

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2009 and 2008



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Clermont County Water Resources Department, Clermont County, prepared by Bastin & Company, LLC, for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 14, 2010

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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 Water Resources Department (Department), Sewer System, an enterprise fund of Clermont County, Ohio, as of and for the years ended December 31, 2009 and 2008 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Sewer System and are not intended to, and do not, present fairly the financial position of Clermont County, Ohio, as of December 31, 2009 and 2008 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Water Resources Department, Sewer System, as of December 31, 2009 and 2008 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2010 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Bastin & Company, LLC

Cincinnati, Ohio
March 29, 2010



CLERMONT COUNTY WATER RESOURCES DEPARTMENT

SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clermont County Water Resources Department's Sewer System's financial performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2009 and 2008.

FINANCIAL HIGHLIGHTS

- The Sewer System's net assets decreased by \$2.3 million or 1.3% in 2009.
- During 2009, the System lost \$2.5 million from operations.
- Operating revenues decreased \$0.2 million from 2008, primarily due to a lower volume of water consumed which is the basis for sewer charges.
- Operating expenses remained relatively flat from 2008 levels.
- Debt decreased by \$2.6 million due to the scheduled retirement of debt.

USING THIS ANNUAL REPORT

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

SYSTEM SUMMARY

The Sewer System's total net assets decreased from \$168.7 million to \$166.4 million during 2009. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System comparing 2009 to 2008 and comparing 2008 to 2007.

Table 1

NET ASSETS (in Millions)	2009	2008	2007
Current and Other Assets	\$ 44.8	\$ 50.4	\$ 52.3
Capital Assets	169.6	168.0	163.8
Total Assets	214.4	218.4	216.1
Long Term Debt Outstanding	42.0	44.6	40.5
Other Liabilities	6.0	5.1	5.7
Total Liabilities	48.0	49.7	46.2
Net Assets:			
Invested in capital assets, net of debt	125.9	121.9	122.5
Restricted for debt service	2.9	2.8	4.2
Unrestricted	37.6	44.0	43.2
Total Net Assets	\$166.4	\$168.7	\$169.9

For 2009, net assets of the System decreased by 1.3%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, decreased by \$6.4 million in 2009. Restricted assets increased in 2009 by \$0.1 million. The investment in capital assets, net of debt, increased \$4.0 million. This increase reflects capital assets financed from the System's net assets, of which a part (\$1.9 million) came from capital contributions in the form of, system capacity fees, donated assets and grants.

For 2008, net assets of the System decreased by 0.8%. 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, increased by \$0.8 million in 2008. Restricted assets decreased in 2008 by \$1.4 million. The investment in capital assets, net of debt, decreased \$0.6 million. This decrease reflects depreciation and the issuance of additional borrowings during the year.

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

Table 2

CHANGE IN NET ASSETS (in Millions)		2009	2008	2007
Operating Revenues	Charges for Services	\$14.2	\$14.4	\$14.1
	New services and reviews	0.0	0.0	0.0
	Other Operating Revenues	0.1	0.1	0.1
	Total Operating Revenues	14.3	14.5	14.2
Operating Expenses	Operating Expenses	9.1	9.1	8.3
	Depreciation Expense	7.7	7.6	7.5
	Total Operating Expense	16.8	16.7	15.8
	Operating Income (Loss)	(2.5)	(2.2)	(1.6)
Non-Operating Revenues	Interest Income	0.2	0.9	1.9
	Net Change in Market Value of Investments	(0.2)	0.0	0.2
	Interest and Fiscal Charges	(1.7)	(1.8)	(1.7)
	Gain (loss) on Disposal of Capital Assets	0.0	0.0	0.4
	Income (Loss) before Contributions	(4.2)	(3.1)	(1.6)
Contributions/Transfers	Capital Contributions and Transfers	1.9	1.8	8.7
Change in Net Assets	Total Change in Net Assets	(\$2.3)	(\$1.3)	\$7.1

As seen in Table 2 the Sewer System's operating and non-operating losses of \$4.2 million were not offset by contributions and created an overall \$2.3 million reduction to the system's net assets. Operating revenues decreased \$0.2 million due to a lower volume of water consumed which is the basis for sewer charges. Operating expenses remained relatively constant from 2008 to 2009. Contributions/transfers also remained relatively constant.

For 2008, operating and non-operating losses of \$3.1 million were not offset by the contributions level as in previous years and created an overall \$1.3 million reduction to the system's net assets. Operating revenues increased \$0.3 million due to a rate increase that went into effect January 1, 2008. Operating expenses increased by \$0.9 million, or 5.7%, from 2007 to 2008 primarily as a result of higher contract service cost related to studies. Contributions/transfers decreased by \$6.9 million primarily due to a lower level of system capacity fees and donated assets as a result of the slowing economy.

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

FINANCIAL RATIOS (\$ in thousands)

	2003	2004	2005	2006	2007	2008	2009
Working Capital	\$49,247	\$50,858	\$52,625	\$38,948	\$39,056	\$32,660	\$35,162
Current Ratio	31.8	30.7	27.1	10.9	17.8	14.0	12.3
Days Cash & Investments	2,638	2,369	2,389	1,888	1,675	1,290	1,401
Liabilities to Net Assets	34%	33%	30%	29%	27%	29%	29%
Return on Assets	1%	1%	1%	1%	0%	0%	0%
Days in Receivables	73	70	79	67	60	68	66

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the Sewer System had \$303.9 million invested in capital assets including sewer lines, pump stations, treatment plants in operation or under construction. This amount represents a net increase in 2009 of \$9.3 million.

During 2009, major additions/completions included:

- \$11.3 Million for the Wards Corner Wastewater Treatment Plant
- \$0.4 Million for developer donated assets

At the end of 2008, the Sewer System had \$294.6 million invested in capital assets including sewer lines, pump stations, treatment plants in operation or under construction. This amount represents a net increase in 2008 of \$11.5 million.

During 2008, major additions/completions included:

- \$1.1 Million for the Sewer portion of the New Administration Building
- \$0.3 Million for developer donated assets
- \$0.3 Million for Heritage Glen Relief Sewers

Capital Assets at Year-End (Net of Depreciation, in millions)	2009	2008	2007
Land	\$ 4.5	\$ 3.6	\$ 3.6
Structures	119.6	111.4	110.2
Machinery	15.5	13.1	12.8
Collection Systems	144.5	144.1	143.0
Autos/Trucks	1.8	1.5	1.4
Construction in Progress	18.0	20.9	12.1
Subtotal Capital Assets	303.9	294.6	283.1
Accumulated Depreciation	(134.3)	(126.6)	(119.2)
Total Capital Assets	\$169.6	\$168.0	\$163.9

The Sewer System’s 2010 capital plan anticipates a spending level of \$19.4 million for capital projects. The District anticipates that grants, loans and assessment bond proceeds (approx \$8.9 million) to help fund some of these expenditures.

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

Debt

At December 31, 2009 the System had \$44.8 million in bonds and loans outstanding, a reduction of \$2.6 million from 2008. The reductions are a primarily a result of scheduled debt service payments.

At December 31, 2008 the System had \$47.4 million in bonds and loans outstanding, an addition of \$4.5 million from 2007. The net increase was due to additional \$6.9 million of OWDA and OPWC loans offset by the scheduled retirement of revenue bonds and other debt of \$2.4 million.

Outstanding Debt, at Year-End (in millions)	2009	2008	2007
2003 Revenue Bonds	\$29.0	\$30.8	\$32.6
OWDA Loans	6.3	6.8	1.0
OPWC Loans	9.5	9.8	9.3
Total Debt	\$44.8	\$47.4	\$42.9

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 207 percent for 2009 and 235 percent for 2008. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	2009	2008
Loss before contributions and transfers	(\$4.1)	(\$3.1)
Add items to convert income to pledged revenues:		
Interest Paid on Bonds	1.3	1.4
Deferred Debt Amortization	0.2	0.2
Depreciation Expense	7.7	7.6
System Capacity Charges	1.4	1.2
Net Pledged Revenues	\$6.5	\$7.3
Debt Service Requirements during year	\$3.1	\$3.1
Coverage Ratio	207%	235%
Required Coverage Ratio	110 %	110 %

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

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
STATEMENTS OF NET ASSETS
December 31, 2009 and 2008

ASSETS

CURRENT ASSETS:	<u>2009</u>	<u>2008</u>
Equity in pooled cash and cash equivalents	\$ 8,279,127	\$ 3,696,659
Cash and cash equivalents in segregated accounts	4,255,590	5,598,224
Investments in segregated accounts	22,976,375	22,996,090
Accounts receivable (net of allowance for doubtful accounts of \$26,161 for 2009 and \$38,178 for 2008)	2,551,755	2,696,801
Inventory of supplies at cost	198,181	174,469
Prepaid Expense	<u>6,365</u>	<u>5,000</u>
Total current assets	<u>38,267,393</u>	<u>35,167,243</u>
NONCURRENT ASSETS:		
Restricted assets:		
Cash and cash equivalents in segregated accounts	844,137	1,301,360
Investments in segregated accounts	2,528,510	2,063,136
Contractor retainage accounts	513,316	229,199
Accrued interest	<u>12,233</u>	<u>17,748</u>
Total restricted assets	3,898,196	3,611,443
Capital assets not being depreciated	22,553,243	24,481,902
Capital assets being depreciated	147,056,192	143,503,781
Grants Receivable	7,301	838,106
Loans receivable	1,096,537	9,146,141
Unamortized financing costs	1,163,723	1,346,479
Non current receivable	152,010	152,010
Interfund receivable for deferred assessments	<u>201,586</u>	<u>163,011</u>
Total noncurrent assets	<u>176,128,788</u>	<u>183,242,873</u>
TOTAL ASSETS	<u>214,396,181</u>	<u>218,410,116</u>

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	1,722,018	1,077,284
Accrued wages and benefits	327,600	411,333
Contractor maintenance bonds payable	41,180	47,405
Current portion of OWDA notes payable	434,760	417,347
Current portion of OPWC loans payable	<u>579,409</u>	<u>553,708</u>
Total current liabilities	<u>3,104,967</u>	<u>2,507,077</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Current portion of revenue bonds payable	1,875,000	1,805,000
Accrued interest payable	517,071	547,154
Contractor retainages payable	<u>513,316</u>	<u>229,199</u>
Total current liabilities payable from restricted assets	<u>2,905,387</u>	<u>2,581,353</u>
NONCURRENT LIABILITIES:		
Long term portion of OWDA notes payable	5,930,926	6,365,685
Long term portion of OPWC loans payable	8,894,934	9,273,159
Long term portion of revenue bonds payable	<u>27,130,000</u>	<u>29,005,000</u>
Total noncurrent liabilities	<u>41,955,860</u>	<u>44,643,844</u>
TOTAL LIABILITIES	<u>47,966,214</u>	<u>49,732,274</u>

NET ASSETS

Invested in capital assets, net of related debt	125,928,129	121,912,263
Restricted for debt service	2,867,809	2,835,090
Unrestricted	<u>37,634,029</u>	<u>43,930,489</u>
TOTAL NET ASSETS	<u>\$166,429,967</u>	<u>\$168,677,842</u>

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES:		
Charges for services	\$ 14,193,863	\$ 14,364,149
New services and reviews	1,937	19,739
Other revenues	<u>95,026</u>	<u>55,954</u>
Total operating revenues	<u>14,290,826</u>	<u>14,439,842</u>
OPERATING EXPENSES:		
Personnel services	3,248,440	3,219,053
Contractual services	1,826,139	2,219,940
Maintenance and repair	614,326	359,130
Materials and supplies	1,306,433	1,256,745
Utilities	2,096,712	2,002,747
Depreciation	<u>7,664,765</u>	<u>7,578,904</u>
Total operating expenses	<u>16,756,815</u>	<u>16,636,519</u>
OPERATING INCOME (LOSS)	<u>(2,465,989)</u>	<u>(2,196,677)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	238,610	882,069
Net increase (decrease) in fair value of investments	(176,131)	11,113
Interest and fiscal charges	(1,701,257)	(1,790,457)
Gain (loss) on disposal of capital assets	<u>-</u>	<u>11,812</u>
Total nonoperating revenues (expenses)	<u>(1,638,778)</u>	<u>(885,463)</u>
LOSS BEFORE CONTRIBUTIONS	(4,104,767)	(3,082,140)
CAPITAL CONTRIBUTIONS:		
Capital contributions	<u>1,856,892</u>	<u>1,794,569</u>
CHANGE IN NET ASSETS	(2,247,875)	(1,287,571)
NET ASSETS BEGINNING OF YEAR	<u>168,677,842</u>	<u>169,965,413</u>
NET ASSETS END OF YEAR	<u>\$166,429,967</u>	<u>\$168,677,842</u>

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$14,357,357	\$13,937,097
Payments to suppliers	(5,804,224)	(5,919,876)
Payments to employees	(3,332,173)	(3,172,650)
Other receipts	<u>78,515</u>	<u>126,032</u>
Net cash provided by operating activities	<u>5,299,475</u>	<u>4,970,603</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(4,123,454)	(4,016,652)
Proceeds from capital related loans	8,049,604	406,265
Construction and acquisition of capital assets	(8,319,311)	(11,586,583)
Contractor maintenance bond receipts	-	4,700
Contractor maintenance bond payments	(6,225)	(20,500)
Proceeds from tax increment financing	-	47,990
Proceeds from sale of capital assets	-	11,812
Proceeds from deferred assessments	2,778	-
Contractor retainage receipts	369,551	185,050
Contractor retainage payments	(85,434)	(999,444)
Proceeds from capital related grants	907,424	-
Advances for deferred assessments	(38,575)	(39,201)
System capacity charges	<u>1,388,560</u>	<u>1,258,111</u>
Net cash used by capital and related financing activities	<u>(1,855,082)</u>	<u>(14,748,452)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(53,442,389)	(50,270,103)
Investment sales	52,820,599	58,272,017
Interest received on investments	<u>244,125</u>	<u>1,072,459</u>
Net cash provided (used) by investing activities	<u>(377,665)</u>	<u>9,074,373</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,066,728	(703,476)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,825,442</u>	<u>11,528,918</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$13,892,170</u>	<u>\$10,825,442</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	(\$2,465,989)	(\$2,196,677)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,664,765	7,578,904
Change in assets and liabilities:		
Net change in operating accounts receivable	145,046	(376,713)
Net change in inventory	(23,712)	(94,689)
Net change in prepaid expenses	(1,365)	(5,000)
Net change in operating accounts payable	64,463	18,375
Net change in accrued payroll and related expenses	<u>(83,733)</u>	<u>46,403</u>
Net cash provided by operating activities	<u>\$ 5,299,475</u>	<u>\$ 4,970,603</u>
NON-CASH TRANSACTIONS:		
Contributions from developers	\$ 391,713	\$ 336,458
OWDA and OPWC loans and receivables	76,619	6,935,322
Net change in the fair value of investments	<u>(176,131)</u>	<u>11,113</u>
Total non-cash transactions	<u>\$ 292,201</u>	<u>\$ 7,282,893</u>

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

1. Summary of Significant Accounting Policies

Name Change

On May 6, 2009, the Clermont County Board of Commissioners approved Resolution 80-09 to revise the name of the Clermont County Sewer District to the Clermont County Water Resources Department.

Organization

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

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

Basis of Accounting

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

Cash and Investments

Cash and investments consist of the Department's portion of the County's pooled cash and investment balances, contractor retainage accounts and funds maintained with a trustee in accordance with revenue bond legislation. During 2009 investments were limited to treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 2 provides additional information regarding the Department's cash and investments.

Statements of Cash Flows

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

Inventory

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

Restricted Assets

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

Capital Assets

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

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

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

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

<u>Description</u>	<u>Years</u>
Structures	15-50
Machinery	3-50
Collection systems	50
Autos and trucks	5-10

Interfund Receivable

During 2009, 2008, 2007, 2006 and 2005, the Department advanced \$38,575, \$39,201, \$37,457, \$42,263 and \$44,090, respectively, to the County to provide funds for deferred assessments. Upon receipt of the assessment by the County, the total advance of \$201,586 will be repaid to the Department.

Loans Receivable

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

Unamortized Financing Costs

The unamortized financing costs include costs incurred in connection with prior revenue bond issues and the 2003 refunding. These costs are being amortized on the interest method over the lives of the revenue bonds and are included as interest expense. The amount amortized was \$182,756 and \$193,389 for 2009 and 2008, respectively.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

Compensated Absences

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

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

Contractor Maintenance Bonds Payable

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

Self Insurance

The Department, as an enterprise fund of the County, participates in the County administered insurance program for employee care benefits. During 2009, the County contracted with Humana Inc., Dental Care Plus, CIGNA and EyeMed Insurance, which provide claims review and processing services. The Department is charged its proportionate share for covered employees.

Net Assets

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

Operating Revenues and Expenses

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
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Capital Contributions

Contributions of capital arise from the contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges. During 2009 and 2008, the following capital contributions were received:

	<u>2009</u>	<u>2008</u>
Grants earned	\$ 76,619	\$ -
Donated assets	391,713	336,458
System capacity charges	1,388,560	1,258,111
Tax increment financing	<u>-</u>	<u>200,000</u>
Total	<u>\$1,856,892</u>	<u>\$1,794,569</u>

Interfund Activity

The Ohio Revised Code provides for the issuance of special assessment bonds for sewer improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as special assessment bonds of the County. If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the Department. During 2009 and 2008, no funds were required to be contributed by the Department.

In addition, the Department is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2009 and 2008 were \$283,259 and \$240,914 respectively and are classified as contractual services.

Estimates

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

2. Cash, Cash Equivalents and Investments

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

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

Inactive deposits are public deposits that the Department has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
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Interim deposits are deposits of interim monies. Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Department and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
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NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

Deposits

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

The County maintains a cash and investment pool used by all funds of the County, including the Department. The Department's portion of the pooled is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents." As of December 31, 2009 and 2008, the carrying amount of the Department's portion of the pool totaled \$8,279,127 and \$3,696,659, respectively. The Department's portion of the pool can not be separately classified by risk. The County's financial statements provide risk disclosures pertaining to the entire cash and investment pool.

The Department maintains funds in contractor retainage accounts that represent cash retained from construction contractor payments until satisfactory completion of projects. As of December 31, 2009 and 2008, the bank and carrying amount of retainage accounts totaled \$513,316 and \$229,199, respectively, all of which was covered by FDIC Insurance.

Investments

The Department's investments at December 31, 2009 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Treasury Bills	\$23,288,108	0.61
Treasury Notes	2,216,777	3.26
Money Market Accounts	<u>5,099,727</u>	0.00
Total Fair Value	<u>\$30,604,612</u>	
Portfolio Weighted Average Maturity		0.70

The Department's investments at December 31, 2008 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Treasury Bills	\$23,196,085	0.50
Treasury Notes	1,863,141	4.45
Money Market Accounts	<u>6,899,584</u>	0.00
Total Fair Value	<u>\$31,958,810</u>	
Portfolio Weighted Average Maturity		2.67

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

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

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

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

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation of cash, cash equivalents and investments on the financial statements and the classification per GASB Statement No 3 at December 31, 2009 follows:

	Fair Value <u>Cash and Equivalents</u>	Fair Value <u>Investments</u>
Per Balance Sheet	\$13,892,170	\$25,504,885
Money market funds	<u>(5,099,727)</u>	<u>5,099,727</u>
Per GASB Statement No. 3	<u>\$ 8,792,443</u>	<u>\$30,604,612</u>

A reconciliation of cash, cash equivalents and investments at December 31, 2008 follows:

	Fair Value <u>Cash and Equivalents</u>	Fair Value <u>Investments</u>
Per Balance Sheet	\$10,825,442	\$25,059,226
Money market funds	<u>(6,899,584)</u>	<u>6,899,584</u>
Per GASB Statement No. 3	<u>\$ 3,925,858</u>	<u>\$31,958,810</u>

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
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for the years ended December 31, 2009 and 2008

3. Capital Assets

The following summarizes the changes to capital assets during 2009.

<u>Class</u>	<u>Balance January 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2009</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,573,730	\$ 990,982	\$ -	\$ 4,564,712
Construction in progress	20,908,172	9,026,497	(11,946,138)	17,988,531
<i>Capital assets being depreciated:</i>				
Structure	111,466,683	8,116,167	(7,380)	119,575,470
Machinery	13,120,991	2,375,172	-	15,496,163
Collection systems	144,066,969	446,692	-	144,513,661
Autos and trucks	<u>1,492,520</u>	<u>279,145</u>	<u>-</u>	<u>1,771,665</u>
Total cost	<u>\$294,629,065</u>	<u>\$21,234,655</u>	<u>(\$11,953,518)</u>	<u>\$303,910,202</u>
<i>Accumulated depreciation:</i>				
Structure	(\$61,978,032)	(\$3,955,070)	\$ 7,380	(\$65,925,722)
Machinery	(9,529,424)	(435,320)	-	(9,964,744)
Collection systems	(54,315,988)	(3,163,788)	-	(57,479,776)
Autos and trucks	<u>(819,938)</u>	<u>(110,587)</u>	<u>-</u>	<u>(930,525)</u>
Accumulated depreciation	<u>(\$126,643,382)</u>	<u>(\$7,664,765)</u>	<u>\$ 7,380</u>	<u>(\$134,300,767)</u>
Net value	<u>\$ 167,985,683</u>			<u>\$ 169,609,435</u>

Assets contributed by developers and others in 2009 amounted to \$391,713.

4. Noncurrent Receivables

Non-current receivables totaling \$152,010 relate a tax increment financing arrangement whereby the Department is being reimbursed for capital outlays incurred for the Forest Glen Residential Improvement District (RID). The Department incurred \$200,000 for lift station improvements and received RID reimbursement of \$47,990 during 2008.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

5. Long-Term Debt

For the year ended December 31, 2009, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009	Amount Due Within One Year
Ohio Water						
Development						
Authority	2027					
Notes - \$9,101,259	3.15-6.5%	\$ 6,783,032	\$ -	\$ 417,347	\$ 6,365,685	\$ 434,760
OPWC	2039					
Loans - \$12,194,410	0-2%	9,826,867	-	352,522	9,474,345	579,409
2003 Sewer System						
Refunding Revenue	2024					
Bonds - \$39,345,000	1.5-4.9%	<u>30,810,000</u>	<u>-</u>	<u>1,805,000</u>	<u>29,005,000</u>	<u>1,875,000</u>
Total		<u>\$47,419,899</u>	<u>\$ -</u>	<u>\$2,574,869</u>	<u>\$44,845,030</u>	<u>\$2,889,169</u>

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

Year	OWDA Notes	OWDA Notes Interest	OPWC Loans	OPWC Loans Interest	Revenue Bonds	Revenue Bonds Interest	Total
2010	\$434,760	\$210,660	\$579,409	\$6,124	\$1,875,000	\$1,240,970	\$4,346,923
2011	453,111	192,308	580,651	4,882	1,950,000	1,165,970	4,346,922
2012	454,978	173,440	581,918	3,616	2,030,000	1,087,970	4,331,922
2013	294,813	156,497	583,210	2,323	2,115,000	1,006,770	4,158,613
2014	273,452	146,796	584,528	1,005	2,195,000	922,170	4,122,951
2015-2019	1,503,130	598,112	2,483,579	1,005	12,400,000	3,178,188	20,164,014
2020-2024	1,757,377	343,865	2,239,623	-	6,440,000	540,955	11,321,820
2025-2029	1,194,064	66,680	1,596,593	-	-	-	2,857,337
2030-2034	-	-	122,417	-	-	-	122,417
2034-2039	-	-	122,417	-	-	-	122,417
	<u>\$6,365,685</u>	<u>\$1,888,358</u>	<u>\$9,474,345</u>	<u>\$18,955</u>	<u>\$29,005,000</u>	<u>\$9,142,993</u>	<u>\$55,895,336</u>

Notes payable at December 31, 2009 consist of various individual loans totaling \$6,365,685 due to the Ohio Water Development Authority. During 2008, the Department received one additional loan totaling \$6,200,822 that carried a 3.15 percent interest rate. Payments of principal and interest are payable semi-annually through 2027 and include interest at rates ranging from 3.15 percent to 6.50 percent per annum.

OPWC loans payable at December 31, 2009, consist of various individual loans totaling \$9,474,345 due to the Ohio Public Works Commission for specified sewer system construction costs. During 2008, the Department received one additional non-interest bearing loan totaling \$734,500. Payments of principal and interest are payable semi-annually through 2039 and include interest at rates ranging from 0 to 2 percent per annum.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
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for the years ended December 31, 2009 and 2008

During 2003 the Department issued Sewer System Refunding Revenue Bonds, Series 2003, dated September 15, 2003 to retire the outstanding Series 1993 Sewer Revenue Bonds and to refund the balance of the 1984 O'Bannon Creek revenue bonds. The Series 2003 bonds will mature on August 1 in various amounts ranging from \$1,805,000 in 2009 to \$240,000 in 2024, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 3 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 sewer system to equal not less than 110 percent of the aggregate amount of principal and interest requirements on the bonds payable during the year (coverage ratio).

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

Loss before contributions	(\$4,104,767)
Add items to convert income to pledged revenues:	
Interest paid on bonds	1,313,170
Deferred debt amortization	182,756
Depreciation expense	7,664,765
System capacity charges	<u>1,388,560</u>
Net pledged revenues	<u>\$ 6,444,484</u>
Debt service requirement on bonds during 2009	<u>\$ 3,118,170</u>
Coverage ratio	<u>207%</u>
Required coverage ratio	<u>110%</u>

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 Department currently believes that the Department is in compliance with the consent order.

7. Defined Benefit Pension Plans

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, the members of all three plans were required to contribute 10 percent of their annual covered salaries. The Department's contribution rate for pension benefits for 2009 was 14 percent.

The Department's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008 and 2007 were \$366,770, \$343,116 and \$321,573 respectively; all of which have been contributed.

8. Post-Employment Benefits Other than Pension Benefits

OPERS maintains a cost-sharing multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care. Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2009, local government employers contributed 14 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. For 2009, the amount of the employer contributions which was allocated to fund post-employment health care was 7 percent of covered payroll.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The Department's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008, and 2007 were \$183,385, \$171,558, and \$127,677 respectively; all of which has been contributed.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

The Health Care Preservation Plan (HCPP), adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

9. Other Employee Benefits

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

10. Risk Management

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

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

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

Travelers Property Casualty Company of America 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, subject to a \$5,000 deductible and limits up to \$75,000 for theft, disappearance or destruction of money and securities, subject to a \$1,000 deductible. Evanston Insurance Company provides the County's Professional Liability coverage related to the Coroner with limits of \$1,000,000, subject to a \$10,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past 5 years.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

The County is included in the Ohio Bureau of Workers' Compensation (BWC) Retrospective Rating Program which provides for a 40% reduction in premium for assuming some of the claims payment risks. To lessen the potential financial risks, the County established through the BWC both an individual claims occurrence "cap" of \$200,000 and a maximum premium claims "cap" of 150% of annual payment. The County pays to BWC this reduced premium and the claims costs as billed. The Department pays into the County's Workers' Compensation fund an allocated portion of the County's premium and claims based on the Department's salaries and claims history. The County has elected to provide employees major medical, dental and hospitalization through a self-insured program. The County maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. Third party administrators Humana Inc. and Dental Care Plus review and pay all claims utilizing County funds. Clermont County purchases stop-loss medical coverage (Humana) of \$200,000 per member, an aggregate limit of 125% of expected claims, and a \$2 million lifetime (per member) maximum. In 2009, the Department paid into the self-insurance fund \$745.54 for family coverage and \$334.44 for individual coverage per employee per month, which represented 73-99% of the required premium based on the individual employee benefit selections. January 2009 was a health benefit holiday for the County where both the employee's and the Department's contributions to the self-insurance fund were waived, thereby reducing the 2009 required premiums. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The dental plan is 100% paid by the employee. Clermont County also offers access to a group vision plan which is fully insured and paid 100% by the employee.

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

11. Construction Commitments

As of December 31, 2009, the Department had contractual commitments as follows:

<u>Original Contract Amounts</u>	<u>Paid to Date</u>	<u>Remaining Commitments</u>
<u>\$29,178,343</u>	<u>\$10,436,077</u>	<u>\$18,742,266</u>

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CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

for the years ended December 31, 2009 and 2008

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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 Water Resources Department (Department), Water System, an enterprise fund of Clermont County, Ohio, as of and for the years ended December 31, 2009 and 2008 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Water System and are not intended to, and do not, present fairly the financial position of Clermont County, Ohio, as of December 31, 2009 and 2008 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Water Resources Department, Water System, as of December 31, 2009 and 2008 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2010 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. 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
March 29, 2010



CLERMONT COUNTY WATER RESOURCES DEPARTMENT

WATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clermont County Water Resources Department's Water System's financial performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2009 and 2008.

FINANCIAL HIGHLIGHTS

- The Water System's net assets increased by \$0.9 million, or 0.8%, in 2009.
- During the year, the System generated \$0.8 million from operations and used \$1.3 million for other financing activities, principally for interest expense.
- The operating income was down \$0.2 million from 2008, due to a reduction in revenues caused by lower levels of water sales, and related decreases in operational expenses.
- Debt decreased \$2.2 million due to the scheduled retirement of debt.

USING THIS ANNUAL REPORT

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

SYSTEM SUMMARY

The Water System's total net assets increased from \$108.3 million to \$109.2 million during 2009. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System comparing 2009 to 2008 and comparing 2008 to 2007.

Table 1

NET ASSETS (in Millions)	2009	2008	2007
Current and Other Assets	\$ 21.8	\$ 26.3	\$ 28.5
Capital Assets	114.7	111.0	109.5
Total Assets	136.5	137.3	138.0
Long Term Debt Outstanding	22.7	25.0	27.2
Other Liabilities	4.6	4.0	3.9
Total Liabilities	27.3	29.0	31.1
Net Assets:			
Invested in capital assets, net of debt	90.1	84.2	80.7
Restricted for debt service	3.0	3.0	3.5
Unrestricted	16.1	21.1	22.7
Total Net Assets	\$109.2	\$108.3	\$106.9

For 2009, net assets of the System increased by 0.8%. 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 \$5.0 million in 2009. Restricted assets in 2009 remained constant. The investment in capital assets, net of debt, increased \$5.9 million. This increase reflects capital assets financed from the System's net assets, of which \$1.4 million came from capital contributions in the form of system capacity fees, donated assets, assessments and grants.

For 2008, net assets of the System increased by 1.3%. 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 \$1.6 million in 2008. Restricted assets decreased in 2008 by \$0.5 million. The investment in capital assets, net of debt, increased \$3.5 million. This increase reflects capital assets financed from the System's net assets, of which \$1.2 million came from capital contributions in the form of system capacity fees, donated assets, assessments and grants.

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

Table 2

CHANGE IN NET ASSETS (in Millions)		2009	2008	2007
Operating Revenues	Charges for Services	\$11.8	\$13.1	\$13.3
	New Meters, Services & Reviews	0.3	0.2	0.4
	Other Operating Revenues	0.2	0.2	0.3
	Total Operating Revenues	12.3	13.5	14.0
Operating Expenses	Operating Expenses	7.5	8.5	7.6
	Depreciation Expense	4.0	4.0	3.8
	Total Operating Expense	11.5	12.5	11.4
	Operating Income	0.8	1.0	2.6
Non-Operating Revenues	Interest Income	0.1	0.7	0.9
	Net Change in Market Value of Investments	(0.1)	(0.1)	0.2
	Interest and Fiscal Charges	(1.3)	(1.4)	(1.5)
	Income before Contributions	(0.5)	0.2	2.2
Contributions/Transfers	Capital Contributions and Transfers	1.4	1.2	3.4
Change in Net Assets	Total Change in Net Assets	\$ 0.9	\$ 1.4	\$ 5.6

As seen in Table 2 the Water System's capital contributions/transfers of \$1.4 million, offset by a loss before capital contributions of \$0.5 million, resulted in an increase in net assets of \$0.9 million. Operating revenues decreased \$1.2 million due to the lower volume of water consumed. Operating expenses decreased by \$1.0 million from 2008 to 2009 primarily due to lower levels of services and the lack of settlement payments that were expensed during 2008. Contributions/transfers increased by \$0.2 million due to increased capital grants, capacity fees and donated assets.

For 2008 income before capital contributions of \$0.2 million and capital contributions/transfers of \$1.2 million were the two sources of the increase in net assets of \$1.4 million. Operating revenues decreased \$0.5 million due to the lower volume of water consumed and a lower level of new services. Operating expenses increased by \$1.1 million from 2007 to 2008 primarily due to higher levels of services, chemical replacement cost, settlement payment and depreciation expenses. Contributions/transfers decreased by \$2.2 million due to reductions in capacity fees and donated assets tied to a slower housing market.

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

FINANCIAL RATIOS (\$ in thousands)

	2003	2004	2005	2006	2007	2008	2009
Working Capital	\$29,512	\$23,292	\$19,690	\$19,213	\$21,963	\$20,652	\$15,610
Current Ratio	17.0	14.2	13.1	9.9	22.1	18.7	11.3
Days Cash & Investments	1,771	1,449	1,145	1,154	1,083	924	842
Liabilities to Net Assets	46%	42%	37%	34%	29%	27%	25%
Return on Assets	3%	2%	2%	2%	3%	1%	1%
Days in Receivables	85	63	56	60	50	65	63

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the Water System had \$185.9 million invested in capital assets including water lines, booster stations, storage tanks, treatment plants in operation or under construction. This amount represents a net increase in 2009 of \$7.8 million.

During 2009, major additions/completions included:

- \$1.8 Million for the Glen Este-Withamsville Old SR 74 Water Main
- \$1.3 Million for the SR131/SR132 Transmission Main
- \$0.8 Million for the Mt.Carmel/Old SR74 Water Main
- \$0.3 Million for the waterline relocation at SR125 & Amelia Olive Branch Road
- \$0.2 Million of developer donated waterline

At the end of 2008, the Water System had \$178.1 million invested in capital assets including water lines, booster stations, storage tanks, treatment plants in operation or under construction. This amount represents a net increase in 2008 of \$5.4 million.

During 2008, major additions/completions included:

- \$1.8 Million for the Bergen, Belfast Owensville Water Line project
- \$1.2 Million for the Water portion of the Administration Building
- \$0.3 Million for relocation projects along State Route 125
- \$0.1 Million of developer donated waterline

Capital Assets at Year-End (Net of Depreciation, in millions)	2009	2008	2007
Land	\$ 2.8	\$ 2.6	\$ 2.6
Structures	68.8	68.8	67.5
Machinery	7.7	7.7	7.5
Distribution Systems	98.7	94.4	92.17
Autos/Trucks	1.4	1.3	1.2
Construction in Progress	6.5	3.3	1.8
Subtotal Capital Assets	185.9	178.1	172.7
Accumulated Depreciation	(71.2)	(67.1)	(63.2)
Total Capital Assets	\$114.7	\$111.0	\$109.5

The Water System’s 2010 capital plan anticipates a spending level of \$8.7 million for capital projects.

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

Debt

At December 31, 2009 the System had \$25.0 million in bonds and loans outstanding, a reduction of \$2.2 million, or 8.2%, from 2008. At December 31, 2008 the System had \$27.2 million in bonds and loans outstanding, a reduction of \$2.2 million, or 7.5%, from 2007. The reductions are a result of scheduled debt service payments. The outstanding 2003 Revenue Bonds carry interest rates varying from 4.00%-5.25%.

Outstanding Debt, at Year-End (in millions)	2009	2008	2007
2003 Revenue Bonds	\$24.6	\$26.8	\$28.9
OPWC Loans	0.4	0.4	0.5
Total Debt	\$25.0	\$27.2	\$29.4

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 164 percent for 2009 and 184 percent for 2008. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	2009	2008
Income (loss) before contributions and transfers	(\$0.5)	\$0.2
Add items to convert income to pledged revenues:		
Interest Paid on Bonds	1.3	1.3
Deferred Debt Amortization	0.1	0.1
Depreciation Expense	4.0	4.0
System Capacity Charges	.8	.8
Net Pledged Revenues	\$5.7	\$6.4
Debt Service Requirements	\$3.5	\$3.5
Coverage Ratio	164%	184%
Required Coverage Ratio	110 %	110 %

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

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
STATEMENTS OF NET ASSETS
December 31, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	\$ 2,835,665	\$ 4,488,737
Cash and cash equivalents in segregated accounts	5,000,751	5,166,727
Investments in segregated accounts	6,997,405	9,559,150
Accounts receivable (net of allowance for doubtful accounts of \$20,488 for 2009 and \$24,520 for 2008)	2,033,738	2,317,991
Inventory of supplies at cost	245,597	278,744
Prepaid Expense	<u>6,365</u>	<u>5,000</u>
Total current assets	<u>17,119,521</u>	<u>21,816,349</u>
NONCURRENT ASSETS:		
Restricted assets:		
Cash and cash equivalents in segregated accounts	884,997	1,670,911
Investments in segregated accounts	2,621,705	1,823,594
Contractor retainage accounts	277,931	87,269
Accrued interest	<u>5,935</u>	<u>50,586</u>
Total restricted assets	3,790,568	3,632,360
Capital assets not being depreciated	9,280,008	5,890,539
Capital assets being depreciated	105,391,114	105,083,568
Grant receivable	384,794	205,837
Unamortized financing costs	390,322	475,715
Non current receivables	<u>93,000</u>	<u>187,626</u>
Total noncurrent assets	<u>119,329,806</u>	<u>115,475,645</u>
TOTAL ASSETS	<u>136,449,327</u>	<u>137,291,994</u>

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	1,147,331	725,682
Accrued wages and benefits	294,965	365,099
Contractor maintenance bonds payable	41,180	47,405
Current portion of OPWC debt	<u>26,435</u>	<u>26,435</u>
Total current liabilities	<u>1,509,911</u>	<u>1,164,621</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Current portion of revenue bonds payable	2,285,000	2,195,000
Accrued interest payable	493,271	529,854
Contractor retainages payable	<u>277,931</u>	<u>87,269</u>
Total current liabilities payable from restricted assets	<u>3,056,202</u>	<u>2,812,123</u>
NONCURRENT LIABILITIES:		
Long term portion of OPWC debt	370,087	396,522
Long term portion of revenue bonds payable	<u>22,335,000</u>	<u>24,620,000</u>
Total noncurrent liabilities	<u>22,705,087</u>	<u>25,016,522</u>
TOTAL LIABILITIES	<u>27,271,200</u>	<u>28,993,266</u>

NET ASSETS

Invested in capital assets, net of related debt	90,044,922	84,211,865
Restricted for debt service	3,019,366	3,015,237
Unrestricted	<u>16,113,839</u>	<u>21,071,626</u>
TOTAL NET ASSETS	<u>\$109,178,127</u>	<u>\$108,298,728</u>

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES:		
Charges for services	\$ 11,792,524	\$ 13,084,971
New meters, services & reviews	315,825	242,450
Other revenues	<u>199,737</u>	<u>156,311</u>
Total operating revenues	<u>12,308,086</u>	<u>13,483,732</u>
OPERATING EXPENSES:		
Personnel services	2,845,014	2,889,842
Contractual services	884,661	1,617,016
Maintenance and repair	662,439	641,795
Materials and supplies	1,785,841	1,919,923
Utilities	1,302,682	1,389,910
Depreciation	4,048,934	3,986,092
Other	<u>28,511</u>	<u>26,437</u>
Total operating expenses	<u>11,558,082</u>	<u>12,471,015</u>
OPERATING INCOME	<u>750,004</u>	<u>1,012,717</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	148,656	662,664
Net increase (decrease) in value of investments	(115,689)	(71,311)
Interest and fiscal charges	(1,320,459)	(1,405,521)
Gain (loss) on disposal of capital assets	<u>-</u>	<u>3,806</u>
Total nonoperating revenues (expenses)	<u>(1,287,492)</u>	<u>(810,362)</u>
INCOME BEFORE CONTRIBUTIONS	(537,488)	202,355
Capital contributions	<u>1,416,887</u>	<u>1,149,232</u>
CHANGE IN NET ASSETS	879,399	1,351,587
NET ASSETS BEGINNING OF YEAR	<u>108,298,728</u>	<u>106,947,141</u>
NET ASSETS END OF YEAR	<u>\$109,178,127</u>	<u>\$108,298,728</u>

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$12,057,376	\$12,557,889
Payments to suppliers	(4,726,363)	(5,585,618)
Payments to employees	(2,915,148)	(2,843,138)
Other receipts	<u>502,963</u>	<u>421,918</u>
Net cash provided by operating activities	<u>4,918,828</u>	<u>4,551,051</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(3,493,084)	(3,495,335)
Construction and acquisition of capital assets	(7,339,654)	(5,263,200)
Contractor maintenance bond receipts	-	4,701
Contractor maintenance bond payments	(6,225)	(20,500)
Proceeds from assessments	4,500	10,815
Proceeds from sale of capital assets	-	3,806
Contractor retainage receipts	307,061	107,710
Contractor retainage payments	(116,399)	(200,779)
Refund of capital project costs by State of Ohio	135,418	-
Proceeds from capital related grants	386,651	514,230
System capacity charges, including those from non-current receivables	<u>947,352</u>	<u>830,259</u>
Net cash used by capital and related financing activities	<u>(9,174,380)</u>	<u>(7,508,293)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(21,275,465)	(16,064,887)
Investment sales	22,923,410	20,731,587
Interest received on investments	<u>193,307</u>	<u>707,247</u>
Net cash provided by investing activities	<u>1,841,252</u>	<u>5,373,947</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(2,414,300)</u>	<u>2,416,705</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,413,644</u>	<u>8,996,939</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,999,344</u>	<u>\$11,413,644</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 750,004	\$ 1,012,717
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,048,934	3,986,092
Change in assets and liabilities:		
Net change in inventory	33,147	(28,401)
Net change in operating accounts receivable	252,253	(503,925)
Net change in prepaid expenses	(1,365)	(5,000)
Net change in operating accounts payable	(94,011)	42,864
Net change in accrued payroll and related expenses	<u>(70,134)</u>	<u>46,704</u>
Net cash provide by operating activities	<u>\$ 4,918,828</u>	<u>\$ 4,551,051</u>
NON-CASH TRANSACTIONS:		
Contributions from developers	\$ 177,953	\$ 136,905
Net change in the fair value of investments	<u>(115,689)</u>	<u>(71,311)</u>
Total non-cash transactions	<u>\$ 62,264</u>	<u>\$ 65,594</u>

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

1. Summary of Significant Accounting Policies

Name Change

On May 6, 2009, the Clermont County Board of Commissioners approved Resolution 80-09 to revise the name of the Clermont County Sewer District to the Clermont County Water Resources Department.

Organization

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

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

Basis of Accounting

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

Cash and Investments

Cash and investments consist of the Department's portion of the County's pooled cash and investment balances, contractor retainage accounts and funds maintained with a trustee in accordance with revenue bond legislation. During 2009 investments were limited to treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 2 provides additional information regarding the Department's cash and investments.

Statements of Cash Flows

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

Inventory

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

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

Restricted Assets

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

Capital Assets

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

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

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

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

<u>Description</u>	<u>Years</u>
Structures	15-50
Machinery	3-50
Distribution systems	50
Autos and trucks	5-10

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 \$85,393 and \$91,725 for 2009 and 2008, respectively.

Compensated Absences

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

Ohio law requires that vacation time not be accumulated for more than three years. Employees with a minimum of one year of service become vested in accumulated unpaid vacation time. Unused vacation is payable upon termination of employment. Unused sick time may be accumulated until retirement.

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2009 and 2008

Employees eligible to retire under a County recognized retirement plan, with a minimum of ten years of service, are paid one-fourth of accumulated sick time upon retirement. Such payment may not exceed the value of thirty days of accrued but unused sick leave. However, if employees earned sick leave prior to January 23, 1984, they are eligible for 100 percent conversion of this amount. All sick, vacation personal and compensation payments are made at the employees' current wage rate.

Contractor Maintenance Bonds Payable

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

Self Insurance

The Department, as an enterprise fund of the County, participates in the County administered insurance program for employee care benefits. During 2009, the County contracted with Humana Inc., Dental Care Plus, CIGNA and EyeMed Insurance, which provide claims review and processing services. The Department is charged its proportionate share for covered employees.

Net Assets

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

Operating Revenues and Expenses

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

Capital Contributions

Contributions of capital arise from the contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges. During 2009 and 2008, the following capital contributions were received:

	<u>2009</u>	<u>2008</u>
Grants earned	\$ 413,708	\$ 234,253
Assessment proceeds	4,500	10,815
Donated assets	177,953	136,905
System capacity charges	<u>820,726</u>	<u>767,259</u>
Total	<u>\$1,416,887</u>	<u>\$1,149,232</u>

CLERMONT COUNTY WATER RESOURCES DEPARTMENT
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Interfund Activity

The Ohio Revised Code provides for the issuance of special assessment bonds for water improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as special assessment bonds of the County. If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the Department. During 2009 and 2008, no funds were required to be contributed by the Department.

The Department is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2009 and 2008 were \$236,078 and \$198,069 respectively and are classified as contractual services.

Estimates

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

2. Cash, Cash Equivalents and Investments

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

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

Inactive deposits are public deposits that the Department has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of the federal government agencies or instrumentalities.

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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be market to market daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any time.
8. Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Department and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

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

The County maintains a cash and investment pool used by all funds of the County, including the Department. The Department's portion of the pooled is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents." As of December 31, 2009 and 2008, the carrying amount of the Department's portion of the pool totaled \$2,835,665 and \$4,488,737, respectively. The Department's portion of the pool can not be separately classified by risk. The County's financial statements provide risk disclosures pertaining to the entire cash and investment pool.

The Department maintains funds in contractor retainage accounts that represent cash retained from construction contractor payments until satisfactory completion of projects. As of December 31, 2009

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and 2008, the bank and carrying amount of retainage accounts totaled \$277,931 and \$87,269, respectively, all of which was covered by FDIC Insurance.

Investments

The Department's investments at December 31, 2009 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Treasury Bills	\$ 8,019,107	.56
Treasury Notes	1,600,003	3.00
Money Market Accounts	<u>5,885,748</u>	.00
Total Fair Value	<u>\$15,504,858</u>	
Portfolio Weighted Average Maturity		.60

The Department's investments at December 31, 2008 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Treasury Bills	\$ 5,598,734	.49
Treasury Notes	5,784,010	.91
Money Market Accounts	<u>6,837,638</u>	.00
Total Fair Value	<u>\$18,220,382</u>	
Portfolio Weighted Average Maturity		.91

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

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

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

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

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The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation of cash, cash equivalents and investments on the financial statements and the classification per GASB Statement No. 3 at December 31, 2009 follows:

	Fair Value <u>Cash and Equivalents</u>	Fair Value <u>Investments</u>
Per Balance Sheet	\$ 8,999,344	\$ 9,619,110
Money market funds	<u>(5,885,748)</u>	<u>5,885,748</u>
Per GASB Statement No. 3	<u>\$ 3,113,596</u>	<u>\$15,504,858</u>

A reconciliation of cash, cash equivalents and investments at December 31, 2008 follows:

	Fair Value <u>Cash and Equivalents</u>	Fair Value <u>Investments</u>
Per Balance Sheet	\$11,413,644	\$11,382,744
Money market funds	<u>(6,837,638)</u>	<u>6,837,638</u>
Per GASB Statement No. 3	<u>\$ 4,576,006</u>	<u>\$18,220,382</u>

3. Capital Assets

The following summarizes the changes to capital assets during 2009.

<i>Class</i>	Balance January 1, <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2009</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,635,060	\$ 193,208	\$ -	\$ 2,828,268
Construction in progress	3,255,480	7,757,917	(4,561,656)	6,451,741
<i>Capital assets being depreciated:</i>				
Structure	68,762,768	23,085	-	68,785,853
Machinery	7,719,129	11,700	-	7,730,829
Distribution systems	94,413,404	4,295,117	-	98,708,521
Autos and trucks	<u>1,335,825</u>	<u>26,578</u>	-	<u>1,362,403</u>
Total cost	<u>\$178,121,666</u>	<u>\$12,307,605</u>	<u>(\$4,561,656)</u>	<u>\$185,867,615</u>
<i>Accumulated depreciation</i>				
Structure	(\$30,350,340)	(\$1,852,834)	\$ -	(\$32,203,174)
Machinery	(6,158,062)	(228,204)	-	(6,386,266)
Distribution systems	(29,817,892)	(1,889,636)	-	(31,707,528)
Autos and trucks	<u>(821,265)</u>	<u>(78,260)</u>	-	<u>(899,525)</u>
Accumulated depreciation	<u>(\$67,147,559)</u>	<u>(\$4,048,934)</u>	<u>\$ -</u>	<u>(\$71,196,493)</u>
Net value	<u>\$110,974,107</u>			<u>\$114,671,122</u>

Assets contributed by developers and others in 2009 amounted to \$177,953.

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4. Noncurrent Receivables

The Department entered into agreements with the Villages of Batavia and Williamsburg, Ohio for payment of system capacity charges. Total balances due to the Department were \$124,000 and \$250,626 at December 31, 2009 and 2008, respectively. The current portion of the receivable balances are reflected as current accounts receivables. During 2009, the Village of Batavia advance retired the total balance of their agreement with a payment of \$95,626. The Village of Williamsburg makes annual payments of \$31,000 through January 2013. The system capacity charges are recorded as a capital contribution.

5. Long-Term Debt

For the year ended December 31, 2009, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2009	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 2009	Amount Due Within One Year
Revenue bonds:						
2003 Series Waterworks Refunding Revenue	2018					
Bonds - \$37,020,000	1.2-5.25%	\$26,815,000	\$ -	\$2,195,000	\$24,620,000	\$2,285,000
OPWC loans						
2003 Loans - \$528,696	2024 0.0%	<u>422,957</u>	<u>-</u>	<u>26,435</u>	<u>396,522</u>	<u>26,435</u>
Total		<u>\$27,237,957</u>	<u>\$ -</u>	<u>\$2,221,435</u>	<u>\$25,016,522</u>	<u>\$2,311,435</u>

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

<u>Year</u>	<u>Revenue Bonds</u>		<u>OPWC Loans</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	\$2,285,000	\$1,183,850	\$26,435	\$ -	\$3,495,285
2011	2,375,000	1,092,450	26,435	-	3,493,885
2012	2,470,000	997,450	26,435	-	3,493,885
2013	2,575,000	892,475	26,435	-	3,493,910
2014	2,685,000	783,038	26,434	-	3,494,472
2015-2019	12,230,000	1,645,875	132,174	-	14,008,049
2020-2024	-	-	<u>132,174</u>	-	<u>132,174</u>
	<u>\$24,620,000</u>	<u>\$6,595,138</u>	<u>\$396,522</u>	<u>\$ -</u>	<u>\$31,611,660</u>

During 2003 the Department issued Waterworks System Refunding Revenue Bonds, Series 2003, dated September 1, 2003 to retire the outstanding Waterworks System Refunding Revenue Bonds, Series 1993.

The Series 2003 bonds will mature on August 1 in various amounts ranging from \$2,285,000 in 2010 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.

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In addition, during 2003, the Department received a non-interest bearing loan of \$528,696 due to the Ohio Public Works Commission for specified water system construction costs. The loan requires semi-annual payments of \$13,217 that commenced on July 1, 2005 and continue through January 1, 2025.

The Waterworks System Refunding Revenue Bonds, Series 2003, Legislation provides that the County will charge rates and restrict operating and maintenance expenses as shall result in net revenues of the 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 (loss) before contributions	(\$537,488)
Add items to convert income to pledged revenues:	
Interest paid on bonds	1,271,650
Deferred debt amortization	85,393
Depreciation expense	4,048,934
System capacity charges	<u>820,726</u>
Net pledged revenues	<u>\$5,689,215</u>
Debt service requirement on bonds during 2009	<u>\$3,466,650</u>
Coverage ratio	<u>164%</u>
Required coverage ratio	<u>110%</u>

6. Defeased Debt

The Department defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 2009 and 2008 the amount of defeased debt outstanding amounted to \$110,000 and \$145,000, respectively.

7. Defined Benefit Pension Plans

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

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The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, the members of all three plans were required to contribute 10 percent of their annual covered salaries. The Department's contribution rate for pension benefits for 2009 was 14 percent.

The Department's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008 and 2007 were \$315,928, \$308,282 and \$303,556 respectively; all of which have been contributed.

8. Post-Employment Benefits Other than Pension Benefits

OPERS maintains a cost-sharing multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care. Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2009, local government employers contributed 14 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. For 2009, the amount of the employer contributions which was allocated to fund post-employment health care was 7 percent of covered payroll.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The Department's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008, and 2007 were \$157,964, \$154,141, and \$120,625 respectively; all of which has been contributed.

The Health Care Preservation Plan (HCPP), adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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9. Other Employee Benefits

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

10. Risk Management

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

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

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

Travelers Property Casualty Company of America 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, subject to a \$5,000 deductible and limits up to \$75,000 for theft, disappearance or destruction of money and securities, subject to a \$1,000 deductible. Evanston Insurance Company provides the County's Professional Liability coverage related to the Coroner with limits of \$1,000,000, subject to a \$10,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past 5 years.

The County is included in the Ohio Bureau of Workers' Compensation (BWC) Retrospective Rating Program which provides for a 40% reduction in premium for assuming some of the claims payment

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risks. To lessen the potential financial risks, the County established through the BWC both an individual claims occurrence “cap” of \$200,000 and a maximum premium claims “cap” of 150% of annual payment. The County pays to BWC this reduced premium and the claims costs as billed. The Department pays into the County’s Workers’ Compensation fund an allocated portion of the County’s premium and claims based on the Department’s salaries and claims history. The County has elected to provide employees major medical, dental and hospitalization through a self-insured program. The County maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. Third party administrators Humana Inc. and Dental Care Plus review and pay all claims utilizing County funds. Clermont County purchases stop-loss medical coverage (Humana) of \$200,000 per member, an aggregate limit of 125% of expected claims, and a \$2 million lifetime (per member) maximum. In 2009, the Department paid into the self-insurance fund \$745.54 for family coverage and \$334.44 for individual coverage per employee per month, which represented 73-99% of the required premium based on the individual employee benefit selections. January 2009 was a health benefit holiday for the County where both the employee’s and the Department’s contributions to the self-insurance fund were waived, thereby reducing the 2009 required premiums. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The dental plan is 100% paid by the employee. Clermont County also offers access to a group vision plan which is fully insured and paid 100% by the employee.

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

11. Construction Commitments

As of December 31, 2009, the Department had contractual commitments as follows:

<u>Original Contract Amounts</u>	<u>Paid to Date</u>	<u>Remaining Commitments</u>
<u>\$13,456,321</u>	<u>\$8,956,380</u>	<u>\$4,499,941</u>

Bastin & Company, LLC

Certified Public Accountants

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

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the financial statements of the Clermont County Water Resources Department Water and Sewer Systems, (Department) as of and for the year ended December 31, 2009 and have issued our reports thereon dated March 29, 2010 wherein we noted the financial statements present only the Water and Sewer Systems of Clermont County, Ohio and are not intended to, and do not, present fairly the financial position of Clermont County, Ohio as of December 31, 2009 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
March 29, 2010



Mary Taylor, CPA
Auditor of State

CLERMONT COUNTY WATER RESOURCES DEPARTMENT

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 27, 2010**