

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2003 and 2002



**Auditor of State
Betty Montgomery**

The Honorable Board of County Commissioners
Clermont County Sewer District's Water System and Sewer System
101 East Main Street
Batavia, Ohio 45103

We have reviewed the Independent Auditor's Report of the Clermont County Sewer District's Water System and Sewer System, prepared by Bastin & Company, LLC, for the audit period January 1, 2003 to December 31, 2003. 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's Water System and Sewer System is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

May 21, 2004

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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, 2003 and 2002, 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, 2003 and 2002 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 19, 2004 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.

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Cincinnati, Ohio
April 19, 2004



CLERMONT COUNTY SEWER DISTRICT SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003.

FINANCIAL HIGHLIGHTS

- The Sewer System's net assets increased by \$4.0 million or 2.9% in 2003.
- During the year, the System generated \$1.3 million from operations and used \$1.5 million in other financing activities, primarily as a result of lower interest income.
- The operating income was up \$0.4 million from 2002 primarily as a result of decreases in operating expenses of \$0.6 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) 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 years revenues and expenses are accounted for in the Statement of Revenues, Expenses and Net Assets. This statements 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 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 Sewer System's total net assets increased from \$135.6 million to \$139.6 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 2.9%. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements-increased by \$6.9 million in 2003. Restricted assets-those restricted mainly for capital projects and bond covenants-decreased by \$4.4 million as a result of bond refinancing. The investment in capital assets, net of debt increased \$1.4 million. This increase reflects capital assets financed primarily from the System's net assets of which a majority came from capital contributions in the form of system capacity fees, donated assets, assessments and grants.

Table 1 Net Assets (in Millions)

Sewer System	2003	2002
Current and Other Assets	\$ 60.8	\$ 58.3
Capital Assets	\$ 125.6	\$ 127.0
Total Assets	\$ 186.4	\$185.3
Long Term Debt Outstanding	(\$ 43.0)	(\$ 46.3)
Other Liabilities	(\$ 3.8)	(\$ 3.3)
Total Liabilities	(\$46.8)	(\$ 49.6)
Net Assets:		
Invested in capital assets, net of debt	\$ 80.4	\$ 79.0
Restricted	\$ 4.3	\$ 8.7
Unrestricted	\$ 54.8	\$ 47.9
Total Net Assets	\$ 139.6	\$ 135.6

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 \$4.2 million was the source of the increase in net assets in 2003. Operating revenues decreased by 1.3% (\$0.2 million) from 2002 to 2003. Non-Operating revenues were down \$0.5 million due to lower interest earnings on held funds. The reduction in operating expenses by 4.8% (\$0.7 million) was a result of the termination of the operating contract in 2003. Capital contributions dropped by \$0.4 million as a result of reduced system capacity fees and donated assets throughout the year.

Table 2

Change in Net Assets (in Millions)

Sewer System		2003	2002
Operating Revenues	Charges for Services	\$13.3	\$13.4
	Plan Review & Inspection	\$ 0.1	\$ 0.1
	Other Operating Revenues	\$ 0.0	\$ 0.1
Total Operating Revenues:		\$13.4	\$ 13.6
Operating Expenses:	Operating Expenses	\$ 5.5	\$6.2
	Depreciation Expense	\$ 6.6	\$ 6.6
Total Operating Expenses:		\$12.1	\$12.8
Operating Income:		\$ 1.3	\$ 0.8
Non-Operating Revenues:	Interest Income	\$ 1.2	\$ 1.7
	Net Inc (Decr) in Mkt Value of Invstmnt	(\$ 0.5)	(\$ 0.1)
	Interest and Fiscal Charges	(\$ 2.2)	(\$ 2.4)
Income (Loss) before Contributions/Transfers		(\$ 0.2)	(\$ 0.0)
	Capital Contributions	\$ 4.2	\$ 4.6
	Transfers from County	\$ 0.0	\$ 0.3
Change in Net Assets		\$ 4.0	\$ 4.9

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)

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

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 2003, the Sewer System had \$221.3 million invested in capital assets including sewer lines, pump stations, treatments plants in operations or under construction. This amount represents a net increase of \$4.9 million (including additions and deletions).

Capital Assets at Year End (Net of Depreciation, in millions)	2003	2002
Land	\$2.8	\$2.7
Structures	89.7	88.2
Machinery	10.1	10.0
Collection Systems	109.6	106.3
Autos/Trucks	1.1	1.5
Construction in Progress	8.0	7.8
Subtotal Capital Assets	\$221.3	216.4
Accumulated Depreciation	(95.7)	(89.4)
Total Capital Assets	\$125.6	\$ 127.0

The year's major additions/completions included:

- \$1.4 Million for the Miami Trails Treatment Plant Expansion
- \$ 0.5 Million for the North Afton Assessment Project
- \$ 0.4 Million for the sliplining of the SR132 line
- \$ 0.3 Million for the Aicholtz Road/I-275 Project
- \$1.5 Million of sewerlines donated by developers

The Sewer System's 2004 capital budget anticipates a spending level of \$19.1 million for capital projects. The District anticipates grants, loans and assessment bond proceeds (approx \$1.7 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

During 2003, the Sewer District refinanced a large portion of its outstanding debt. 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. At year end, 2003, the System had \$45.2 million in bonds and loans outstanding, a decrease of \$2.8 million or 5.8% from 2002.

Outstanding Debt, as of 12/31 (in millions)	2003	2002
2003 Revenue Bonds	\$ 39.3	\$ 0.0
1993 Revenue Bonds	0.0	38.3
1984 Revenue Bonds	0.0	4.6
OWDA Loans	1.6	1.7
OPWC Loans	4.3	3.4
Total Outstanding Debt	\$ 45.2	\$ 48.0

One area that demonstrates the System's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a strong 316%. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	
Income from Operations	\$ (0.2)
Add Items to convert income to pledged revenues	
Interest Paid on Bonds	2.2
Depreciation Expense	6.7
System Capacity Charges	2.6
Net Pledged Revenues	11.3
Debt Service Requirement during 2003	\$ 3.6
Coverage Ratio	316%
Required Coverage Ratio	110%

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, 2003 and 2002

ASSETS

CURRENT ASSETS:	<u>2003</u>	<u>2002</u>
Equity in pooled cash and cash equivalents	\$ 3,185,151	\$ 3,320,346
Cash and cash equivalents in segregated accounts	7,950,308	1,828,562
Investments in segregated accounts	37,042,092	38,309,751
Accounts receivable (net of allowance for doubtful accounts of \$85,489 for 2003 and \$77,237 for 2002)	2,659,013	2,659,876
Inventory of supplies at cost	<u>6,049</u>	<u>72,510</u>
Total current assets	<u>50,842,613</u>	<u>46,191,045</u>
 NONCURRENT ASSETS:		
Restricted assets:		
Equity in pooled cash and cash equivalents	920	-
Cash and cash equivalents in segregated accounts	1,375,450	392,302
Investments in segregated accounts	3,578,346	8,763,617
Contractor retainage accounts	273,312	254,650
Accrued interest	<u>127,563</u>	<u>264,192</u>
Total restricted assets	5,355,591	9,674,761
Capital assets, net	125,608,406	127,043,823
Grants Receivable	195,653	115,536
Loans receivable	1,792,673	1,029,095
Unamortized financing costs	2,377,247	927,121
Interfund receivable	<u>214,718</u>	<u>286,291</u>
Total noncurrent assets	<u>135,544,288</u>	<u>139,076,627</u>
TOTAL ASSETS	<u>\$186,386,901</u>	<u>\$185,267,672</u>

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	\$ 432,277	\$ 500,843
Accrued wages and benefits	141,014	121,069
Current portion of OWDA notes payable	140,775	133,519
Current portion of OPWC loans payable	<u>228,669</u>	<u>193,538</u>
Total current liabilities	<u>942,735</u>	<u>948,969</u>
 NONCURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable	627,818	509,122
Current portion of revenue bonds payable	1,785,000	1,370,000
Accrued interest payable	111,066	182,832
Contractor retainages payable	<u>273,312</u>	<u>254,650</u>
Total noncurrent liabilities payable from restricted assets	<u>2,797,196</u>	<u>2,316,604</u>
 OTHER NONCURRENT LIABILITIES:		
Contractor maintenance bonds payable	26,400	18,700
Long-term portion of OWDA notes payable	1,452,830	1,593,605
Long -term portion of OPWC loans payable	4,017,303	3,205,884
Long term portion of revenue bonds payable	<u>37,560,000</u>	<u>41,545,000</u>
Total other noncurrent liabilities	<u>43,056,533</u>	<u>46,363,189</u>
TOTAL LIABILITIES	<u>46,796,464</u>	<u>49,628,762</u>

NET ASSETS

Invested in capital assets, net of related debt	80,423,829	79,002,277
Restricted for debt service	4,343,395	8,728,157
Unrestricted	<u>54,823,213</u>	<u>47,908,476</u>
TOTAL NET ASSETS	<u>\$139,590,437</u>	<u>\$135,638,910</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, 2003 and 2002

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES:		
Charges for services	\$ 13,280,299	\$ 13,450,099
New services and reviews	98,778	66,881
Other revenues	<u>49,872</u>	<u>94,305</u>
Total operating revenues	<u>13,428,949</u>	<u>13,611,285</u>
OPERATING EXPENSES:		
Personnel services	1,198,510	723,044
Contractual services	3,401,382	5,338,734
Maintenance and repair	188,282	105,488
Materials and supplies	326,813	16,986
Utilities	370,003	7,102
Depreciation	6,655,893	6,591,225
Other	<u>7,651</u>	<u>(22,505)</u>
Total operating expenses	<u>12,148,534</u>	<u>12,760,074</u>
OPERATING INCOME	<u>1,280,415</u>	<u>851,211</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,250,834	1,729,567
Net increase (decrease) in fair value of investments	(533,759)	(86,187)
Interest and fiscal charges	<u>(2,225,965)</u>	<u>(2,410,197)</u>
Total nonoperating revenues (expenses)	<u>(1,508,890)</u>	<u>(766,817)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(228,475)	84,394
CAPITAL CONTRIBUTIONS:		
Capital contributions	4,180,002	4,601,928
Transfer from County	<u>-</u>	<u>260,000</u>
CHANGE IN NET ASSETS	3,951,527	4,946,322
NET ASSETS BEGINNING OF YEAR	<u>135,638,910</u>	<u>130,692,588</u>
NET ASSETS END OF YEAR	<u>\$139,590,437</u>	<u>\$135,638,910</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, 2003 and 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 13,281,162	\$ 13,770,047
Payments to suppliers	(4,296,236)	(5,432,431)
Payments to employees	(1,178,565)	(722,231)
Other receipts	<u>148,650</u>	<u>94,305</u>
Net cash provided by operating activities	<u>7,955,011</u>	<u>7,709,690</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(3,798,081)	(3,930,311)
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	(3,611,856)	(8,887,140)
Contractor maintenance bond receipts	8,850	2,900
Contractor maintenance bond payments	(1,150)	(13,675)
Proceeds from assessments	-	43,851
Cash contributions from developers	-	424,432
Contractor retainage receipts	59,281	235,088
Contractor retainage payments	(40,619)	(415,223)
Proceeds from interfund receivables	71,573	71,573
Proceeds from grants	206,422	-
Transfer from County	-	260,000
System capacity charges	<u>2,609,961</u>	<u>2,592,245</u>
Net cash used by capital and related financing activities	<u>(8,272,364)</u>	<u>(9,616,260)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(43,888,826)	(42,855,817)
Investment sales	49,807,997	40,009,234
Interest received on investments	<u>1,387,463</u>	<u>1,729,057</u>
Net cash provided (used) by investing activities	<u>7,306,634</u>	<u>(1,117,526)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	6,989,281	(3,024,096)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,795,860</u>	<u>8,819,956</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$12,785,141</u>	<u>\$ 5,795,860</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 1,280,415	\$ 851,211
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,655,893	6,591,225
Change in assets and liabilities:		
Net change in customer accounts receivable	863	253,067
Net change in inventory	66,461	-
Net change in operating accounts payable	(68,566)	13,374
Net change in accrued payroll and related expenses	<u>19,945</u>	<u>813</u>
Net cash provided by operating activities	<u>\$ 7,955,011</u>	<u>\$ 7,709,690</u>
NON-CASH TRANSACTIONS:		
Contributions from developers	\$ 1,489,924	\$ 1,425,863
OPWC loans receivable	970,000	-
Net increase (decrease) in the fair value of investments	<u>(533,759)</u>	<u>(86,187)</u>
Total non-cash transactions	<u>\$1,926,165</u>	<u>\$ 1,339,676</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, 2003 and 2002

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 2003 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.

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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.

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 \$214,718 and \$286,291 at December 31, 2003 and 2002, 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.

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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 \$48,796 for 2003.

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 2003, 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

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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.

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 2003, the following capital contributions were received:

Grants earned	\$ 80,117
Donated assets	1,489,924
System capacity charges	<u>2,609,961</u>
Total	<u>\$4,108,002</u>

Interfund Activity

During 2002, the County transferred \$260,000 to the District for the reimbursement of costs related to a water construction project. The County issued special assessment bonds during 2002 to finance the construction costs incurred by the District. No transfers were made during 2003.

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.

In addition, the District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2003 and 2002 were \$70,588 and \$159,897 respectively and are classified as contractual services.

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

Estimates

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

2. Cash, Cash Equivalents and Investments

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;

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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;
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.

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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>

Cash, cash equivalents and investments at December 31, 2002 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	\$3,320,346	\$ -	\$ 3,320,346
Retainage accounts	<u>254,650</u>	<u>-</u>	<u>254,650</u>
 Total funds held by County	 <u>3,574,996</u>	 <u>-</u>	 <u>3,574,996</u>
<i>Held by trustee:</i>			
Construction account	212,347	1,200,085	1,412,432
Bond account	125,856	3,781,954	3,907,810
Replacement and improvement account	54,099	3,781,578	3,835,677
Surplus account	<u>1,828,562</u>	<u>38,309,751</u>	<u>40,138,313</u>
 Total funds held by trustee	 <u>2,220,864</u>	 <u>47,073,368</u>	 <u>49,294,232</u>
 Total all accounts	 <u>\$5,795,860</u>	 <u>\$47,073,368</u>	 <u>\$52,869,228</u>

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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, 2003 retainage accounts totaled \$273,312 of which \$230,404 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 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, 2003.

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

CLERMONT COUNTY SEWER DISTRICT
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NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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>
Categorized Investments:			
U.S. Treasury Notes	\$22,506,348	\$22,506,348	\$22,506,348
U.S. Treasury Bills	18,114,090	18,114,090	18,114,090
Money Market Funds	<u>-</u>	<u>9,325,758</u>	<u>9,325,758</u>
 Total	 <u>\$40,620,438</u>	 <u>\$49,946,196</u>	 <u>\$49,946,196</u>

3. Capital Assets

The following summarizes the changes to capital assets during 2003.

<i>Class</i>	<u>Balance</u> <u>December 31,</u> <u>2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2003</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,670,384	\$ 155,089	\$ -	\$ 2,825,473
Construction in progress	7,715,119	252,839	-	7,967,958
<i>Capital assets being depreciated:</i>				
Structure	88,259,474	1,456,428	-	89,715,902
Machinery	10,005,569	62,328	-	10,067,897
Collection systems	106,349,375	3,278,093	-	109,627,468
Autos and trucks	<u>1,453,605</u>	<u>15,699</u>	<u>(343,700)</u>	<u>1,125,604</u>
Total cost	<u>\$216,453,526</u>	<u>\$ 5,220,476</u>	<u>\$(343,700)</u>	<u>\$221,330,302</u>
<i>Accumulated depreciation</i>				
Structure	\$(43,295,186)	\$(3,532,176)	\$ -	\$(46,827,362)
Machinery	(6,964,984)	(628,012)	-	(7,592,996)
Collection systems	(37,857,726)	(2,458,046)	-	(40,315,772)
Autos and trucks	<u>(1,291,807)</u>	<u>(37,659)</u>	<u>343,700</u>	<u>(985,766)</u>
Accumulated depreciation	<u>\$(89,409,703)</u>	<u>\$(6,655,893)</u>	<u>\$ 343,700</u>	<u>\$(95,721,896)</u>
Net value	<u>\$127,043,823</u>			<u>\$125,608,406</u>

Assets contributed by developers and others in 2003 amounted to \$1,489,924.

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

4. Long-Term Debt

For the year ended December 31, 2003, changes in long-term debt consisted of the following:

	Matuity/ Interest Rate	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003	Amount Due Within One Year
Ohio Water Development Authority	2013					
Notes - \$2,900,437	5.2-6.5%	\$ 1,727,124	\$ -	\$ (133,519)	\$ 1,593,605	\$ 140,775
OPWC	2024					
Loans - \$5,149,610	0-2%	3,399,422	970,000	(123,450)	4,245,972	228,669
1984 O'Bannonville Revenue	Retired 2003					
Bonds - \$5,970,000	5%	4,595,000	-	(4,595,000)	-	-
1993 Sewer System Refunding Revenue	Retired 2003					
Bonds - \$48,280,000	2.6-5.2%	38,320,000	-	(38,320,000)	-	-
2003 Sewer System Refunding Revenue	2024					
Bonds - \$39,345,000	2-4.9%	-	39,345,000	-	39,345,000	1,785,000
Total		<u>\$48,041,546</u>	<u>\$40,315,000</u>	<u>\$(43,171,969)</u>	<u>\$45,184,577</u>	<u>\$2,154,444</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
2004	\$ 140,775	\$ 84,396	\$ 228,669	\$13,078	\$ 1,785,000	\$ 1,332,791	\$ 3,584,709
2005	148,429	76,744	254,021	11,976	1,635,000	1,482,670	3,608,840
2006	156,498	68,673	255,145	10,853	1,665,000	1,449,970	3,606,139
2007	165,011	60,161	256,292	9,704	1,700,000	1,416,670	3,607,838
2008	173,988	51,184	257,462	8,535	1,750,000	1,365,670	3,606,839
2009-2013	808,904	105,841	1,305,694	24,288	9,775,000	5,814,850	17,834,577
2014-2018	-	-	1,022,499	1,005	11,900,000	3,679,200	16,602,704
2019-2023	-	-	641,940	-	8,895,000	950,353	10,487,293
2024	-	-	24,250	-	240,000	11,760	276,010
	<u>\$1,593,605</u>	<u>\$446,999</u>	<u>\$4,245,972</u>	<u>\$79,439</u>	<u>\$39,345,000</u>	<u>\$17,503,934</u>	<u>\$63,214,949</u>

Notes payable at December 31, 2003 consist of \$1,593,605 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.

CLERMONT COUNTY SEWER DISTRICT
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NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

During 2003, the District received a non-interest bearing loan of \$970,000 due to the Ohio Public Works Commission for specified sewer system construction costs. OPWC loans payable at December 31, 2003, consist of various individual loans totaling \$4,245,972 due to the Ohio Public Works Commission. Payments of principal and interest are payable semi-annually through 2024 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 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	\$ (228,475)
Add items to convert income from operations to pledged revenues:	
Interest paid on bonds (*)	2,193,980
Deferred debt amortization	48,796
Depreciation expense	6,655,893
System capacity charges	<u>2,609,961</u>
Net pledged revenues	<u>\$11,280,155</u>
Debt service requirement on bonds during 2003 (*)	<u>\$ 3,563,980</u>
Coverage ratio	<u>316%</u>
Required coverage ratio	<u>110%</u>

(*) Represents scheduled payments during 2003 prior to refunding.

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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, 2003, and 2002 the amount of defeased debt outstanding amounted to \$670,000 and \$930,000, 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.

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. PERS 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. 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. PERS, who administers the plan, provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. 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. PERS issues a stand-alone financial report that 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. The employee contribution rate for 2003 was 8.5percent. The 2003 employer contribution rate was 13.55 percent of covered payroll, 8.55 percent was the portion used to fund pension obligations. The District's contributions for pension obligations to PERS for the years ended December 31, 2003, 2002 and 2001 were \$230,389, \$175,885 and \$181,531, respectively; all of which has been paid.

8. Other Post-Employment Benefits

The Public Employees Retirement System (PERS) 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

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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 PERS is set aside for the funding of post-retirement health care based on authority granted by state statute. The 2003 employer contribution rate was 13.55 percent of covered payroll for employees, 5.00 percent 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, 2002. 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 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.00 percent. An annual increase of 4.00 percent 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 percent base increase were assumed to range from .50 percent to 6.30 percent. Health care costs were assumed to increase 4.00 percent annually.

At December 31, 2003, the total number of active contributing participants was 364,881. The 2003 rate of 5.00 percent was the actuarially determined contribution requirements for PERS. As of December 31, 2002, the net assets available for future OPEB were \$10.0 billion. The District's actual contribution for 2003 that were used to fund OPEB was \$85,014. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit.

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, 2003 and 2002

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.

Real and personal property, general liability, including law enforcement and public officials liability, and fleet insurance are coverages that fall under the County's protected self-insurance program. United National Insurance Company provides a \$1,000,000 per occurrence limit for real and personal property and a \$10,000,000 per occurrence limit for general liability, automobile liability, law enforcement liability and public officials liability. Travelers Insurance Company provides a \$99,000,000 per occurrence limit for real and personal property coverage in excess of the \$1,000,000 provided by United National.

All coverage in the Protected Self-Insurance Program is subject to the following per occurrence retention: Property - \$50,000; Automobile - \$25,000; All Other \$250,000; Combined Maximum - \$250,000; Maximum per Year - \$500,000

Travelers Indemnity Company of Illinois provides the County's boiler & machinery coverage with limits up to \$50,000,000 subject to a \$10,000 deductible. Travelers Casualty and Surety Company of America provides the County's crime insurance with limits up to \$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 \$100,000 per employee and an aggregate limit of \$1,000,000. In 2003, the District paid into the self-insurance fund \$583.62 for family coverages and \$302.90 for individual coverages per employee per month which represented 72-100% 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
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

12. Reclassifications

Net assets invested in capital assets net of related debt and net assets restricted for debt service as of December 31, 2002 have been restated to correctly reflect the current portion of long term debt within the appropriate category of net assets.

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2003 and 2002

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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, 2003 and 2002 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, 2003 and 2002 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 19, 2004 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 19, 2004



CLERMONT COUNTY SEWER DISTRICT WATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003.

FINANCIAL HIGHLIGHTS

- The Water System's net assets increased by \$4.8 million or 5.8% in 2003.
- During the year, the System generated \$2.8 million from operations and used \$1.8 million for other financing activities, principally interest expense.
- The operating income was down 19%, or \$0.6 million from 2002 as a result of a \$0.8 million decrease in service charge revenues which was offset by a \$0.2 million decrease in operating expenses.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets (Page 9) and the Statement of Revenues, Expenses and Changes in Net Assets (page 10) provide information about the activities of the Water System and present a short and long-term view of the System's finances. The Statement of Net Assets includes all of the System's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations to creditors (liabilities). You will need to consider other nonfinancial factors, however, such as conditions of the capital assets, to assess the overall health of the Water System. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and 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 \$82.8 million to \$87.6 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 5.8%. 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 \$0.1 million in 2003. Restricted assets-those restricted mainly for capital projects and bond covenants-decreased \$4.7 million as a result of bond refinancing. The investment in capital assets, net of debt increased \$9.6 million. This increase reflects capital assets financed primarily from the System's net assets of which a part (\$3.6 million) came from capital contributions in the form of system capacity fees, donated assets, assessments and grants.

Table 1 Net Assets (in Millions)

Water System	2003	2002
Current and Other Assets	\$ 38.6	\$ 42.1
Capital Assets	\$ 88.9	\$ 84.6
Total Assets	\$ 127.5	\$ 126.7
Long Term Debt Outstanding	(\$ 35.5)	(\$ 41.1)
Other Liabilities	(\$ 4.4)	(\$ 2.8)
Total Liabilities	(\$ 39.9)	(\$ 43.9)
Net Assets:		
Invested in capital assets, net of debt	\$ 51.3	\$ 41.7
Restricted	\$ 2.9	\$ 7.6
Unrestricted (deficit)	\$ 33.4	\$ 33.5
Total Net Assets	\$ 87.6	\$ 82.8

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.

As seen in table 2 the Water System's income before capital contributions of \$1.0 million and capital contributions of \$3.8 million were the two sources of the increase in net assets of \$4.8 million in 2003. Operating revenues decreased by 6.8% (\$ 0.8 million) from 2002 to 2003. Capital contributions increased \$0.2 million. Transfers from the County for assessment bond proceeds increased by \$0.1 million.

Table 2

Change in Net Assets (in Millions)

Water System		2003	2002
Operating Revenues	Charges for Services	\$10.1	\$11.0
	New Meters, Services & Reviews	\$0.8	\$0.8
	Other Operating Revenues	\$0.2	\$0.1
Total Operating Revenues:		\$11.1	\$11.9
Operating Expenses:	Operating Expenses	\$5.0	\$5.2
	Depreciation Expense	\$3.3	\$3.3
Total Operating Expenses:		\$8.3	\$8.5
Operating Income:		\$2.8	\$3.4
Non-Operating Revenues:	Interest Income	\$1.0	\$1.2
	Net Inc (Decr) in Mkt Value of Invstmnt	(\$0.4)	(\$0.0)
	Interest and Fiscal Charges	(\$2.4)	(\$2.5)
Income (Loss) before Contributions/Transfers		\$1.0	\$2.1
	Capital Contributions	\$3.6	\$3.4
	Transfers from County	\$0.2	\$0.1
Change in Net Assets		\$4.8	\$5.6

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	1997	1998	1999	2000	2001	2002	2003
Working Capital	\$21,085	\$24,497	\$28,044	\$31,022	\$32,091	\$32,308	\$31,160
Current Ratio	34.5	35.7	48.3	161.7	66.7	62.5	66.4
Days Cash & Investments	1,326	1,458	1,586	1,764	1,966	1,908	1,759
Liabilities to Net Assets	93%	82%	73%	65%	59%	53%	46%
Return on Assets	4%	4%	4%	4%	3%	4%	3%
Days in Receivable	54	57	54	62	70	61	76

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 2003, the Water System had \$138.3 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 2003 of \$7.5 million.

(Net of Depreciation, in millions)	2003	2002
Land	\$1.7	\$1.4
Structures	54.8	51.0
Machinery	7.3	7.3
Distribution System	69.3	66.0
Autos/Trucks	0.8	0.9
Construction in Progress	4.4	4.2
Subtotal Capital Assets	138.3	130.8
Accumulated Depreciation	49.4	46.2
Total Capital Assets	\$88.9	\$84.6

The year's major additions/completions included:

- \$2.6 Million for the Buckwheat Road Storage Tank
- \$1.0 Million for the Locust Corner Water Storage Tank
- \$0.9 Million of waterlines donated from developers
- \$1.0 Million for the Buckwheat Road Water Main
- \$0.6 Million for the Monterey Road Water Main
- \$0.4 Million for the Owensville Connection
- \$0.3 Million for the Summit Road Water Main
- \$0.3 Million for the Manila Road Water Main

The Water System's 2004 capital budget anticipates a spending level of \$ 17.3 million for capital projects. The District anticipates that grants, loans and assessment bond proceeds (approx \$ 1.3 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, 2003, the System had \$ 37.6 million in bonds and loans outstanding, a decrease of \$5.2 million or 12% from 2002. The 1993 bonds were refinanced in 2003 reducing the 5.1%-5.8% interest rates on the 1993 bond to 1.2%-5.25% on the reissued 2003 bonds. 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.

Outstanding Debt, at Year-End (in millions)	2003	2002
1993 Revenue Bonds	\$0.0	\$ 42.8
2003 Revenue Bonds	\$37.0	-
OPWC Loan	\$0.6	-
Total Outstanding Debt	\$37.6	\$ 42.8

One area that demonstrates the System's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a strong 211%. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	
Income From Operations	\$0.9
Add Items to convert income from operations to pledged	
Interest Paid on Bonds	2.5
Depreciation Expense	3.3
System Capacity Charges	2.1
Net Pledged Revenues	\$ 8.8
Debt Service Requirements during 2003	\$ 4.2
Coverage Ratio	211 %
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, 2003 and 2002

ASSETS

CURRENT ASSETS:	<u>2003</u>	<u>2002</u>
Equity in pooled cash and cash equivalents	\$ 1,361,944	\$ 4,088,431
Cash and cash equivalents in segregated accounts	4,406,119	2,444,743
Investments in segregated accounts	23,566,720	24,257,650
Accounts receivable (net of allowance for doubtful accounts of \$49,761 for 2003 and \$41,996 for 2002)	1,830,187	1,849,402
Inventory of supplies at cost	<u>193,106</u>	<u>193,106</u>
Total current assets	<u>31,358,076</u>	<u>32,833,332</u>
NONCURRENT ASSETS:		
Restricted assets:		
Equity in pooled cash and cash equivalents	500	238,405
Cash and cash equivalents in segregated accounts	1,262,735	110,695
Investments in segregated accounts	3,017,896	7,355,508
Contractor retainage accounts	314,035	213,256
Accrued interest	<u>92,568</u>	<u>177,957</u>
Total restricted assets	4,687,734	8,095,821
Capital assets, net	88,911,788	84,571,131
Grant receivable	312,858	56,043
Unamortized financing costs	979,956	692,329
Interfund receivable	110,491	147,322
Loan receivable	588,000	-
Non current receivables	<u>526,626</u>	<u>279,626</u>
Total noncurrent assets	<u>96,117,453</u>	<u>93,842,272</u>
 TOTAL ASSETS	 <u>\$127,475,529</u>	 <u>\$126,675,604</u>

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	\$ 395,341	\$ 404,688
Accrued wages and benefits	<u>81,453</u>	<u>120,870</u>
Total current liabilities	<u>476,794</u>	<u>525,558</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable	1,328,639	84,680
Current portion of OPWC debt	14,700	-
Current portion of revenue bonds payable	2,055,000	1,740,000
Accrued interest payable	117,797	201,333
Contractor retainages payable	<u>314,035</u>	<u>213,256</u>
Total current liabilities payable from restricted assets	<u>3,830,171</u>	<u>2,239,269</u>
NONCURRENT LIABILITIES:		
Contractor maintenance bonds payable	26,400	18,700
Long term portion of OPWC debt	573,300	-
Long term portion of revenue bonds payable	<u>34,965,000</u>	<u>41,095,000</u>
Total noncurrent liabilities	<u>35,564,700</u>	<u>41,113,700</u>
 TOTAL LIABILITIES	 <u>39,871,665</u>	 <u>43,878,527</u>

NET ASSETS

Invested in capital assets, net of related debt	51,303,788	41,736,131
Restricted for debt service	2,927,263	7,596,552
Unrestricted	<u>33,372,813</u>	<u>33,464,394</u>
 TOTAL NET ASSETS	 <u>\$ 87,603,864</u>	 <u>\$ 82,797,077</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, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES:		
Charges for services	\$10,121,007	\$11,020,109
New meters, services & reviews	804,769	780,715
Other revenues	<u>170,539</u>	<u>111,444</u>
Total operating revenues	<u>11,096,315</u>	<u>11,912,268</u>
OPERATING EXPENSES:		
Personnel services	662,992	702,703
Contractual services	3,956,256	4,209,800
Maintenance and repair	91,980	27,254
Materials and supplies	308,779	233,429
Utilities	5,984	7,102
Depreciation	3,290,588	3,304,783
Other	<u>7,165</u>	<u>596</u>
Total operating expenses	<u>8,323,744</u>	<u>8,485,667</u>
OPERATING INCOME	<u>2,772,571</u>	<u>3,426,601</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	972,064	1,194,867
Net increase (decrease) in value of investments	(437,265)	34,608
Interest and fiscal charges	<u>(2,378,913)</u>	<u>(2,535,346)</u>
Total nonoperating revenues (expenses)	<u>(1,844,114)</u>	<u>(1,305,871)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	928,457	2,120,730
CAPITAL CONTRIBUTIONS:		
Capital contributions	3,638,330	3,395,379
Transfer from County	<u>240,000</u>	<u>60,000</u>
CHANGE IN NET ASSETS	4,806,787	5,576,109
NET ASSETS BEGINNING OF YEAR	<u>82,797,077</u>	<u>77,220,968</u>
NET ASSETS END OF YEAR	<u>\$87,603,864</u>	<u>\$82,797,077</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, 2003 and 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$10,944,991	\$11,828,130
Payments to suppliers	(4,379,511)	(4,437,933)
Payments to employees	(702,409)	(705,862)
Other receipts	<u>170,539</u>	<u>111,444</u>
Net cash provided by operating activities	<u>6,033,610</u>	<u>6,795,779</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(4,167,746)	(4,158,992)
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	(5,446,926)	(5,240,052)
Contractor maintenance bond receipts	8,850	2,900
Contractor maintenance bond payments	(1,150)	(13,675)
Proceeds from assessments	112,191	5,366
Cash contributions from developers	-	1,800
Contractor retainage receipts	186,258	148,314
Contractor retainage payments	(85,479)	(112,255)
Proceeds from interfund receivable	36,831	36,831
Proceeds from grants	244,500	-
Transfer from County	240,000	60,000
System capacity charges	<u>1,837,464</u>	<u>1,678,790</u>
Net cash used by capital and related financing activities	<u>(11,432,537)</u>	<u>(7,590,973)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(28,260,670)	(34,572,018)
Investment sales	32,851,947	33,283,326
Interest received on investments	<u>1,057,453</u>	<u>1,253,308</u>
Net cash provided (used) by investing activities	<u>5,648,730</u>	<u>(35,384)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>249,803</u>	<u>(830,578)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,095,530</u>	<u>7,926,108</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 7,345,333</u>	<u>\$ 7,095,530</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 2,772,571	\$ 3,426,601
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,290,588	3,304,783
Change in assets and liabilities:		
Net change in operating accounts receivable	19,215	27,306
Net change in operating accounts payable	(9,347)	40,248
Net change in accrued payroll and related expenses	<u>(39,417)</u>	<u>(3,159)</u>
Net cash provide by operating activities	<u>\$ 6,033,610</u>	<u>\$ 6,795,779</u>
NON-CASH TRANSACTIONS:		
Contributions from developers	\$ 940,360	\$ 1,389,335
OPWC loans receivable	588,000	-
Net change in the fair value of investments	<u>(437,265)</u>	<u>34,608</u>
Total non-cash transactions	<u>\$ 1,091,095</u>	<u>\$ 1,423,943</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, 2003 and 2002

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 2003 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.

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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.

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 \$110,491 and \$147,322 at December 31, 2003 and 2002, 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.

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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 \$43,270 for 2003.

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 2003, 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

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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 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 2003, the following capital contributions were received:

Grants earned	\$ 501,315
Assessment proceeds	112,191
Donated assets	940,360
System capacity charges	<u>2,084,464</u>
Total	<u>\$3,638,330</u>

Interfund Activity

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.

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.

In addition, the District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2003 and 2002 were \$76,614 and \$97,939 respectively and are classified as contractual services.

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

Estimates

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

2. Cash, Cash Equivalents and Investments

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;

CLERMONT COUNTY SEWER DISTRICT
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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;
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.

**CLERMONT COUNTY SEWER DISTRICT
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Cash, cash equivalents and investments at December 31, 2003 are summarized below:

	<u>Cash and Cash 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>

Cash, cash equivalents and investments at December 31, 2002 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
<i>Held by County:</i>			
Equity in pooled cash and cash equivalents	\$4,088,431	\$ -	\$ 4,088,431
Restricted pooled cash, construction account	238,405	-	238,405
Retainage accounts	<u>213,256</u>	<u>-</u>	<u>213,256</u>
 Total funds held by County	 <u>4,540,092</u>	 <u>-</u>	 <u>4,540,092</u>
<i>Held by trustee:</i>			
Bond account	55,596	4,337,508	4,393,104
Replacement and improvement account	55,099	3,018,000	3,073,099
Surplus account	<u>2,444,743</u>	<u>24,257,650</u>	<u>26,702,393</u>
 Total funds held by trustee	 <u>2,555,438</u>	 <u>31,613,158</u>	 <u>34,168,596</u>
 Total all accounts	 <u>\$7,095,530</u>	 <u>\$31,613,158</u>	 <u>\$38,708,688</u>

CLERMONT COUNTY SEWER DISTRICT
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NOTES TO FINANCIAL STATEMENTS
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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, 2003 retainage accounts totaled \$314,035, 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 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, 2003.

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

**CLERMONT COUNTY SEWER DISTRICT
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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>
Categorized Investments:			
U.S. Treasury Notes	\$22,453,153	\$22,453,153	\$22,453,153
U.S. Treasury Bills	4,131,463	4,131,463	4,131,463
Money Market Funds	<u>-</u>	<u>5,668,854</u>	<u>5,668,854</u>
 Total	 <u>\$26,584,616</u>	 <u>\$32,253,470</u>	 <u>\$32,253,470</u>

3. Capital Assets

The following summarizes the changes to capital assets during 2003.

<i>Class</i>	<u>Balance</u> <u>December 31,</u> <u>2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2003</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,391,700	\$ 351,204	\$ -	\$ 1,742,904
Construction in progress	4,221,578	175,947	-	4,397,525
<i>Capital assets being depreciated:</i>				
Structure	51,045,883	3,697,654	-	54,743,537
Machinery	7,288,186	15,398	-	7,303,584
Distribution systems	65,941,520	3,391,042	-	69,332,562
Autos and trucks	<u>879,752</u>	<u>-</u>	<u>(110,411)</u>	<u>769,341</u>
Total cost	<u>\$130,768,619</u>	<u>\$ 7,631,245</u>	<u>\$(110,411)</u>	<u>\$138,289,453</u>
<i>Accumulated depreciation</i>				
Structure	\$(20,967,209)	\$(1,374,879)	\$ -	\$(22,342,088)
Machinery	(4,207,494)	(535,811)	-	(4,743,305)
Distribution systems	(20,179,439)	(1,367,899)	-	(21,547,338)
Autos and trucks	<u>(843,346)</u>	<u>(11,999)</u>	<u>110,411</u>	<u>(744,934)</u>
Accumulated depreciation	<u>\$(46,197,488)</u>	<u>\$(3,290,588)</u>	<u>\$110,411</u>	<u>\$(49,377,665)</u>
Net value	<u>\$ 84,571,131</u>			<u>\$ 88,911,788</u>

Assets contributed by developers and others in 2003 amounted to \$940,360.

**CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002**

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 \$526,626 and \$279,626 at December 31, 2003 and 2002, 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 2012. The system capacity charges are recorded as a capital contribution.

5. Long-Term Debt

For the year ended December 31, 2003, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003	Amount Due Within One Year
Revenue bonds:						
1993 Series Waterworks						
Refunding Revenue Retired 2003						
Bonds - \$57,885,000	2.6-5.8%	\$42,835,000	\$ -	\$(42,835,000)	\$ -	\$ -
2003 Series Waterworks						
Refunding Revenue 2018						
Bonds - \$37,020,000	1.2-5.25%	-	37,020,000	-	37,020,000	2,055,000
OPWC loans 2024						
2003 Loans - \$588,000	0.0%	-	588,000	-	588,000	14,700
Total		<u>\$42,835,000</u>	<u>\$37,608,000</u>	<u>\$(42,835,000)</u>	<u>\$37,608,000</u>	<u>\$2,069,700</u>

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

Year	Revenue Bonds		OPWC Loans		Total
	Principal	Interest	Principal	Interest	
2004	\$ 2,055,000	\$ 1,413,560	\$ 14,700	\$ -	\$ 3,483,260
2005	1,950,000	1,517,405	29,400	-	3,496,805
2006	2,005,000	1,458,905	29,400	-	3,493,305
2007	2,070,000	1,398,755	29,400	-	3,498,155
2008	2,125,000	1,343,900	29,400	-	3,498,300
2009-2013	11,900,000	5,437,875	147,000	-	17,484,875
2014-2018	14,915,000	2,428,912	147,000	-	17,490,912
2019-2023	-	-	147,000	-	147,000
2024	-	-	14,700	-	14,700
	<u>\$37,020,000</u>	<u>\$14,999,312</u>	<u>\$588,000</u>	<u>\$ -</u>	<u>\$52,607,312</u>

During 2003 the District issued Waterworks System Refunding Revenue Bonds, Series 2003, dated

CLERMONT COUNTY SEWER DISTRICT
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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 \$2,055,000 in 2004 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 loan requires semi-annual payments of \$14,700 that is currently expected to commence on July 1, 2004 and continue through January 1, 2024.

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

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

Income before contributions and transfers	\$ 928,457
Add items to convert income from operations to pledged revenues:	
Interest paid on bonds (*)	2,415,993
Deferred debt amortization	43,270
Depreciation expense	3,290,588
System capacity charges	<u>2,084,464</u>
Net pledged revenues	<u>\$8,762,772</u>
Debt service requirement on bonds during 2003 (*)	<u>\$4,155,993</u>
Coverage ratio	<u>211%</u>
Required coverage ratio	<u>110%</u>

(*) Represents scheduled payments during 2003 prior to refunding.

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, 2003, and 2002 the amount of defeased debt outstanding amounted to \$285,000 and \$310,000, respectively.

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
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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. PERS 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. 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. PERS, who administers the plan, provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. 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. PERS issues a stand-alone financial report that 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. The employee contribution rate for 2003 was 8.5 percent. The 2003 employer contribution rate was 13.55 percent of covered payroll, 8.55 percent was the portion used to fund pension obligations. The District's contributions for pension obligations to PERS for the years ended December 31, 2003, 2002 and 2001 were \$189,617, \$175,885 and \$180,276 respectively; all of which has been paid.

8. Other Post-Employment Benefits

The Public Employees Retirement System (PERS) 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 PERS is set aside for the funding of post-retirement health care based on authority granted by state statute. The 2003 employer contribution rate was 13.55 percent of covered payroll for employees, 5.00 percent 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, 2002. 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 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.00 percent. An annual increase of 4.00 percent 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

**CLERMONT COUNTY SEWER DISTRICT
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for the years ended December 31, 2003 and 2002**

above the 4.00 percent base increase were assumed to range from .50 percent to 6.30 percent. Health care costs were assumed to increase 4.00 percent annually.

At December 31, 2003, the total number of active contributing participants was 364,881. The 2003 rate of 5.00 percent was the actuarially determined contribution requirements for PERS. As of December 31, 2002, the net assets available for future OPEB were \$10.0 billion. The District's actual contribution for 2003 that were used to fund OPEB was \$69,969. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit.

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 will expire and operations of the water system will revert back to the District.

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

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.

Real and personal property, general liability, including law enforcement and public officials liability, and fleet insurance are coverages that fall under the County's protected self-insurance program. United National Insurance Company provides a \$1,000,000 per occurrence limit for real and personal property and a \$10,000,000 per occurrence limit for general liability, automobile liability, law enforcement liability and public officials liability. Travelers Insurance Company provides a \$99,000,000 per occurrence limit for real and personal property coverage in excess of the \$1,000,000 provided by United National.

All coverage in the Protected Self-Insurance Program is subject to the following per occurrence retention: Property - \$50,000; Automobile - \$25,000; All Other \$250,000; Combined Maximum - \$250,000; Maximum per Year - \$500,000

Travelers Indemnity Company of Illinois provides the County's boiler & machinery coverage with limits up to \$50,000,000 subject to a \$10,000 deductible. Travelers Casualty and Surety Company of America provides the County's crime insurance with limits up to \$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 \$100,000 per employee and an aggregate limit of \$1,000,000. In 2003, the District paid into the self-insurance fund \$583.62 for family coverages and \$302.90 for individual coverages per employee per month which represented 72-100% 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
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

12. Reclassifications

Net assets invested in capital assets net of related debt and net assets restricted for debt service as of December 31, 2002 have been restated to correctly reflect the current portion of long term debt within the appropriate category of net assets.

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, 2003, and have issued our reports thereon dated April 19, 2004. 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 19, 2004

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Betty Montgomery**

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CLERMONT COUNTY SEWER DISTRICT'S 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 3, 2004**