 0.2	\$ 0.0
<b>Total Operating Revenues:</b>		<b>\$ 13.9</b>	<b>\$13.4</b>
<b>Operating Expenses:</b>	<b>Operating Expenses</b>	\$ 6.7	\$ 5.5
	<b>Depreciation Expense</b>	\$ 6.4	\$ 6.6
<b>Total Operating Expenses:</b>		<b>\$13.1</b>	<b>\$12.1</b>
<b>Operating Income:</b>		<b>\$ 0.8</b>	<b>\$ 1.3</b>
<b>Non-Operating Revenues:</b>	<b>Interest Income</b>	\$ 0.7	\$ 1.2
	<b>Net Inc (Decr) in Mkt Value of Invstmnt</b>	(\$ 0.3)	(\$ 0.5)
	<b>Interest and Fiscal Charges</b>	(\$ 2.1)	(\$ 2.2)
<b>Income (Loss) before Contributions/Transfers</b>		<b>(\$ 0.9)</b>	<b>(\$ 0.2)</b>
	<b>Capital Contributions</b>	\$ 4.2	\$ 4.2
	<b>Transfers from County</b>	\$ 0.5	\$ 0.0
<b>Change in Net Assets</b>		<b>\$ 3.8</b>	<b>\$ 4.0</b>

The following table lists financial ratios that 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 strength of the 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 maintenance of the Days in Receivable is a result of continued collections on the part of the contractor. The level of Days Cash and Investment in Reserve continues to represent the strong cash balances of the system.

## Sewer System Financial Ratios (dollars in thousands)

<b>Ratio</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Working Capital	\$33,905	\$39,887	\$48,118	\$46,179	\$45,569	\$50,269	\$51,802
Current Ratio	34.2	47.1	91.2	77.0	74.3	88.7	68.5
Days Cash & Investments	1,698	2,038	2,436	2,442	2,352	2,638	2,369
Liabilities to Net Assets	49%	46%	42%	40%	37%	34%	33%
Return on Assets	2%	2%	3%	2%	1%	1%	1%
Days in Receivable	65	65	67	83	72	73	70

**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** indicated 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 amount billed to customers.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2004, the Sewer System had \$228.0 million invested in capital assets including sewer lines, pump stations, treatments plants in operations or under construction. This amount represents a net increase of \$6.7 million (including additions and deletions).

<b>Capital Assets at Year End</b>		
<b>(Net of Depreciation, in millions)</b>	<b>2004</b>	<b>2003</b>
<b>Land</b>	<b>\$ 2.9</b>	<b>\$ 2.8</b>
<b>Structures</b>	<b>90.0</b>	<b>89.7</b>
<b>Machinery</b>	<b>10.5</b>	<b>10.1</b>
<b>Collection Systems</b>	<b>111.9</b>	<b>109.6</b>
<b>Autos/Trucks</b>	<b>1.2</b>	<b>1.1</b>
<b>Construction in Progress</b>	<b>11.5</b>	<b>8.0</b>
<b>Subtotal Capital Assets</b>	<b>\$ 228.0</b>	<b>\$ 221.3</b>
<b>Accumulated Depreciation</b>	<b>(102.1)</b>	<b>(95.7)</b>
<b>Total Capital Assets</b>	<b>\$ 125.9</b>	<b>\$ 125.6</b>

The year's major additions/completions included:

- \$0.7 Million for the Ranch Lane/Beechwood Sewer Lines
- \$1.5 Million of sewer lines donated by developers

The Sewer System's 2004 capital budget anticipates a spending level of \$18.4 million for capital projects. The District anticipates grants, loans and assessment bond proceeds (approx \$7.9 million) to help fund some of these expenditures.

Additional information on the District's capital assets can be found in Note 3 on page 20 of this report.

## **Debt**

At year end, 2004, the System had \$45.4 million in bonds and loans outstanding, an increase of \$0.2 million or 0.5% from 2003. The increase reflects the award of OPWC zero interest loans in the amount of \$2.3 million offset by scheduled debt retirements

<b>Outstanding Debt, as of 12/31</b>		
<b>(in millions)</b>	<b>2004</b>	<b>2003</b>
<b>2003 Revenue Bonds</b>	<b>\$ 37.6</b>	<b>\$ 39.3</b>
<b>OWDA Loans</b>	<b>1.4</b>	<b>1.6</b>
<b>OPWC Loans</b>	<b>6.4</b>	<b>4.3</b>
<b>Total Outstanding Debt</b>	<b>\$ 45.4</b>	<b>\$ 45.2</b>

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 303%. The impact of this is that the System has the ability and the capacity to finance additional debt.

<b>Debt Coverage Ratio</b>	
<b>(in millions)</b>	
<b>Income from Operations</b>	<b>(\$0.9)</b>
<b>Add Items to convert income to pledged revenues</b>	
<b>Interest Paid on Bonds</b>	<b>1.7</b>
<b>Depreciation Expense</b>	<b>6.4</b>
<b>System Capacity Charges</b>	<b>2.3</b>
<b>Net Pledged Revenues</b>	<b>\$ 9.5</b>
<b>Debt Service Requirement during 2004</b>	<b>\$ 3.1</b>
<b>Coverage Ratio</b>	<b>303%</b>
<b>Required Coverage Ratio</b>	<b>110%</b>

Additional information on the District's debt can be found in Note 4 on page 21 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 Sewer District, 101 East Main Street, Batavia, Ohio, 45103.

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2004 and 2003**

**ASSETS**

	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS:</b>		
Equity in pooled cash and cash equivalents	\$ 3,394,892	\$ 3,185,151
Cash and cash equivalents in segregated accounts	2,771,592	7,950,308
Investments in segregated accounts	43,737,495	37,042,092
Accounts receivable (net of allowance for doubtful accounts of \$56,503 for 2004 and \$85,489 for 2003)	2,608,905	2,659,013
Inventory of supplies at cost	<u>56,325</u>	<u>6,049</u>
<b>Total current assets</b>	<u>52,569,209</u>	<u>50,842,613</u>
<b>NONCURRENT ASSETS:</b>		
Restricted assets:		
Equity in pooled cash and cash equivalents	1,884	920
Cash and cash equivalents in segregated accounts	83,900	1,375,450
Investments in segregated accounts	5,202,323	3,578,346
Contractor retainage accounts	80,942	273,312
Accrued interest	<u>71,821</u>	<u>127,563</u>
Total restricted assets	5,440,870	5,355,591
Capital assets, net	125,940,480	125,608,406
Grants Receivable	456,846	195,653
Loans receivable	4,079,273	1,792,673
Unamortized financing costs	2,163,156	2,377,247
Interfund receivable	<u>143,146</u>	<u>214,718</u>
<b>Total noncurrent assets</b>	<u>138,223,771</u>	<u>135,544,288</u>
<b>TOTAL ASSETS</b>	<u>\$190,792,980</u>	<u>\$186,386,901</u>

**LIABILITIES**

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 506,117	\$ 432,277
Accrued wages and benefits	261,539	141,014
Current portion of OWDA notes payable	148,428	140,775
Current portion of OPWC loans payable	<u>229,771</u>	<u>228,669</u>
<b>Total current liabilities</b>	<u>1,145,855</u>	<u>942,735</u>
<b>NONCURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accounts payable	528,434	627,818
Current portion of revenue bonds payable	1,635,000	1,785,000
Accrued interest payable	617,779	111,066
Contractor retainages payable	<u>80,942</u>	<u>273,312</u>
<b>Total noncurrent liabilities payable from restricted assets</b>	<u>2,862,155</u>	<u>2,797,196</u>
<b>OTHER NONCURRENT LIABILITIES:</b>		
Contractor maintenance bonds payable	38,540	26,400
Long - term portion of OWDA notes payable	1,304,402	1,452,830
Long - term portion of OPWC loans payable	6,178,271	4,017,303
Long term portion of revenue bonds payable	<u>35,925,000</u>	<u>37,560,000</u>
<b>Total other noncurrent liabilities</b>	<u>43,446,213</u>	<u>43,056,533</u>
<b>TOTAL LIABILITIES</b>	<u>47,454,223</u>	<u>46,796,464</u>

**NET ASSETS**

Invested in capital assets, net of related debt	80,519,608	80,423,829
Restricted for debt service	4,213,715	4,343,395
Unrestricted	<u>58,605,434</u>	<u>54,823,213</u>
<b>TOTAL NET ASSETS</b>	<u>\$143,338,757</u>	<u>\$139,590,437</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**for the years ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 13,527,194	\$ 13,280,299
New services and reviews	177,539	98,778
Other revenues	<u>187,291</u>	<u>49,872</u>
<b>Total operating revenues</b>	<u>13,892,024</u>	<u>13,428,949</u>
<b>OPERATING EXPENSES:</b>		
Personnel services	2,700,962	1,198,510
Contractual services	1,067,328	3,401,382
Maintenance and repair	438,678	188,282
Materials and supplies	1,117,582	326,813
Utilities	1,360,786	370,003
Depreciation	6,393,086	6,655,893
Other	<u>14,072</u>	<u>7,651</u>
<b>Total operating expenses</b>	<u>13,092,494</u>	<u>12,148,534</u>
<b>OPERATING INCOME</b>	<u>799,530</u>	<u>1,280,415</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	698,388	1,250,834
Net increase (decrease) in fair value of investments	(259,543)	(533,759)
Interest and fiscal charges	<u>(2,155,331)</u>	<u>(2,225,965)</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(1,716,486)</u>	<u>(1,508,890)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	(916,956)	(228,475)
<b>CAPITAL CONTRIBUTIONS:</b>		
Capital contributions	4,205,810	4,180,002
Transfer from County	<u>459,466</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	3,748,320	3,951,527
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>139,590,437</u>	<u>135,638,910</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$143,338,757</u>	<u>\$139,590,437</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**for the years ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$13,577,302	\$13,281,162
Payments to suppliers	(3,974,892)	(4,296,236)
Payments to employees	(2,580,427)	(1,178,565)
Other receipts	<u>364,830</u>	<u>148,650</u>
<b>Net cash provided by operating activities</b>	<u>7,386,813</u>	<u>7,955,011</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal and interest paid on long-term debt	(3,484,832)	(3,798,081)
Proceeds from issuance of revenue bonds	-	39,239,486
Cost of issuing bonds	-	(1,351,231)
Retirement of revenue bonds	-	(41,665,000)
Construction/acquisition of capital assets	(5,295,030)	(3,611,856)
Contractor maintenance bond receipts	12,140	8,850
Contractor maintenance bond payments	-	(1,150)
Proceeds from assessments	3,137	-
Cash contributions from developers	17,100	-
Contractor retainage receipts	103,614	59,281
Contractor retainage payments	(295,984)	(40,619)
Proceeds from interfund receivables	71,572	71,573
Proceeds from grants	45,766	206,422
Transfer from County	459,466	-
System capacity charges	<u>2,349,100</u>	<u>2,609,961</u>
<b>Net cash used by capital and related financing activities</b>	<u>(6,013,951)</u>	<u>(8,272,364)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment purchases	(59,595,520)	(43,888,826)
Investment sales	51,016,597	49,807,997
Interest received on investments	<u>754,130</u>	<u>1,387,463</u>
<b>Net cash provided (used) by investing activities</b>	<u>(7,824,793)</u>	<u>7,306,634</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(6,451,931)	6,989,281
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>12,785,141</u>	<u>5,795,860</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 6,333,210</u>	<u>\$12,785,141</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 799,530	\$ 1,280,415
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,393,086	6,655,893
Change in assets and liabilities:		
Net change in customer accounts receivable	50,108	863
Net change in inventory	(50,276)	66,461
Net change in operating accounts payable	73,840	(68,566)
Net change in accrued payroll and related expenses	<u>120,525</u>	<u>19,945</u>
<b>Net cash provided by operating activities</b>	<u>\$ 7,386,813</u>	<u>\$ 7,955,011</u>
<b>NON-CASH TRANSACTIONS:</b>		
Contributions from developers	\$ 1,529,514	\$ 1,489,924
OPWC loans receivable	2,286,600	970,000
Net increase (decrease) in the fair value of investments	<u>(259,543)</u>	<u>(533,759)</u>
<b>Total non-cash transactions</b>	<u>\$ 3,556,571</u>	<u>\$ 1,926,165</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2004 and 2003**

**1. Summary of Significant Accounting Policies**

**Organization**

The Clermont County Sewer District (District), 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 District 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 District 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 District's portion of the County's pooled cash and investment balances and funds maintained with a trustee in accordance with revenue bond legislation. During 2004 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 District's cash and investments.

**Statements of Cash Flows**

For the purpose of the Statement of Cash Flows, the District 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 charged to expense 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 which represent funds withheld from construction contractors payments restricted under the terms of the construction contracts.

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2004 and 2003**

**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:

<u>Description</u>	<u>Years</u>
Structures	50
Machinery	20
Collection systems	50
Autos and trucks	5-10

**Interfund Receivable**

During 1997 the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. Interfund receivable totaled \$143,146 and \$214,718 at December 31, 2004 and 2003, respectively.

**Loans Receivable**

Loans Receivable represent OPWC loans where the District has entered into a loan agreement but has not drawn down all loan proceeds due to the interim status of the related construction project. The loan terms require the District to initiate loan payments even though the project is not completed and all loan proceeds have not been drawn down.

**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 \$218,351 and \$48,796 for 2004 and 2003, 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

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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 District as security for contract performance. Upon successful completion of the construction contract and acceptance by the District, the maintenance bond is returned to the contractor.

**Self Insurance**

The District, as a enterprise fund of the County, participates in the self insurance program for employee care benefits. During 2004, the program was administered by United Health Care, which provides claims review and processing services. The District is charged its proportionate share of covered employees.

**Net Assets**

Total 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 (both current and long-term portions) used for the acquisition, construction or improvements of those assets. Net assets restricted for debt service consists of restricted assets reduced by liabilities that are to be paid from those assets. The net assets are reported as restricted when there are limitations imposed by creditors, grantors, laws, or regulations of other governments.

The District 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 District. Revenues which do not meet this criteria are considered non-operating and reported as such. All revenue is used as security for revenue bonds.

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**Capital Contributions**

Contributions of capital arise from the contributions of fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges. During 2004, the following capital contributions were received:

Grants earned/received	\$ 306,959
Donated assets	1,529,514
System capacity charges	2,349,100
Assessment proceeds	3,137
Cash contributions from developers	<u>17,100</u>
Total	<u><u>\$4,205,810</u></u>

**Interfund Activity**

During 2004, the County transferred \$459,466 to the District for the reimbursement of costs related to a sewer construction project. The County issued special assessment bonds during 2004 to finance the construction costs incurred by the District.

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 District.

In addition, the District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2004 and 2003 were \$157,933 and \$70,588 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.

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**2. Cash, Cash Equivalents and Investments**

The County maintains a cash and investment pool used by all funds of the County, including the District. The District also maintains funds in contractor retainage accounts and in trustee held accounts specifically applicable to the District which are not included in the pooled cash and investment accounts maintained by the County Treasurer. The District's portion of the pool cash and investment balances maintained by the County Treasurer is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents." Monies maintained in contractor retainage accounts are reported separately as a restricted asset and is offset by an equal amount for the liability on the statement of net assets. Monies maintained in trustee funds are displayed on the statement of net assets as "Cash and cash equivalents in segregated accounts" and "investments in segregated accounts."

Monies held by the County and in trustee accounts are classified by State Statute into two categories:

Active monies are public monies determined to be necessary to meet current demand upon the County Treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the County identified as not required for use within the current four-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.

Ohio Law permits inactive monies to be deposited or invested in the following:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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7. The State Treasurer's investment pool(STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in (1) or (2) above or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

Protection of the County's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, 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.

Cash, cash equivalents and investments at December 31, 2004 are summarized below:

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
<i>Held by County:</i>			
Equity in pooled cash and cash equivalents	\$3,394,892	\$ -	\$ 3,394,892
Restricted pooled cash, construction account	1,884	-	1,884
Retainage accounts	<u>80,942</u>	<u>-</u>	<u>80,942</u>
 Total funds held by County	 <u>3,477,718</u>	 <u>-</u>	 <u>3,477,718</u>
<i>Held by trustee:</i>			
Bond account	28,370	1,293,420	1,321,790
Replacement and improvement account	55,530	3,908,903	3,964,433
Surplus account	<u>2,771,592</u>	<u>43,737,495</u>	<u>46,509,087</u>
 Total funds held by trustee	 <u>2,855,492</u>	 <u>48,939,818</u>	 <u>51,795,310</u>
 Total all accounts	 <u>\$6,333,210</u>	 <u>\$48,939,818</u>	 <u>\$55,273,028</u>

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Cash, cash equivalents and investments at December 31, 2003 are summarized below:

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
<i>Held by County:</i>			
Equity in pooled cash and cash equivalents	\$ 3,185,151	\$ -	\$ 3,185,151
Restricted pooled cash, construction account	920	-	920
Retainage accounts	<u>273,312</u>	<u>-</u>	<u>273,312</u>
 Total funds held by County	 <u>3,459,383</u>	 <u>-</u>	 <u>3,459,383</u>
<i>Held by trustee:</i>			
Construction account	288	-	288
Bond account	1,042,105	-	1,042,105
Replacement and improvement account	333,057	3,578,346	3,911,403
Surplus account	<u>7,950,308</u>	<u>37,042,092</u>	<u>44,992,400</u>
 Total funds held by trustee	 <u>9,325,758</u>	 <u>40,620,438</u>	 <u>49,946,196</u>
 Total all accounts	 <u>\$12,785,141</u>	 <u>\$40,620,438</u>	 <u>\$53,405,579</u>

*Held by County*

Equity in pooled cash and cash equivalents represents the District's portion of funds maintained as part of the County's cash and investment pool. Information on the classification of deposits and investments maintained by the County's Treasurer for categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" is included in the County's Comprehensive Annual Financial Report.

Retainage accounts represent restricted bank accounts controlled by the District which are not part of the cash and investment pooled maintained by the County Treasurer. These accounts maintain cash retained from construction contractor payments until satisfactory completion of projects and are managed by District personnel.

The District and the contractor must approve any release of funds. Individual retainage accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Any excess is collateralized through the use of the Federal Reserve book entry system to hold U.S. Government securities as collateral. The securities are registered in the name of the financial institution, not in the name of the District. As of December 31, 2004 retainage accounts totaled \$80,942 all of which was covered by FDIC Insurance.

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Held by Trustee

Bond legislation requires the establishment of certain trust accounts including a restricted bond account, a restricted bond reserve account, a restricted replacement and improvement account and a non-restricted surplus account. Cash and investments in the accounts are held by trustee financial institutions.

The construction account is used to pay for project costs. The bond account is used to accumulate principal and interest for the payments on the bonds. The bond reserve account requirement for the 2003 Series issue is being satisfied by a reserve account guaranty issued by AMBAC Assurance Corporation. The replacement and improvement account is to be maintained with a balance equal to the greater of five percent of the amount of bond principle outstanding or \$2,000,000. The Surplus Account accumulates any remaining net revenues which are available for several purposes at the direction of the County Commissioners.

The following information classifies deposits and investments maintained in the trustee accounts by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Funds held in trustee accounts are categorized below to give an indication of the level of risk assumed by the District at December 31, 2004.

Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured or unregistered investments which are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or its trust department or agent but not in the District's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category</u> <u>2</u>	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
<b>Categorized Investments:</b>			
U.S. Treasury Notes	\$26,822,575	\$26,822,575	\$26,822,575
U.S. Treasury Bills	22,117,243	22,117,243	22,117,243
Money Market Funds	<u>-</u>	<u>1,840,492</u>	<u>1,840,492</u>
Total	<u>\$48,939,818</u>	<u>\$50,780,310</u>	<u>\$50,780,310</u>

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**3. Capital Assets**

The following summarizes the changes to capital assets during 2004.

<i>Class</i>	Balance December 31, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2004</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,825,473	\$ 65,354	\$ -	\$ 2,890,827
Construction in progress	7,967,958	4,676,747	(1,106,003)	11,538,702
<i>Capital assets being depreciated:</i>				
Structure	89,715,902	293,771	-	90,009,673
Machinery	10,067,897	446,150	-	10,514,047
Collection systems	109,627,468	2,268,355	-	111,895,823
Autos and trucks	<u>1,125,604</u>	<u>80,786</u>	<u>(18,525)</u>	<u>1,187,865</u>
Total cost	<u>\$221,330,302</u>	<u>\$7,831,163</u>	<u>\$(1,124,528)</u>	<u>\$228,036,937</u>
<i>Accumulated depreciation:</i>				
Structure	\$(46,827,362)	\$(3,347,014)	\$ -	\$(50,174,376)
Machinery	(7,592,996)	(517,461)	-	(8,110,457)
Collection systems	(40,315,772)	(2,506,067)	-	(42,821,839)
Autos and trucks	<u>(985,766)</u>	<u>(22,544)</u>	<u>18,525</u>	<u>(989,785)</u>
Accumulated depreciation	<u>\$(95,721,896)</u>	<u>\$(6,393,086)</u>	<u>\$ 18,525</u>	<u>\$(102,096,457)</u>
Net value	<u>\$125,608,406</u>			<u>\$125,940,480</u>

Assets contributed by developers and others in 2004 amounted to \$1,529,514.

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**4. Long-Term Debt**

For the year ended December 31, 2004, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004	Amount Due Within One Year
Ohio Water						
Development						
Authority	2013					
Notes - \$2,900,437	5.2-6.5%	\$ 1,593,605	\$ -	\$ (140,775)	\$ 1,452,830	\$ 148,428
OPWC	2026					
Loans - \$7,436,210	0-2%	4,245,972	2,286,600	(124,530)	6,408,042	229,771
2003 Sewer System						
Refunding Revenue	2024					
Bonds - \$39,345,000	2-4.9%	<u>39,345,000</u>	<u>-</u>	<u>(1,785,000)</u>	<u>37,560,000</u>	<u>1,635,000</u>
Total		<u>\$45,184,577</u>	<u>\$2,286,600</u>	<u>\$(2,050,305)</u>	<u>\$45,420,872</u>	<u>\$2,013,199</u>

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

Year	OWDA Notes	OWDA Note Interest	OPWC Loans	OPWC Loans Interest	Revenue Bonds	Revenue Bond Interest	Total
2005	\$ 148,428	\$ 76,744	\$ 229,771	\$11,976	\$ 1,635,000	\$ 1,482,670	\$ 3,584,589
2006	156,498	68,673	305,145	10,851	1,665,000	1,449,970	3,656,137
2007	165,011	60,161	370,622	9,705	1,700,000	1,416,670	3,722,169
2008	173,988	51,184	371,792	8,535	1,750,000	1,365,670	3,721,169
2009	183,456	41,715	372,985	7,342	1,805,000	1,313,170	3,723,668
2010-2014	625,449	64,126	1,883,682	17,951	10,165,000	5,423,850	18,180,058
2015-2019	-	-	1,457,545	-	12,400,000	3,178,188	17,035,733
2020-2024	-	-	1,213,590	-	6,440,000	540,955	8,194,545
2025-2026	-	-	202,910	-	-	-	202,910
	<u>\$1,452,830</u>	<u>\$362,603</u>	<u>\$6,408,042</u>	<u>\$66,360</u>	<u>\$37,560,000</u>	<u>\$16,171,143</u>	<u>\$62,020,978</u>

Notes payable at December 31, 2004 consist of \$1,452,830 due to the Ohio Water Development Authority. Payments of principal and interest are payable semi-annually through 2013 and include interest at rates ranging from 5.20 percent to 6.50 percent per annum.

OPWC loans payable at December 31, 2004, consist of various individual loans totaling \$6,408,043 due to the Ohio Public Works Commission for specified sewer system construction costs. During 2004, the District received two additional non-interest bearing loans totaling \$2,286,600. Payments of principal and interest are payable semi-annually through 2026 and include interest at rates ranging from 0 to 2 percent per annum.

During 2003 the District issued Sewer System Refunding Revenue Bonds, Series 2003, dated September 15, 2003 to retire the outstanding Series 1993 Sewer Revenue Bonds of the County remaining after

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payment of \$1,250,000 of the 1993 bonds due on December 1, 2003 (\$37,070,000) and to current refund the total balance of the 1984 O'Bannonville revenue bonds (\$4,595,000). The current refunding was undertaken to reduce total debt service payments over the next 21 years by \$8.3 million and resulted in an economic gain of \$1.5 million.

The Series 2003 bonds will mature on August 1 in various amounts ranging from \$1,785,000 in 2004 to \$240,000 in 2024, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 2 percent to 4.90 percent per annum, is payable semi-annually on February 1 and August 1.

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 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 Sewer System Refunding Revenue Bonds, Series 2003 Legislation is as follows:

Income (loss) before contributions and transfers	\$ (916,956)
Add items to convert income from operations to pledged revenues:	
Interest paid on debt	1,430,265
Deferred debt amortization	218,351
Depreciation expense	6,393,086
System capacity charges	<u>2,349,100</u>
Net pledged revenues	<u>\$9,473,846</u>
Debt service requirement on bonds during 2004	<u>\$3,117,791</u>
Coverage ratio	<u>303%</u>
Required coverage ratio	<u>110%</u>

**5. Defeased Debt**

The District 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, 2004, and 2003 the amount of defeased debt outstanding amounted to \$390,000 and \$670,000, respectively.

**6. Other Contingent Liabilities**

The Office of the Ohio Attorney General brought suit on behalf of the Ohio Environmental Protection Agency relating to violations of the NPDES permits issued to the County. A consent order was placed on record on November 7, 1989 establishing certain time frames for construction of improvements to the facilities and establishing certain landmark dates for the completion of interim work.

Management of the District currently believes that the Sewer District is in compliance with the consent order.

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**7. Defined Benefit Pension Plans**

As part of the County, all District full-time employees participate in the Ohio Public Employees Retirement System (PERS) which is a public employee retirement system created by the State of Ohio. County full-time employees, other than teachers, participate in the Ohio Public Employees Retirement System (OPERS) which is a public employee retirement system created by the State of Ohio. 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. Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and employer contributions plus any investment earnings. The Combined Plan is a cost-sharing multiple-employer defined benefit pension plan where the contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan. OPERS, who administers the plan, provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans. The employee contribution rate for 2004 was 8.5%. The 2004 employer contribution rate was 13.55% of covered payroll. The District's contributions for the years ended December 31, 2004, 2003 and 2002 were \$260,072, \$230,389, and \$175,885 respectively, 100% of each has been paid to OPERS.

**8. Other Post-Employment Benefits**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care based on authority granted by state statute. The 2004 employer contribution rate was 13.55 % of covered payroll for employees, 4.00 % was the portion that was used to fund health care.

Assumptions and calculations were based on the System's latest Actuarial Review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.00%. An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base

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increase were assumed to range from .50% to 6.30%. Health care costs were assumed to increase at the project wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years health care costs were assumed to increase at 4%.

At December 31, 2004, the total number of active contributing participants was 369,885. The 2004 rate of 4.00% was the actuarially determined contribution requirements for OPERS. As of December 31, 2003, the net assets available for future OPEB were \$10.5 billion. The District's contributions for the year ended December 31, 2004 was \$66,774. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The HCPP incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**9. Other Employee Benefits**

As part of the County, District 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. Contracted Operations**

On February 10, 2000, the Board of County Commissioners approved a contract with a vendor for the operation of the sewer system. The vendor is responsible for the daily operations of the collection system.

Effective September 1, 2003 the contract expired and operations of the sewer system reverted back to the District.

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2004 and 2003**

**11. Risk Management**

As an enterprise fund of the Clermont County, Ohio, the District'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 & Co. 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. St. Paul Fire & Marine Insurance Company provides a \$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.

Traveler's Indemnity Company of Illinois provides the County's Boiler & Machinery coverage with limits up to \$50,000,000 subject to a \$10,000 deductible. Traveler's Casualty and Surety Company of America provides the County's crime insurance with limits up to \$250,000 for dishonest acts of employees and limits up to \$75,000 for theft, disappearance or destruction of money and securities, subject to a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past 5 years.

The County pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The County has elected to provide employees major medical, dental, vision 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, United Healthcare and Dental Care Plus Insurance Companies, review and pay all claims utilizing County funds. The County purchases stop-loss coverages of \$150,000 per employee and an aggregate limit of \$2,000,000. In 2004, the District paid into the self-insurance fund \$623.90 for family coverages and \$343.18 for individual coverages per employee per month which represented 75-100% of the required premium based on the individual employee benefit selections. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information.

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..

**CLERMONT COUNTY SEWER DISTRICT**  
***WATER SYSTEM***

**FINANCIAL STATEMENTS WITH**  
**INDEPENDENT AUDITORS' REPORT**

**for the years ended December 31, 2004 and 2003**

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# 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 Sewer District (District), Water System, Batavia, Ohio, as of and for the years ended December 31, 2004 and 2003 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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 are not intended to present fairly the financial position of Clermont County, Ohio and the results of its operations and cash flows of its proprietary fund types 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 Sewer District, Water System, as of December 31, 2004 and 2003 and the results of its operations and its 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 18, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 to 8, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Bastin & Company, LLC*

Cincinnati, Ohio  
April 18, 2005



# CLERMONT COUNTY SEWER DISTRICT WATER SYSTEM

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Our discussion and analysis of Clermont County Sewer District's Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2004.

### FINANCIAL HIGHLIGHTS

- The Water System's net assets increased by \$4.0 million or 4.5% in 2004.
- During the year, the System generated \$2.8 million from operations and used \$1.7 million for other financing activities, principally interest expense.
- The operating income was up \$0.03 million from 2003.
- Debt decreased \$2.1 million due to the retirement of scheduled 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), previously called the Balance Sheet and Income Statement, 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 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 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 years revenues and expenditures are taken into account regardless of when cash is received or paid. The final financial statement is the Statement of Cash Flow (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 \$87.6 million to \$91.6 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System.

### Table 1 Net Assets (in Millions)

Water System	2004	2003
Current and Other Assets	\$ 32.6	\$ 38.6
Capital Assets	\$ 97.2	\$ 88.9
<b>Total Assets</b>	<b>\$ 129.8</b>	<b>\$ 127.5</b>
Long Term Debt Outstanding	(\$ 33.5)	(\$ 35.5)
Other Liabilities	(\$ 4.7)	(\$ 4.4)
<b>Total Liabilities</b>	<b>(\$ 38.2)</b>	<b>(\$ 39.9)</b>
<b>Net Assets:</b>		
Invested in capital assets, net of debt	\$ 61.7	\$ 51.3
Restricted	\$ 2.9	\$ 2.9
Unrestricted (deficit)	\$ 27.0	\$ 33.4
<b>Total Net Assets</b>	<b>\$ 91.6</b>	<b>\$ 87.6</b>

Net assets of the System increased by 4.5%. 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 \$6.4 million in 2004. Restricted assets-those restricted mainly for capital projects and bond covenants - remained constant in 2004 at \$2.9 million. The investment in capital assets, net of debt increased \$10.4 million. This increase reflects capital assets financed from the System's net assets of which a part (\$2.9 million) came from capital contributions in the form of system capacity fees, donated assets, assessments and grants and the balance came from unrestricted assets.

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)

Water System		2004	2003
Operating Revenues	Charges for Services	\$10.5	\$10.1
	New Meters, Services & Reviews	\$ 0.7	\$ 0.8
	Other Operating Revenues	\$ 0.3	\$ 0.2
<b>Total Operating Revenues:</b>		<b>\$ 11.5</b>	<b>\$11.1</b>
Operating Expenses:	Operating Expenses	\$ 5.4	\$ 5.0
	Depreciation Expense	\$ 3.3	\$ 3.3
<b>Total Operating Expenses:</b>		<b>\$ 8.7</b>	<b>\$ 8.3</b>
<b>Operating Income:</b>		<b>\$ 2.8</b>	<b>\$ 2.8</b>
Non-Operating Revenues:	Interest Income	\$ 0.5	\$ 1.0
	Net Inc (Decr) in Mkt Value of Invstmnt	(\$ 0.2)	(\$ 0.4)
	Interest and Fiscal Charges	(\$ 2.0)	(\$ 2.4)
<b>Income (Loss) before Contributions/Transfers</b>		<b>\$ 1.1</b>	<b>\$ 1.0</b>
	Capital Contributions	\$ 2.9	\$ 3.6
	Transfers from County	(\$ 0.0)	\$ 0.2
<b>Change in Net Assets</b>		<b>\$ 4.0</b>	<b>\$ 4.8</b>

As seen in table 2 the Water System's income before capital contributions of \$1.1 million and capital contributions of \$2.9 million were the two sources of the increase in net assets of \$4.0 million in 2004. Operating revenues increased by 3.7% (\$ 0.4 million) from 2003 to 2004. Contributions decreased by \$0.7 million.

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 demonstrates the fact that the System has not financed its Working Capital with an increasing proportion of debt. The stability in Days Cash and Investment in Reserve is not being financed by a reduction in receivables, but represents the strong cash balances of the system.

## Water System Financial Ratios (dollars in thousands)

Ratio	1998	1999	2000	2001	2002	2003	2004
Working Capital	\$24,497	\$28,044	\$31,022	\$32,091	\$32,308	\$31,408	24,510
Current Ratio	35.7	48.3	161.7	66.7	62.5	66.9	46.4
Days Cash & Investments	1,458	1,586	1,764	1,966	1,908	1,771	1,443
Liabilities to Net Assets	82%	73%	65%	59%	53%	46%	42%
Return on Assets	4%	4%	4%	3%	4%	3%	2%
Days in Receivable	57	54	62	70	61	85	63

**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** indicated 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 amount billed to customers.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2004, the Water System had \$149.8 million invested in capital assets including water lines, booster stations, storage tanks, treatments plants and construction of new assets. This amount represents a net increase in 2004 of \$11.5 million.

<b>Capital Assets at Year-End (Net of Depreciation, in millions)</b>	<b>2004</b>	<b>2003</b>
Land	\$ 1.8	\$ 1.7
Structures	55.7	54.8
Machinery	7.3	7.3
Distribution System	73.7	69.3
Autos/Trucks	0.9	0.8
Construction in Progress	10.4	4.4
Subtotal Capital Assets	149.8	138.3
Accumulated Depreciation	(52.6)	(49.4)
Total Capital Assets	\$97.2	\$88.9

The year's major additions/completions included:

- \$1.2 Million for the Clough/Glen Este/Mt Carmel Water Main
- \$1.0 Million for the PUB Transmission Main
- \$1.2 Million of waterlines donated from developers
- \$0.7 Million for the Gaynor/Fay/Huntley Water Main

The Water System's 2005 capital budget anticipates a spending level of \$ 13.8 million for capital projects. The District anticipates that grants, loans and assessment bond proceeds (approx \$0.53 million) will help fund some of these expenditures.

Additional information on the District's capital assets can be found in Note 3 on page 20 of this report.

## Debt

At year end, 2004, the System had \$ 35.5 million in bonds and loans outstanding, a decrease of \$2.1 million or 5.6% from 2003. The Refunded 2003 bonds carry interest rates varying from 1.2%-5.25%.

<b>Outstanding Debt, at Year-End (in millions)</b>	<b>2004</b>	<b>2003</b>
2003 Revenue Bonds	\$35.0	\$ 37.0
OPWC Loan	\$0.5	\$ 0.6
<b>TOTAL DEBT</b>	<b>\$35.5</b>	<b>\$ 37.6</b>

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 214%. The impact of this is that the System has the ability and the capacity to finance additional debt.

<b>Debt Coverage Ratio (in millions)</b>	
Income From Operations	\$1.1
Add Items to convert income from operations to	
Interest Paid on Bonds	1.5
Depreciation Expense	3.3
System Capacity Charges	1.5
Net Pledged Revenues	<u>\$ 7.4</u>
Debt Service Requirements during 2004	<u>\$ 3.5</u>
Coverage Ratio	214 %
Required Coverage Ratio	110 %

Additional information on the District's debt can be found in Note 5 on page 21 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 Sewer District, 101 East Main Street, Batavia, Ohio, 45103.

**CLERMONT COUNTY SEWER DISTRICT**  
**WATER SYSTEM**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2004 and 2003**

**ASSETS**

	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS:</b>		
Equity in pooled cash and cash equivalents	\$ 2,969,036	\$ 1,361,944
Cash and cash equivalents in segregated accounts	1,183,467	4,406,119
Investments in segregated accounts	18,881,731	23,566,720
Accounts receivable (net of allowance for doubtful accounts of \$39,666 for 2004 and \$49,761 for 2003)	1,821,751	1,830,187
Inventory of supplies at cost	<u>194,454</u>	<u>193,106</u>
<b>Total current assets</b>	<u>25,050,439</u>	<u>31,358,076</u>
<b>NONCURRENT ASSETS:</b>		
Restricted assets:		
Equity in pooled cash and cash equivalents	-	500
Cash and cash equivalents in segregated accounts	1,826,308	1,262,735
Investments in segregated accounts	2,806,906	3,017,896
Contractor retainage accounts	338,913	314,035
Accrued interest	<u>97,265</u>	<u>92,568</u>
Total restricted assets	5,069,392	4,687,734
Capital assets, net	97,232,837	88,911,788
Grant receivable	531,518	312,858
Unamortized financing costs	870,504	979,956
Interfund receivable	73,661	110,491
Loan receivable	528,696	588,000
Non current receivables	<u>455,626</u>	<u>526,626</u>
<b>Total noncurrent assets</b>	<u>104,762,234</u>	<u>96,117,453</u>
 <b>TOTAL ASSETS</b>	 <u>\$129,812,673</u>	 <u>\$127,475,529</u>

**LIABILITIES**

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 347,661	\$ 395,341
Accrued wages and benefits	<u>192,309</u>	<u>81,453</u>
<b>Total current liabilities</b>	<u>539,970</u>	<u>476,794</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accounts payable	1,166,385	1,328,639
Current portion of OPWC debt	13,217	14,700
Current portion of revenue bonds payable	1,950,000	2,055,000
Accrued interest payable	632,252	117,797
Contractor retainages payable	<u>338,913</u>	<u>314,035</u>
<b>Total current liabilities payable from restricted assets</b>	<u>4,100,767</u>	<u>3,830,171</u>
<b>NONCURRENT LIABILITIES:</b>		
Contractor maintenance bonds payable	38,540	26,400
Long term portion of OPWC debt	515,479	573,300
Long term portion of revenue bonds payable	<u>33,015,000</u>	<u>34,965,000</u>
<b>Total noncurrent liabilities</b>	<u>33,569,019</u>	<u>35,564,700</u>
 <b>TOTAL LIABILITIES</b>	 <u>38,209,756</u>	 <u>39,871,665</u>

**NET ASSETS**

Invested in capital assets, net of related debt	61,739,141	51,303,788
Restricted for debt service	2,931,842	2,927,263
Unrestricted	<u>26,931,934</u>	<u>33,372,813</u>
 <b>TOTAL NET ASSETS</b>	 <u>\$ 91,602,917</u>	 <u>\$ 87,603,864</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
**WATER SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**for the years ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$10,537,795	\$10,121,007
New meters, services & reviews	725,995	804,769
Other revenues	<u>244,803</u>	<u>170,539</u>
<b>Total operating revenues</b>	<u>11,508,593</u>	<u>11,096,315</u>
<b>OPERATING EXPENSES:</b>		
Personnel services	1,662,806	662,992
Contractual services	1,653,097	3,956,256
Maintenance and repair	621,052	91,980
Materials and supplies	862,807	308,779
Utilities	548,805	5,984
Depreciation	3,315,314	3,290,588
Other	<u>43,285</u>	<u>7,165</u>
<b>Total operating expenses</b>	<u>8,707,166</u>	<u>8,323,744</u>
<b>OPERATING INCOME</b>	<u>2,801,427</u>	<u>2,772,571</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	511,602	972,064
Net increase (decrease) in value of investments	(213,176)	(437,265)
Interest and fiscal charges	<u>(2,037,467)</u>	<u>(2,378,913)</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(1,739,041)</u>	<u>(1,844,114)</u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	1,062,386	928,457
<b>CAPITAL CONTRIBUTIONS:</b>		
Capital contributions	2,936,667	3,638,330
Transfer from County	<u>-</u>	<u>240,000</u>
<b>CHANGE IN NET ASSETS</b>	3,999,053	4,806,787
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>87,603,864</u>	<u>82,797,077</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$91,602,917</u>	<u>\$87,603,864</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
**WATER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**for the years ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$11,272,226	\$10,944,991
Payments to suppliers	(3,778,074)	(4,379,511)
Payments to employees	(1,551,950)	(702,409)
Other receipts	<u>244,803</u>	<u>170,539</u>
<b>Net cash provided by operating activities</b>	<u>6,187,005</u>	<u>6,033,610</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal and interest paid on long-term debt	(3,468,560)	(4,167,746)
Proceeds from issuance of revenue bonds	-	38,109,117
Cost of issuing bonds	-	(1,411,447)
Retirement of revenue bonds	-	(41,095,000)
Construction/acquisition of capital assets	(10,636,063)	(5,446,926)
Contractor maintenance bond receipts	12,140	8,850
Contractor maintenance bond payments	-	(1,150)
Proceeds from assessments	-	112,191
Contractor retainage receipts	250,665	186,258
Contractor retainage payments	(225,787)	(85,479)
Proceeds from interfund receivable	36,830	36,831
Proceeds from grants	45,766	244,500
Transfer from County	-	240,000
System capacity charges, including those from non-current receivables	<u>1,580,687</u>	<u>1,837,464</u>
<b>Net cash used by capital and related financing activities</b>	<u>(12,404,322)</u>	<u>(11,432,537)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment purchases	(14,672,754)	(28,260,670)
Investment sales	19,355,557	32,851,947
Interest received on investments	<u>506,905</u>	<u>1,057,453</u>
<b>Net cash provided by investing activities</b>	<u>5,189,708</u>	<u>5,648,730</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(1,027,609)</u>	<u>249,803</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,345,333</u>	<u>7,095,530</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 6,317,724</u>	<u>\$ 7,345,333</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 2,801,427	\$ 2,772,571
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,315,314	3,290,588
Change in assets and liabilities:		
Net change in inventory	(1,348)	-
Net change in operating accounts receivable	8,436	19,215
Net change in operating accounts payable	(47,680)	(9,347)
Net change in accrued payroll and related expenses	<u>110,856</u>	<u>(39,417)</u>
<b>Net cash provide by operating activities</b>	<u>\$ 6,187,005</u>	<u>\$ 6,033,610</u>
<b>NON-CASH TRANSACTIONS:</b>		
Contributions from developers	\$ 1,162,554	\$ 940,360
OPWC loans receivable	-	588,000
Net change in the fair value of investments	<u>(213,176)</u>	<u>(437,265)</u>
<b>Total non-cash transactions</b>	<u>\$ 949,378</u>	<u>\$ 1,091,095</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
***WATER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2004 and 2003**

**1. Summary of Significant Accounting Policies**

**Organization**

The Clermont County Sewer District (District), 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 District 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 District 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 District's portion of the County's pooled cash and investment balances and funds maintained with a trustee in accordance with revenue bond legislation. During 2004 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 District's cash and investments.

**Statements of Cash Flows**

For the purpose of the Statement of Cash Flows, the District 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 which represent funds withheld from construction contractors payments restricted under the terms of the construction contracts.

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**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:

<u>Description</u>	<u>Years</u>
Structures	50
Machinery	20
Distribution systems	50
Autos and trucks	5-10

**Interfund Receivable**

During 1997 the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. Interfund receivables totaled \$73,661 and \$110,491 at December 31, 2004 and 2003, respectively.

**Loans Receivable**

Loans Receivable represent OPWC loans where the District has entered into a loan agreement but has not drawn down all loan proceeds due to the interim status of the related construction project. The loan terms require the District to initiate loan payments even though the project is not completed and all loan proceeds have not been drawn down.

**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 \$109,452 and \$43,270 for 2004 and 2003 respectively.

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**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 District as security for contract performance. Upon successful completion of the construction contract and acceptance by the District, the maintenance bond is returned to the contractor.

**Self Insurance**

The District, as a enterprise fund of the County, participates in the self insurance program for employee care benefits. During 2004, the program was administered by United Health Care, which provides claims review and processing services. The District is charged its proportionate share of covered employees.

**Net Assets**

Total 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 (both current and long-term portions) used for the acquisition, construction or improvements of those assets. Net assets restricted for debt service consists of restricted assets reduced by liabilities that are to be paid from those assets. The net assets are reported as restricted when there are limitations imposed by creditors, grantors, laws, or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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**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 District. 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 fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges. During 2004 and 2003, the following capital contributions were received:

	<u>2004</u>	<u>2003</u>
Grants earned	\$ 264,426	\$ 501,315
Assessment proceeds	-	112,191
Donated assets	1,162,554	940,360
System capacity charges	<u>1,509,687</u>	<u>2,084,464</u>
Total	<u>\$2,936,667</u>	<u>\$3,638,330</u>

**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 District.

During 2003, the County transferred \$240,000, to the District for the reimbursement of costs related to a water construction project. The County issued special assessment bonds during 2003 to finance the construction costs incurred by the District.

In addition, the District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2004 and 2003 were \$157,933 and \$76,614 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.

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**2. Cash, Cash Equivalents and Investments**

The County maintains a cash and investment pool used by all funds of the County, including the District. The District also maintains funds in contractor retainage accounts and in trustee held accounts specifically applicable to the District which are not included in the pooled cash and investment accounts maintained by the County Treasurer. The District's portion of the pool cash and investment balances maintained by the County Treasurer is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents." Monies maintained in contractor retainage accounts are reported separately as a restricted asset and is offset by an equal amount for the liability on the statement of net assets. Monies maintained in trustee funds are displayed on the statement of net assets as "Cash and cash equivalents in segregated accounts" and "investments in segregated accounts."

Monies held by the County and in trustee accounts are classified by State Statute into two categories:

Active monies are public monies determined to be necessary to meet current demand upon the County Treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdraw able on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the County identified as not required for use within the current four-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.

Ohio Law permits inactive monies to be deposited or invested in the following:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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7. The State Treasurer's investment pool(STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in (1) or (2) above or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

Protection of the County's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, 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.

Cash, cash equivalents and investments at December 31, 2004 are summarized below:

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
<i>Held by County:</i>			
Equity in pooled cash and cash equivalents	\$2,969,036	\$ -	\$ 2,969,036
Retainage accounts	<u>338,913</u>	<u>-</u>	<u>338,913</u>
Total funds held by County	<u>3,307,949</u>	<u>-</u>	<u>3,307,949</u>
<i>Held by trustee:</i>			
Bond account	1,448,402	-	1,448,402
Replacement and improvement account	377,906	2,806,906	3,184,812
Surplus account	<u>1,183,467</u>	<u>18,881,731</u>	<u>20,065,198</u>
Total funds held by trustee	<u>3,009,775</u>	<u>21,688,637</u>	<u>24,698,412</u>
Total all accounts	<u>\$6,317,724</u>	<u>\$21,688,637</u>	<u>\$28,006,361</u>

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Cash, cash equivalents and investments at December 31, 2003 are summarized below:

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
<i>Held by County:</i>			
Equity in pooled cash and cash equivalents	\$1,361,944	\$ -	\$ 1,361,944
Restricted pooled cash, construction account	500	-	500
Retainage accounts	<u>314,035</u>	<u>-</u>	<u>314,035</u>
 Total funds held by County	 <u>1,676,479</u>	 <u>-</u>	 <u>1,676,479</u>
<i>Held by trustee:</i>			
Bond account	1,137,665	-	1,137,665
Replacement and improvement account	125,070	3,017,896	3,142,966
Surplus account	<u>4,406,119</u>	<u>23,566,720</u>	<u>27,972,839</u>
 Total funds held by trustee	 <u>5,668,854</u>	 <u>26,584,616</u>	 <u>32,253,470</u>
 Total all accounts	 <u>\$7,345,333</u>	 <u>\$26,584,616</u>	 <u>\$33,929,949</u>

*Held by County*

Equity in pooled cash and cash equivalents represents the District's portion of funds maintained as part of the County's cash and investment pool. Information on the classification of deposits and investments maintained by the County's Treasurer for categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" is included in the County's Comprehensive Annual Financial Report.

Retainage accounts represent restricted bank accounts controlled by the District which are not part of the cash and investment pooled maintained by the County Treasurer. These accounts maintain cash retained from construction contractor payments until satisfactory completion of projects and are managed by District personnel.

The District and the contractor must approve any release of funds. Individual retainage accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Any excess is collateralized through the use of the Federal Reserve book entry system to hold U.S. Government securities as collateral. The securities are registered in the name of the financial institution, not in the name of the District. As of December 31, 2004 retainage accounts totaled \$338,913, all of which was covered by FDIC Insurance.

*Held by Trustee*

Bond legislation requires the establishment of certain trust accounts including a restricted bond account, a restricted bond reserve account, a restricted replacement and improvement account and a non-restricted surplus account. Cash and investments in the accounts are held by trustee financial institutions.

The bond account is used to accumulate principal and interest for the payments on the bonds. The bond reserve account requirement for the 2003 Series issue is being satisfied by a reserve account guaranty issued by AMBAC Assurance Corporation. The replacement and improvement account is to be

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maintained with a balance equal to the greater of five percent of the amount of bond principal outstanding or \$2,000,000. The Surplus Account accumulates any remaining net revenues which are available for several purposes at the direction of the County Commissioners.

The following information classifies deposits and investments maintained in the trustee accounts by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Funds held in trustee accounts are categorized below to give an indication of the level of risk assumed by the District at December 31, 2004.

Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured or unregistered investments which are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or its trust department or agent but not in the District's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category</u> <u>2</u>	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
<b>Categorized Investments:</b>			
U.S. Treasury Notes	\$21,289,453	\$21,289,453	\$21,289,453
U.S. Treasury Bills	399,184	399,184	399,184
Money Market Funds	<u>-</u>	<u>3,009,775</u>	<u>3,009,775</u>
Total	<u>\$21,688,637</u>	<u>\$24,698,412</u>	<u>\$24,698,412</u>

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**3. Capital Assets**

The following summarizes the changes to capital assets during 2004.

<i>Class</i>	Balance December 31, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2004</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,742,904	\$ 80,128	\$ -	\$ 1,823,032
Construction in progress	4,397,525	10,339,841	(4,313,474)	10,423,892
<i>Capital assets being depreciated:</i>				
Structure	54,743,537	1,013,054	-	55,756,591
Machinery	7,303,584	13,696	-	7,317,280
Distribution systems	69,332,562	4,342,887	-	73,675,449
Autos and trucks	<u>769,341</u>	<u>160,231</u>	<u>(52,098)</u>	<u>877,474</u>
Total cost	<u>\$138,289,453</u>	<u>\$15,949,837</u>	<u>(4,365,572)</u>	<u>\$149,873,718</u>
<i>Accumulated depreciation</i>				
Structure	\$(22,342,088)	\$(1,429,425)	\$ -	\$(23,771,513)
Machinery	(4,743,305)	(422,236)	-	(5,165,541)
Distribution systems	(21,547,338)	(1,442,032)	-	(22,989,370)
Autos and trucks	<u>(744,934)</u>	<u>(21,621)</u>	<u>52,098</u>	<u>(714,457)</u>
Accumulated depreciation	<u>\$(49,377,665)</u>	<u>\$(3,315,314)</u>	<u>\$ 52,098</u>	<u>\$(52,640,881)</u>
Net value	<u>\$ 88,911,788</u>			<u>\$ 97,232,837</u>

Assets contributed by developers and others in 2004 amounted to \$1,162,554.

**4. Noncurrent Receivables**

The District entered into agreements with the Villages of Batavia and Williamsburg, Ohio for payment of system capacity charges. Balances due to the District totaled \$455,626 and \$526,626 at December 31, 2004 and 2003, respectively. The Village of Batavia makes quarterly payments of \$8,000 through July 2011 with a final payment of \$7,626 due October 1, 2011. The Village of Williamsburg makes annual payments of \$31,000 through January 2013. The system capacity charges are recorded as a capital contribution.

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**5. Long-Term Debt**

For the year ended December 31, 2004, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004	Amount Due Within One Year
Revenue bonds:						
2003 Series Waterworks						
Refunding Revenue	2018					
Bonds - \$37,020,000	1.2-5.25%	\$37,020,000	-	\$(2,055,000)	\$34,965,000	\$1,950,000
OPWC loans						
2003 Loans - \$528,696	2025 0.0%	588,000	-	(59,304)	528,696	13,217
Total		<u>\$37,608,000</u>	<u>\$-</u>	<u>\$(2,114,304)</u>	<u>\$35,493,696</u>	<u>\$1,963,217</u>

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

Year	Revenue Bonds		OPWC Loans		Total
	Principal	Interest	Principal	Interest	
2005	\$ 1,950,000	\$ 1,517,405	\$ 13,217	\$ -	\$ 3,480,622
2006	2,005,000	1,458,905	26,435	-	3,490,340
2007	2,070,000	1,398,755	26,435	-	3,495,190
2008	2,125,000	1,343,900	26,435	-	3,495,335
2009	2,195,000	1,271,650	26,435	-	3,493,085
2010-2014	12,390,000	4,949,263	132,174	-	17,471,437
2015-2019	12,230,000	1,645,875	132,174	-	14,008,049
2020-2024	-	-	132,174	-	132,174
2025	-	-	13,217	-	13,217
	<u>\$34,965,000</u>	<u>\$13,585,753</u>	<u>\$528,696</u>	<u>\$-</u>	<u>\$49,079,449</u>

During 2003 the District issued Waterworks System Refunding Revenue Bonds, Series 2003, dated September 1, 2003 to retire the outstanding Waterworks System Refunding Revenue Bonds, Series 1993 of the County remaining after payment of the 1993 Series bonds due on December 1, 2003. The current refunding was undertaken to reduce total debt service payments over the next 15 years by \$10.3 million and resulted in an economic gain of \$2.8 million.

The Series 2003 bonds will mature on August 1 in various amounts ranging from \$1,950,000 in 2005 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.

In addition, during 2003, the District received a non-interest bearing loan of \$588,000 due to the Ohio Public Works Commission for specified water system construction costs. The District finalized the project in 2004 and as a result revised the final loan amount to \$528,696. The revised loan requires semi-annual payments of \$13,217 that commence on July 1, 2005 and continue through January 1, 2025.

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

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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 and transfers	\$1,062,386
Add items to convert income from operations to pledged revenues:	
Interest paid on bonds	1,413,560
Deferred debt amortization	109,452
Depreciation expense	3,315,314
System capacity charges	<u>1,509,687</u>
Net pledged revenues	<u>\$7,410,399</u>
Debt service requirement on bonds during 2004	<u>\$3,468,560</u>
Coverage ratio	<u>214%</u>
Required coverage ratio	<u>110%</u>

**6. Defeased Debt**

The District 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, 2004, and 2003 the amount of defeased debt outstanding amounted to \$260,000 and \$285,000, respectively.

**7. Defined Benefit Pension Plans**

As part of the County, all District full-time employees participate in the Ohio Public Employees Retirement System (PERS) which is a public employee retirement system created by the State of Ohio. County full-time employees, other than teachers, participate in the Ohio Public Employees Retirement System (OPERS) which is a public employee retirement system created by the State of Ohio. 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. Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and employer contributions plus any investment earnings. The Combined Plan is a cost-sharing multiple-employer defined benefit pension plan where the contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan. OPERS, who administers the plan, provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans. The employee

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contribution rate for 2004 was 8.5%. The 2004 employer contribution rate was 13.55% of covered payroll. The District's contributions for the years ended December 31, 2004, 2003 and 2002 were \$204,026, \$189,617, and \$175,885 respectively, 100% of each has been paid to OPERS.

**8. Other Post-Employment Benefits**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care based on authority granted by state statute. The 2004 employer contribution rate was 13.55 % of covered payroll for employees, 4.00 % was the portion that was used to fund health care.

Assumptions and calculations were based on the System's latest Actuarial Review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.00%. An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase were assumed to range from .50% to 6.30%. Health care costs were assumed to increase at the project wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years health care costs were assumed to increase at 4%.

At December 31, 2004, the total number of active contributing participants was 369,885. The 2004 rate of 4.00% was the actuarially determined contribution requirements for OPERS. As of December 31, 2003, the net assets available for future OPEB were \$10.5 billion. The District's contributions for the year ended December 31, 2004 was \$60,229. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The HCPP incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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**9. Other Employee Benefits**

As part of the County, District 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. Contracted Operations**

On February 10, 2000, the Board of County Commissioners approved a contract with a vendor for the operation of the water system. The vendor is responsible for the daily operations of the distribution system as well as customer billing.

Effective May 17, 2004 the contract was terminated and operations of the water system reverted back to the District.

**11. Risk Management**

As an enterprise fund of the Clermont County, Ohio, the District'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 & Co. 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. St. Paul Fire & Marine Insurance Company provides a \$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.

Traveler's Indemnity Company of Illinois provides the County's Boiler & Machinery coverage with limits up to \$50,000,000 subject to a \$10,000 deductible. Traveler's Casualty and Surety Company of America provides the County's crime insurance with limits up to \$250,000 for dishonest acts of

**CLERMONT COUNTY SEWER DISTRICT**  
***WATER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2004 and 2003**

employees and limits up to \$75,000 for theft, disappearance or destruction of money and securities, subject to a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past 5 years.

The County pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The County has elected to provide employees major medical, dental, vision 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, United Healthcare and Dental Care Plus Insurance Companies, review and pay all claims utilizing County funds. The County purchases stop-loss coverages of \$150,000 per employee and an aggregate limit of \$2,000,000. In 2004, the District paid into the self-insurance fund \$623.90 for family coverages and \$343.18 for individual coverages per employee per month which represented 75-100% of the required premium based on the individual employee benefit selections. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information.

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.

# Bastin & Company, LLC

*Certified Public Accountants*

## **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 Clermont County Sewer District, Water and Sewer Systems, as of and for the year ended December 31, 2004, and have issued our reports thereon dated April 18, 2005. Those reports state that the financial statements present only the Water and Sewer Systems and are not intended to present fairly the financial position of Clermont County, Ohio and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. 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.

### **Compliance**

As part of obtaining reasonable assurance about whether Clermont County Sewer District, Water and Sewer System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Clermont County Sewer District, Water and Sewer System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

*Bastin & Company, LLC*

Cincinnati, Ohio  
April 18, 2005



**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**CLERMONT COUNTY SEWER DISTRICT WATER SYSTEM  
AND SEWER SYSTEM**

**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  
JUNE 7, 2005**