

REPORT

AUDIT OF FINANCIAL STATEMENTS

for

CLERMONT COUNTY SEWER DISTRICT

SEWER SYSTEM

for the years ended December 31, 2001 and 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
Columbus, Ohio 43215

Telephone 614-466-4514
800-282-0370

Facsimile 614-728-7398
www.auditor.state.oh.us

Board of County Commissioners
Clermont County Sewer District
101 East Main Street
Batavia, Ohio 45103-2962

We have reviewed the Independent Auditor's Report of the Clermont County Sewer District, Clermont County, prepared by Foxx & Company, for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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JIM PETRO
Auditor of State

June 14, 2002

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Foxx & Company
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Sewer District (District), Sewer System, Batavia, Ohio, as of and for the years ended December 31, 2001 and 2000 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

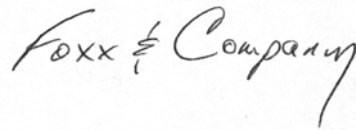
As discussed in Note 1, the financial statements present only the Sewer System and are not intended to present fairly the financial position of Clermont County, and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

As described in Note 11, the District adopted Governmental Accounting Standards Board Statements Nos. 33 and 34 as of and for the year ended December 31, 2000. Also, as described in Note 12, the District charged its capitalization policy for fixed assets.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Sewer System, as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Management's Discussion on pages 3 to 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

A handwritten signature in cursive script that reads "Fox & Company". The signature is written in dark ink on a light-colored background.

Cincinnati, Ohio
April 12, 2002



CLERMONT COUNTY SEWER DISTRICT SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clermont County Sewer District's Sewer System's financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2001.

FINANCIAL HIGHLIGHTS

- The Sewer System's net assets increased by \$5.7 million or 4.5% in 2001.
- A conversion to Clermont County's half-year depreciation method resulted in a one time reduction of \$0.8 million in property, plant and equipment.
- The 2001 fiscal results represent the first complete year in which the Sewer System was under contract operations. On March 1, 2000, the operations were turned over to a contract operator. The Board of County Commissioners adopted a 8.5% rate decrease that became effective October 1, 2000 to share, with the rate payers, some of the anticipated savings that were to accrue from the operations contract. Fiscal year 2001 represents a full year of reduced revenues due to this rate change.
- During the year, the System generated \$120.6 thousand from operations and \$501.7 thousand from other financing activities, principally a favorable market value on held investments which resulted in \$215.9 thousand.
- The operating income was down 93%, or \$1.7 million from 2000 as a result of a reduction in service charge revenues of \$0.8 million and a one time increase in depreciation expense due to the change of methods of \$0.8 million.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets (Pages 9-10) and the Statement of Revenue, Expenses and Changes in Net Assets (page 11), previously called the Balance Sheet and Income Statement, provide information about the activities of the Sewer System and present a longer-term view of the System's finances. The Statement of Net Assets includes all of the System's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations to creditors (liabilities). You will need to consider other nonfinancial factors, however, such as conditions of the capital assets, to assess the overall health of the Sewer System. All of the current years

revenues and expenses are accounted for in the Statement of Revenues, Expenses and Net Assets. This statements measures the success of the System’s operations over the past year and can be used to determine whether the System has successfully recovered all its costs through its user fees and other charges. These statements report all assets and liabilities using the accrual basis of accounting. All of the current years revenues and expenditures are taken into account regardless of when cash is received or paid. The final financial statement is the Statement of Cash Flow (Page 12). The primary purpose of this statement is to provide information about the System’s cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

SYSTEM SUMMARY

The Sewer System’s total net assets increased from \$125.0 million to \$130.7 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System.

Table 1 Net Assets (in Millions)

Sewer System	2000	2001
Current and Other Assets	\$ 60.5	\$ 58.8
Capital Assets	\$ 116.7	\$123.9
Total Assets	\$177.2	\$182.7
Long Term Debt Outstanding	(\$ 48.9)	(\$ 48.0)
Other Liabilities	(\$ 3.3)	(\$ 4.0)
Total Liabilities	(\$ 52.2)	(\$ 52.0)
Net Assets:		
Invested in capital assets, net of debt	\$ 67.8	\$ 76.0
Restricted	\$ 6.7	\$ 6.2
Unrestricted (deficit)	\$ 50.5	\$ 48.5
Total Net Assets	\$ 125.0	\$ 130.7

Net assets of the System increased by 4.5%. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements-decreased by \$2.0 million in 2001. Restricted assets-those restricted mainly for capital projects and bond covenants-decreased by \$0.5 million. The investment in capital assets, net of debt increased by \$8.2 million. This increase reflects capital assets financed primarily from the System's net assets of which a part (\$5.0 million) came from capital contributions in the form of system capacity fees, donated assets, assessments and grants. The change in the depreciation method reduced the 2001 investment by \$0.8 million.

Table 2 Change in Net Assets (in Millions)

Sewer System	2000	2001
Operating Revenues	\$ 13.7	\$ 13.0
Non-Operating Revenues	3.6	3.0
Total Revenues	\$ 17.3	\$ 16.0
Operating Expenses	\$ 6.0	\$ 5.9
Depreciation Expense	5.9	7.0
Other Expenses	3.2	2.4
Total Expenses	\$ 15.1	\$ 15.3
Income before Capital Contributions	\$ 2.2	\$ 0.6
Capital Contributions	\$ 6.9	\$ 5.1
Increase(Decrease) in Net Assets	\$ 9.1	\$ 5.7

While the Statement of Net Assets shows the change in the financial position of the net assets, the Statement of Revenues, Expenses, and Net Assets provides answers as to the nature and source of these changes. As seen in table 2, above, the Sewer System's income before capital contributions of \$0.6 million and capital contributions of \$5.1 million were the two sources of the increase in net assets of \$5.7million in 2001. Operating revenues decreased by 93.3% (\$1.7 million) from 2000 to 2001 as a result of the 8.5% reduction in rates effective October 1, 2000 (\$0.8 million reduction in metered sales) and the increase in depreciation expense due to the change of methods (\$0.8 million). Non-Operating revenues were down \$0.6 million

mainly due to a lower market value adjustment on held securities. Total expenses reflected an increase of 1.3% in 2001. The \$1.1 million increase in depreciation is due to the completion of new assets as well as the change in depreciation methods that resulted in a one time increase of \$0.8 million. The reduction in other expenses is based on the 2000 actual including a prior period adjustment of \$0.7 million. Contributions dropped by \$1.9 million as a result of a lower level of assessments on construction projects and a \$0.3 decrease in donated assets throughout the year.

Sewer System Financial Ratios (dollars in thousands)

Ratio	1996	1997	1998	1999	2000	2001
Working Capital	\$22,366	\$29,455	\$33,905	\$39,887	\$48,118	\$46,179
Current Ratio	21.0	32.2	34.2	47.1	91.2	77.0
Days Cash & Investments	1,218	1,419	1,698	2,038	2,436	2,442
Liabilities to Net Assets	57%	53%	49%	46%	42%	40%
Return on Assets	1%	1%	2%	2%	3%	2%
Days in Receivable	64	60	65	65	67	83

Working Capital is the amount by which current assets exceed current liabilities.

Current Ratio compares current assets to current liabilities and is an indicator of the ability to pay current obligations.

Days Cash & Investments represents the number of days normal operations could continue with no revenue collection

Liabilities to Net Assets indicated the extent of borrowings.

Return on Assets from Operations illustrates to what extent there will be sufficient funds to replace assets in the future.

Days in Receivables determines how many days it takes to collect amount billed to customers.

This page lists financial ratios that should be used to assess the financial stability of the System over an extended period of time. The balance of Working Capital demonstrates the continuing ability to finance operations with cash. The strength of the Current Ratio and the reduction in the Liabilities to Net Assets ratio demonstrate the fact that the System has not financed its Working Capital with an increasing proportion of debt. The increase in Days in Receivable is a result of slow collections on the part of the contractor. The stability in Days Cash and Investment in Reserve is not being financed by a reduction in receivables, but represents the strong cash balances of the system.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2001, the Sewer System had \$206.7 million invested in capital assets including sewer lines, pump stations, and treatments plants. This amount represents a net increase of \$14.1 million (including additions, deletions and adjustments for the policy change).

Capital Assets at Year End (Net of Depreciation, in millions)	2000	2001
Land	\$ 2.6	\$ 2.7
Structures	42.8	42.8
Machinery(Infrastructure)	138.7	147.2
Furniture/Fixtures	0.5	0.5
Autos/Trucks	1.2	1.2
Construction in Progress	6.7	12.3
Subtotal Capital Assets	\$192.5	206.7
Accumulated Depreciation	(75.8)	(82.8)
Total Capital Assets	\$ 116.7	\$ 123.9

The year's major additions included:

- \$3.6 Million for the expansion of O'Bannon WWTP
- \$2.1 Million of sewerlines donated by developers
- \$0.9 Million for computer modeling of portions of the sewer systems
- \$0.6 Million for the SR131 sewerline replacement
- \$0.5 Million for the upgrade of the SR131/Longfield liftstations
- \$0.3 Million for sewerline replacement on Klatt/Chateau Roads
- \$0.2 Million for rerouting of the Cook Road discharge

The Sewer System's 2002 capital budget anticipates a spending level of \$17.7 million for capital projects. The District has located some grants and loans (approx \$2.6 million) to help fund some of these expenditures.

Debt

At year end, 2001, the System had \$49.6 million in bonds and loans outstanding, a decrease of \$0.9 million or 1.8% from 2000.

Outstanding Debt, as of 12/31 (in millions)	2000	2001
1993 Revenue Bonds	\$ 40.7	\$ 39.5
1984 Revenue Bonds	4.8	4.7
OWDA Loans	2.0	1.9
OPWC Loans	3.0	3.5
Total Outstanding Debt	<u>\$ 50.5</u>	<u>\$ 49.6</u>

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 315%. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	
Income from Operations	\$ 0.6
Add Items to convert income from operations to pledged revenues	
Interest Paid on Bonds	2.2
Depreciation Expense	7.0
System Capacity Charges	3.0
Net Pledged Revenues	<u>12.8</u>
Debt Service Requirement during 2001	<u>\$ 4.1</u>
Coverage Ratio	315%
Required Coverage Ratio	110%

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
STATEMENT OF NET ASSETS
December 31, 2001 and 2000**

ASSETS

	<u>2001</u>	<u>2000</u>
Current assets:		
Equity in pooled cash and cash equivalents	\$ 2,720,033	\$ 4,637,771
Held by Trustees:		
Cash equivalents in segregated accounts	5,228,993	3,890,996
Investments in segregated accounts	35,852,385	37,539,690
Accounts receivable (net of allowance for doubtful accounts of \$95,122 for 2001; \$48,831 for 2000)	2,912,943	2,510,646
Inventory of supplies at cost	<u>72,510</u>	<u>72,510</u>
Total current assets	46,786,864	48,651,613
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and cash equivalents	-	1,800
Held by Trustees:		
Cash and cash equivalents	436,145	472,090
Investments	8,460,587	8,173,825
Retainage accounts	434,785	56,055
Accrued interest	263,682	673,907
Capital assets:		
Land	2,670,384	2,634,413
Structures	42,849,466	42,801,797
Machinery	147,245,598	138,743,199
Furniture	507,126	517,368
Autos and Trucks	1,164,601	1,164,601
Less: Accumulated depreciation	(82,818,478)	(75,815,477)
Construction in progress	12,319,696	6,684,026
Unamortized financing costs	975,917	1,024,713
Loans receivable	1,029,095	965,836
Interfund receivable	357,864	429,436
Grants receivable	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>135,896,468</u>	<u>128,527,589</u>
Total assets	<u>182,683,332</u>	<u>177,179,202</u>

(continued)

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

**CLERMONT COUNTY SEWER DISTRICT
 BATAVIA, OHIO
 SEWER SYSTEM
 STATEMENT OF NET ASSETS
 (continued)
 December 31, 2001 and 2000**

LIABILITIES

	2001	2000
Current liabilities:		
Accounts payable	\$ 487,469	\$ 441,555
Accrued wages and benefits	120,256	92,012
Total current liabilities	607,725	533,567
Noncurrent liabilities:		
Payable from restricted assets:		
Current portion of long-term debt	1,634,118	1,551,006
Accounts payable	1,125,471	854,025
Accrued interest payable	187,711	192,290
Retainage payable	434,785	56,055
Maintenance bond payable	29,475	35,050
Long-term debt	47,971,459	48,949,040
Total noncurrent liabilities	51,383,019	51,637,466
Total liabilities	51,990,744	52,171,033
 NET ASSETS		
Invested in capital assets, net of related debt	75,966,934	67,780,887
Restricted for debt service	6,213,114	6,724,301
Unrestricted	48,512,540	50,502,981
Total net assets	\$ 130,692,588	\$ 125,008,169

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

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
for the years ended December 31, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Charges for services	\$ 12,938,044	\$ 13,749,064
All other revenues	34,121	38,415
Total operating revenues	<u>12,972,165</u>	<u>13,787,479</u>
Operating expenses:		
Personnel services	761,362	929,021
Contractual services	4,968,123	4,596,713
Maintenance and repair	29,629	165,036
Utilities	6,442	287,819
Materials and supplies	20,772	38,308
Depreciation	7,013,242	5,940,732
Other	52,008	17,908
Total operating expenses	<u>12,851,578</u>	<u>11,975,537</u>
Operating income	<u>120,587</u>	<u>1,811,942</u>
Nonoperating revenues (expenses):		
Interest income	2,752,623	2,831,247
Change in fair value of investments	215,898	737,399
Interest expense	(2,473,009)	(2,532,147)
Other expense	-	(6,960)
Gain on sale of fixed assets	6,145	9,474
Total nonoperating revenues (expenses)	<u>501,657</u>	<u>1,039,013</u>
Income from operations	622,244	2,850,955
Cumulative effect on prior years of accounting change	-	(677,686)
Income before contributions	622,244	2,173,269
Capital contributions	5,062,175	6,951,924
Change in net assets	5,684,419	9,125,193
Total net assets, beginning	<u>125,008,169</u>	<u>115,882,976</u>
Total net assets, ending	<u>\$ 130,692,588</u>	<u>\$ 125,008,169</u>
Pro forma amounts assuming capitalized asset policy applied retroactively		
Income from operations	<u>\$ 622,244</u>	<u>\$ 2,850,955</u>
Change in net assets	<u>\$ 5,062,175</u>	<u>\$ 9,802,879</u>

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

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2000 and 1999**

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 12,535,747	\$ 13,711,919
Payments to suppliers	(5,031,060)	(5,084,369)
Payments to employees	(733,118)	(1,312,159)
Other receipts	34,121	38,415
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,805,690</u>	<u>7,353,806</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from assessments	-	953,979
Maintenance bond receipts	1,650	3,900
Maintenance bond payments	(7,225)	(4,375)
OPWC grants received	-	743,070
Proceeds from OPWC loans	543,741	24,924
Payments on OPWC loans	-	-
Principal and interest paid on long-term debt	(3,930,261)	(3,931,920)
Construction of capital asset	(11,854,180)	(2,956,227)
Retainage receipts	430,803	51,494
Retainage payments	(52,073)	(34,647)
Proceeds from sale of fixed assets	77,718	86,113
System capacity charges	2,966,092	3,002,297
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(11,823,735)</u>	<u>(2,061,392)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(40,807,106)	(37,612,073)
Investment sales	42,423,547	31,608,749
Interest received on investments	3,162,848	2,319,354
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>4,779,289</u>	<u>(3,683,970)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(238,756)	1,608,444
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,058,712</u>	<u>7,450,268</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,819,956</u>	<u>\$ 9,058,712</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 120,587	\$ 1,811,942
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,013,242	5,940,732
Change in assets and liabilities		
Net change in customer accounts receivable	(402,297)	(37,145)
Net change in inventory	-	(30,537)
Net change in prepaid expenses		
Net change in operating accounts payable	45,914	51,952
Net change in accrued payroll and related expenses	28,244	(383,138)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 6,805,690</u>	<u>\$ 7,353,806</u>
NON-CASH TRANSACTIONS:		
Contributions from developers	<u>\$ 2,111,174</u>	<u>\$ 2,435,720</u>

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

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

1. Summary of Significant Accounting Policies

A. Organization

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

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

B. Basis of Accounting

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

C. Property, Plant and Equipment

Property, plant and equipment are stated at historical cost and updated for the cost of additions and retirements during the year. Routine maintenance and repairs are expensed as incurred. Contributed fixed assets are recorded at their fair market values as of the date donated, and depreciation on those assets is included in the Statements of Revenue and Expenses. Interest during construction is capitalized until substantial completion of the project. Depreciation is computed on the straight-line basis over the estimated useful life of the asset as follows:

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

Description	Estimated Lives (Years)
Autos and trucks	3-5
Machinery, equipment, furniture and fixtures	5-20
Sewer treatment plants and structures	20-50
Collection mains	50

D. Inventory

Supplies, materials, and fuel are stated at the lower of cost or market on a first-in, first-out (FIFO) basis.

E. Statement of Cash Flows

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

F. Unamortized Financing Costs

The unamortized financing costs include bond discounts, consulting fees, and attorney's fees incurred in connection with the revenue bond obligations. These costs are capitalized and are amortized on the straight-line method over the lives of the revenue bonds and are included as interest expense. The amount amortized amounted to \$48,796 in 2001 and 2000.

G. Insurance

The District participates in Ohio Workers' Compensation and Ohio State Unemployment programs. The District maintains insurance coverage for liability and property damage through policies with private carriers.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

H. Investments

In accordance with GASB Statement 31, investments are recorded at fair value as stated by the District's investment Trustees.

I. Compensated Absences

A liability is provided for accumulated unpaid sick, vacation and compensated time benefits when earned by employees. 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, with a minimum of ten years of service, are paid one-fourth of accumulated sick time upon retirement. However, if employees earned sick leave prior to January 23, 1984, they are eligible for 100 percent conversion.

Such payment may not exceed the value of thirty days of accrued but unused sick leave. In general, employees are eligible to be paid for unused compensation time upon termination of employment. Sick, vacation and compensation payments are made at the employee's current wage rate.

J. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding long-term debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by county legislation or external restrictions by other governments, creditors or grantors.

K. System Capacity Charges

System capacity charges are recorded as contributed capital as they represent one-time charges to customers for the privilege of accessing the sewer system.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

L. Loans Receivable

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

2. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments at December 31, 2001 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the Clermont County Treasurer:			
Unrestricted pooled cash, revenue account	\$ 2,720,033		\$ 2,720,033
Restricted pooled cash, construction account	-		0
Retainage accounts	434,785		434,785
Amounts held by trustees:			
Construction account	197,452	1,195,464	1,392,916
Bond account	136,548	3,633,718	3,770,266
Replacement and improvement amount	102,145	3,631,405	3,733,550
Surplus account	<u>5,228,993</u>	<u>35,852,385</u>	<u>41,081,378</u>
 Total	 <u>\$ 8,819,956</u>	 <u>\$ 44,312,972</u>	 <u>\$ 53,132,928</u>

Cash, cash equivalents and investments at December 31, 2000 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the Clermont County Treasurer:			
Unrestricted pooled cash, revenue account	\$ 4,637,771		\$ 4,637,771
Restricted pooled cash, construction account	1,800		1,800
Retainage accounts	56,055		56,055
Amounts held by trustees:			
Construction account	250,030	1,087,563	1,337,593
Bond account	164,821	3,646,630	3,811,451
Replacement and improvement account	57,239	3,439,632	3,496,871
Surplus account	<u>3,890,996</u>	<u>37,539,690</u>	<u>41,430,686</u>
 Total	 <u>\$ 9,058,712</u>	 <u>\$ 45,713,515</u>	 <u>\$ 54,772,227</u>

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

Pooled Cash held by Clermont County Treasurer

Operating and construction account funds, except for trustee funds described below, are controlled on the District's behalf by the Clermont County Treasurer's Office (County). Cash is deposited into bank accounts of the County for which the County Treasurer maintains accountability. The pooled cash of the County includes the proportionate share belonging to the District. The County is responsible for the collateralization of pooled cash balances belonging to the District. The collateralization of County funds is discussed in the County's 2001 Comprehensive Annual Financial Report.

Retainage Accounts

Retainage accounts represent bank deposit accounts controlled by the District. All of these accounts represent cash retained from construction contractor payments until satisfactory completion of projects. The District's and the contractor's approval are required before funds can be released. Individual retainage accounts are collateralized by insurance provided by the Federal Deposit Insurance Corporation up to \$100,000. Any excess is collateralized through the use of the Federal Reserve book entry system to hold U.S. Government securities as collateral. The securities are registered in the name of the financial institution, not in the name of the District. As of December 31, 2001 retainage accounts totaled \$434,785, all of which was covered by FDIC Insurance.

Amounts Held by Trustees

Bond legislation requires the establishment of various accounts to be held by trustees. The District may invest these funds in direct obligations of the United States of America or highest rated bonds, notes or other evidences of indebtedness having maturity dates no longer than five years from the date of such investment.

Trustee account investments at December 31, 2001 are categorized according to credit risk into the following categories: (1) insured or registered, or securities held by the District's or its agent (bank trust department) in the District's name; or (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name; or (3) uninsured, unregistered securities held by the counterparty, or its trust department or agent but not in the District's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

	<u>Category 2</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Categorized Investments:			
U.S. Treasury Notes	\$ 28,298,378	\$ 28,298,378	\$ 28,298,378
U.S. Treasury Bills	16,014,593	16,014,593	16,014,593
Money Market Funds	<u>-</u>	<u>5,665,138</u>	<u>5,665,138</u>
Total	<u>\$ 44,312,971</u>	<u>\$ 49,978,109</u>	<u>\$ 49,978,109</u>

3. Restrictions on Assets

The Trust Agreement for the Revenue Bonds requires the establishment of certain trust accounts, including a Bond Account, Bond Reserve Account, Replacement and Improvement Account, Construction Account, and a Surplus Account. Cash and investments in the accounts are held by trustee financial institutions.

The Bond Account is used to accumulate periodic principal and interest payments. The Bond Reserve Account is to be funded in an amount equal to the maximum annual bond principal and interest requirement. The Replacement and Improvement Account is to be maintained with a balance equal to the greater of five percent of the amount of bonds outstanding or \$2,000,000. The Surplus Account accumulates any remaining net revenues which are available for several purposes at the direction of the County Commissioners. The Construction Account is established to pay for project costs.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

4. Property, Plant and Equipment

The following summarizes the changes to property plant and equipment during 2001.

	<u>Balance January 1, 2001*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2001</u>
Land	2,634,413	\$ 35,971	-	\$ 2,670,384
Structure	42,801,797	47,669	-	42,849,466
Machinery	138,743,199	8,512,746	10,347	147,245,598
Furniture	517,368	-	10,242	507,126
Autos and trucks	<u>1,164,601</u>	<u>-</u>	<u>-</u>	<u>1,164,601</u>
	<u>\$ 185,861,378</u>	<u>\$ 8,596,386</u>	<u>\$ 20,589</u>	194,437,175
Accumulated depreciation				<u>(82,818,478)</u>
Net property, plant and equipment				<u>111,618,697</u>
Construction in progress as of January 1, 2001				\$ 6,684,026
Additions				12,124,350
Construction projects closed				<u>(6,488,680)</u>
Construction in progress as of December 31, 2001				<u>\$ 12,319,696</u>

* January 1, 2001 balances reflect the District's new capitalization policy (see Note 12).

Assets contributed by developers and others in 2001 amounted to \$2,111,174.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

5. Long-Term Debt

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance January 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2001</u>	<u>Interest Paid During 2001</u>
Notes payable:							
Ohio Water Development Authority Notes	5.20-6.5%	2014	\$ 1,973,879	-	\$ 120,116	\$ 1,853,763	\$ 105,056
Loans payable:							
OPWC	0-2.00%	2019	3,036,167	607,000	121,353	3,521,814	16,256
Revenue bonds:							
1984	5%	2024	4,820,000	-	110,000	4,710,000	241,000
1993	2.6-5.2%	2021	<u>40,670,000</u>	<u>-</u>	<u>1,150,000</u>	<u>39,520,000</u>	<u>2,066,480</u>
Total			<u>\$50,500,046</u>	<u>\$ 607,000</u>	<u>\$ 1,501,469</u>	49,605,577	<u>\$ 2,428,792</u>
Less current portion						<u>(1,634,118)</u>	
Long-term portion						<u>\$ 47,971,459</u>	

Principal and interest payments on long-term debt for the next five years and thereafter are as follows:

<u>Year</u>	<u>OWDA Notes</u>	<u>OWDA Note Interest</u>	<u>OPWC Loans</u>	<u>OPWC Loans Interest</u>	<u>Revenue Bonds</u>	<u>Revenue Bond Interest</u>	<u>Total</u>
2002	126,639	98,532	192,479	15,217	1,315,000	2,252,530	4,000,397
2003	133,519	91,652	193,538	14,158	1,370,000	2,193,980	3,996,847
2004	140,776	84,396	204,419	13,078	1,435,000	2,131,730	4,009,399
2005	148,428	76,744	205,521	11,976	1,500,000	2,065,220	4,007,889
2006	156,498	68,673	206,645	10,852	1,575,000	1,990,220	4,007,888
Thereafter	<u>1,147,903</u>	<u>217,186</u>	<u>2,519,212</u>	<u>43,533</u>	<u>37,035,000</u>	<u>17,505,310</u>	<u>58,468,144</u>
	<u>1,853,763</u>	<u>637,183</u>	<u>3,521,814</u>	<u>108,814</u>	<u>44,230,000</u>	<u>28,138,990</u>	<u>78,490,564</u>

Notes payable at December 31, 2001, consist of \$1,853,763 due to the Ohio Water Development Authority. Payments of principal and interest are payable semi-annually through 2014 and include interest at rates ranging from 5.20 percent to 6.50 percent per annum.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

OPWC loans payable at December 31, 2001, consist of \$3,521,814 due to the Ohio Public Works Commission. Payments of principal and interest are payable semi-annually through 2019 and include interest at rates ranging from 0 to 2 percent per annum.

The District issued Sewer System Refunding Revenue Bonds, Series 1993, dated September 1, 1993, to advance refund the outstanding Series 1977, Series 1979, Series 1989 (maturing after 1995), Series 1990 and Series 1991 sewer revenue bonds of the County. The Series 1993 bonds mature on December 1 in various amounts ranging from \$1,200,000 in 2002 to \$18,480,000 in 2021, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 2.6 percent to 5.2 percent per annum, is payable semi-annually on June 1 and December 1. The District is to provide funding for the retirement of principal amounts when they mature by funding the Bond Account in varying amounts ranging from \$1,200,000 in 2002 to \$3,060,000 in 2021.

The Series 1984 bonds mature on December 1 in various amounts ranging from \$115,000 in 2002 to \$335,000 in 2024. Interest, at 5 percent per annum, is payable semi-annually on June 1 and December 1. The District provides funding for the retirement of principal amounts when they mature by funding the trustee Bond account on a monthly basis.

The revenue bond issues are subject to optional redemption in whole or in part at various redemption prices plus accrued interest for portions maturing at various times in the future. In addition, portions of these issues are subject to mandatory sinking fund redemption prior to maturing, from funds in the bond account created by the Bond Legislation through by the Trustee without action by the County.

Bond Legislation provides that the County will charge rates for the services and facilities of the system sufficient for the excess of revenues over expenditures 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).

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

The coverage ratio computed under the Bond Legislation utilizing the 110 percent level is as follows:

Income from operations	\$	622,244
Add items to convert income from operations to pledged revenues:		
Interest bonds (accrual basis)		2,163,986
Deferred debt amortization		48,796
Depreciation expense		7,013,242
System capacity charges		<u>2,966,092</u>
Net pledged revenues	\$	<u>12,814,360</u>
Debt service requirement during 2001	\$	<u>4,062,910</u>
Coverage ratio		<u>315%</u>
Required coverage ratio		<u>110%</u>

6. Defeased Debt

The District defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements.

At December 31, 2001 and 2000, the total amount of defeased debt outstanding amounted to \$1,185,000 and \$14,650,000, respectively.

7. Other Contingent Liabilities

Consent Order Dated November 7, 1989

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.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

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

Special Assessment Bonds

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 general obligation 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 Sewer District. During 2001 and 2000 no payments were made by the District to the County's debt service fund.

8. Pension and Retirement

All District full-time employees participate in the Public Employees' Retirement System administered by the State of Ohio (State PERS). The plan is a cost-sharing, multiple-employer, public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer pension contribution rate for the District was 13.55 percent of covered payroll, increased from 10.84 percent in 2000. Contributions are authorized by State statute. The contribution rates are determined actuarially.

The District's required contributions to PERS for the years ending December 31, 2001, 2000 and 1999 were \$181,531, \$132,275 and \$291,658, respectively; 75 percent has been contributed for 2001 and 100 percent for 2000 and 1999. The unpaid contribution for 2001 is recorded as a liability.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

Other Post-Employment Benefits The Public Employees Retirement System of Ohio (PERS) provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.3 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 411,076. The District's actual contributions for 2001 which were used to fund post employment benefits were \$57,607. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.60 million and \$2,628.7 million, respectively.

9. Interfund Transactions

The District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2001 and 2000 were \$238,771 and \$210,737 respectively, and are classified as contractual services.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

During 1997 the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. The sale of the assets results in the District recognizing amounts due from other funds totalling \$357,864 and \$429,436 at December 31, 2001 and 2000, respectively.

10. Plant Operations

On February 10, 2000, the Board of County Commissioners approved contracts with vendors for the operations of both the water and sewer systems. The vendors are responsible for the daily operations of treatment plants, storage and distribution systems as well as customer billing and collections. Vendors will collect operating revenues on behalf of the District and will be paid a monthly lump sum amount for operating expenses.

11. Prior Year Restatements

In 2000, the District implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 34 "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments." Statement No. 34 established new financial reporting requirements for all state and local governments. The effect of implementing Statement No. 34 for the District is the addition of management's discussion and analysis and revising the presentation of the District's financial statements.

12. Change in Accounting Principles

During 2000, the District changed its policy for capitalizing fixed assets by raising the capitalization threshold to \$5,000. The District has removed all items previously recorded with a value less than \$5,000 from fixed asset records and eliminated those items, and related accumulated depreciation, for reporting purposes. The effect of this change is to reduce amounts reported as fixed assets and accumulated depreciation at January 1, 2000 by a net amount totaling \$677,686.

The Statement of Revenues, Expenses and Changes in Net Assets reflects this new policy for the year ended December 31, 2000. The cumulative effect on prior years for this accounting change and pro forma amounts have been presented to provide comparative data as though the change had been applied to amounts previously reported.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

13. Risk Management

The District carries commercial insurance coverage with private carriers for real property damage, vehicles, workers' compensation and employee health and accident insurance.

REPORT

AUDIT OF FINANCIAL STATEMENTS

for

CLERMONT COUNTY SEWER DISTRICT

WATER SYSTEM

for the years ended December 31, 2001 and 2000

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Foxx & Company
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Sewer District (District), Water System, Batavia, Ohio, as of and for the years ended December 31, 2001 and 2000 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

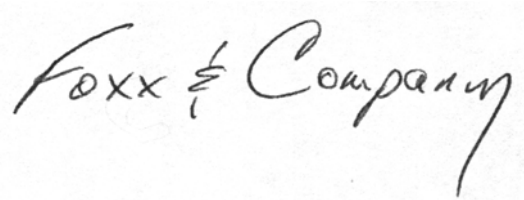
As discussed in Note 1, the financial statements present only the Water System and are not intended to present fairly the financial position of Clermont County, and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

As described in Note 11, the District adopted Governmental Accounting Standards Board Statements Nos. 33 and 34 as of and for the year ended December 31, 2000. Also, as described in Note 12, the District changed its capitalization policy for fixed assets.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Water System, as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2002 on our consideration of the Districts' internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Management's Discussion on pages 3 to 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

A handwritten signature in black ink that reads "Fox & Company". The signature is written in a cursive style with a large, sweeping flourish at the end of the word "Company".

Cincinnati, Ohio
April 12, 2002



CLERMONT COUNTY SEWER DISTRICT WATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clermont County Sewer District's Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2001.

FINANCIAL HIGHLIGHTS

- The Water System's net assets increased by \$5.1 million or 7.0% in 2001.
- A conversion to Clermont County's half-year depreciation method resulted in a reduction of \$0.3 million in property, plant and equipment.
- The 2001 fiscal results represent the first complete fiscal year in which the Water System was under contract operations. On March 1, 2000, the operations were turned over to a contract operator. The Board of County Commissioners adopted a 5% rate decrease that became effective October 1, 2000 to share, with the rate payers, some of the anticipated savings that were to accrue from the operations contract. Fiscal year 2001 represents a full year of reduced revenues due to this rate reduction.
- During the year, the System generated \$2.1 million from operations and used \$0.5 million for other financing activities, principally interest expense.
- The operating income was down 10%, or \$0.3 million from 2000 as a result of the change in depreciation methods.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets (Pages 9 -10) and the Statement of Revenues, Expenses and Changes in Net Assets (page 11), previously called the Balance Sheet and Income Statement, provide information about the activities of the Water System and present a short and long-term view of the System's finances. The Statement of Net Assets includes all of the System's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations to creditors (liabilities). You will need to consider other nonfinancial factors, however, such as conditions of the capital assets, to assess the overall health of the Water System. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses

and Net Assets. This statement measures the success of the System’s operations over the past year and can be used to determine whether the System has successfully recovered all its costs through its user fees and other charges. These statements report assets and liabilities using the accrual basis of accounting. All of the current years revenues and expenditures are taken into account regardless of when cash is received or paid. The final financial statement is the Statement of Cash Flow (Page 12). 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 \$72.1 million to \$77.2 million. Our analysis

**Table 1
Net Assets (in Millions)**

Water System	2000	2001
Current and Other Assets	\$ 40.1	\$ 41.4
Capital Assets	\$ 78.9	\$ 81.4
Total Assets	\$ 119.0	\$ 122.8
Long Term Debt Outstanding	(\$ 44.5)	(\$ 42.8)
Other Liabilities	(\$ 2.4)	(\$ 2.8)
Total Liabilities	(\$ 46.9)	(\$ 45.6)
Net Assets:		
Invested in capital assets, net of debt	\$ 34.4	\$ 38.5
Restricted	\$ 5.7	\$ 5.7
Unrestricted (deficit)	\$ 32.0	\$ 33.0
Total Net Assets	\$ 72.1	\$ 77.2

below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System. Net assets of the System increased by 7.0%. 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 \$ 1.0 million in 2001. Restricted assets-those restricted mainly for capital projects and bond covenants-stayed at \$5.7 million. The investment in capital assets, net of debt increased, \$4.1 million. This increase reflects capital assets financed primarily from the System's net assets of which a part (\$3.4 million) came from capital contributions in the form of system capacity fees, donated assets, assessments and grants. The change in the depreciation method reduced the 2001 investment by \$0.3 million.

While the Statement of Net Assets shows the change in the financial position of the net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As seen in table 2, above, the Water System's income

Table 2 Change in Net Assets (in Millions)

Water System	2000	2001
Operating Revenues	\$ 10.9	\$ 10.7
Non Operating Revenues	2.2	2.1
Total Revenues	\$ 13.1	\$ 12.8
Operating Expenses	\$ 5.2	\$ 4.8
Depreciation Expense	3.3	3.8
Other Expenses	3.2	2.6
Total Expenses	\$ 11.7	\$ 11.2
Income Before Capital Contributions	\$ 1.4	\$ 1.6
Capital Contributions	4.2	3.5
Increase(Decrease) in Net Assets	\$ 5.6	\$ 5.1

before capital contributions of \$1.6 million and capital contributions of \$3.5 million were the two sources of the increase in net assets of \$5.1 million in 2001. Operating revenues decreased by 2% (\$ 0.2 million) from 2000 to 2001 as a result of the 5% rate reduction that became effective October 1, 2000. Contributions dropped by \$ 0.7 million as a result of assessments on smaller construction projects and a \$ 0.4 million decrease in donated assets in 2001. Other revenues decreased \$ 0.1 million due to a lower market value adjustment on held securities.

The contract operations period began March 1, 2000 and runs for a five-year term. The reduction of \$0.4 million in operating expenses is due in large part to this contract. The \$0.6 million reduction in other expenses in 2001 is achieved by elimination of the prior period adjustment for the 2000 fixed asset policy change.

The above financial ratios should be used to assess the financial stability of the System over an extended period of time. The balance of Working Capital demonstrates the continuing ability to finance operations with cash. The strong Current Ratio and the reduction in the Liabilities to Net Assets ratio demonstrates the fact that the System has not financed its Working Capital with an increasing proportion of debt. The increase in Days in Receivable reflects a shortfall in

Water System Financial Ratios (dollars in thousands)

Ratio	1996	1997	1998	1999	2000	2001
Working Capital	\$18,963	\$21,085	\$24,497	\$28,044	\$31,022	\$32,091
Current Ratio	21.1	34.5	35.7	48.3	161.7	66.7
Days Cash & Investments	1253	1326	1458	1586	1764	1,966
Liabilities to Net Assets	104%	93%	82%	73%	65%	59%
Return on Assets	3%	4%	4%	4%	4%	3%
Days in Receivable	60	54	57	54	62	70

Working Capital is the amount by which current assets exceed current liabilities.

Current Ratio compares current assets to current liabilities and is an indicator of the ability to pay current obligations.

Days Cash & Investments represents the number of days normal operations could continue with no revenue collection

Liabilities to Net Assets indicated the extent of borrowings.

Return on Assets from Operations illustrates to what extent there will be sufficient funds to replace assets in the future.

Days in Receivables determines how many days it takes to collect amount billed to customers.

collections in 2001 by the contract operator. The increase in Days Cash and Investment in Reserve is not being financed by a reduction in receivables, but represents the strong cash balances of the system.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2001, the Water System had \$124.3 million invested in capital assets including water lines, booster stations, storage tanks and treatments plants. This amount represents a net increase in 2001 of \$6.3 million.

Capital Assets at Year-End (Net of Depreciation, in millions)	2000	2001
Land	\$ 0.5	\$ 0.6
Structures	35.3	35.3
Machinery (infrastructure)	79.5	85.0
Furniture	0.4	0.4
Autos/Trucks	0.8	0.8
Construction in Progress	1.5	2.2
Subtotal Capital Assets	118.0	124.3
Accumulated Depreciation	(39.1)	(42.9)
Total Capital Assets	\$78.9	\$81.4

The year's major additions included:

- \$1.6 Million of waterlines donated from developers
- \$1.6 Million for the Herold/Hawley/Monterey Water Line
- \$0.5 Million for the US50 Water Main
- \$0.4 Million for the Branch Hill-Loveland Water Main
- \$0.2 Million for the Bigam Road Water Main Extension
- \$0.2 Million for Wards Corner Water Main Looping
- \$0.2 Million for Process Improvements at Bob McEwen Water Treatment Plant

The Water System's 2002 capital budget anticipates a spending level of \$ 13.4 million for capital projects. The District has located some grants and loans (approx \$ 0.6 million) to help fund some of these expenditures.

Debt

At year end, 2001, the System had \$ 44.5 million in bonds and loans outstanding, a decrease of \$ 1.6 million or 3% from 2000.

Outstanding Debt, at Year-End (in millions)	2000	2001
1993 Revenue Bonds	\$ 46.1	\$ 44.5
Total Outstanding Debt	\$ 46.1	\$ 44.5

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 236%. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	
Income From Operations	\$ 1.6
Add Items to convert income from operations to pledged revenues:	
Interest Paid on Bonds	2.6
Depreciation Expense	3.8
System Capacity Charges	1.8
Net Pledged Revenues	<u>\$ 9.8</u>
Debt Service Requirements during 2001	<u>\$ 4.2</u>
Coverage Ratio	236%
Required Coverage Ratio	110%

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
STATEMENT OF NET ASSETS
December 31, 2001 and 2000**

ASSETS

	<u>2001</u>	<u>2000</u>
Current assets:		
Equity in pooled cash and cash equivalents	\$ 2,501,015	\$ 3,604,574
Held by Trustees:		
Cash equivalents in segregated accounts	4,951,101	871,803
Investments in segregated accounts	23,057,670	24,867,324
Accounts receivable (net of allowance for doubtful accounts of \$46,773 for 2001; \$25,100 for 2000)	1,876,708	1,679,066
Inventory of supplies at cost	<u>193,106</u>	<u>193,106</u>
 Total current assets	 <u>32,579,600</u>	 <u>31,215,873</u>
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and cash equivalents	60	-
Held by Trustees:		
Cash and cash equivalents	296,735	228,460
Investments	7,232,188	7,186,813
Accrued interest	236,398	435,909
Retainage accounts	177,197	68,433
Capital assets:		
Land	611,246	523,269
Structures	35,267,642	35,267,642
Machinery	84,954,963	79,548,112
Furniture	397,758	407,999
Autos and trucks	789,956	789,956
Less: Accumulated depreciation	(42,892,705)	(39,127,750)
Construction in progress	2,241,492	1,504,915
Unamortized financing costs	735,599	778,869
Interfund receivable	184,153	220,983
Grant receivable	<u>15,581</u>	<u>14,004</u>
 Total noncurrent assets	 <u>90,248,263</u>	 <u>87,847,614</u>
 Total assets	 <u>\$122,827,863</u>	 <u>\$119,063,487</u>

(continued)

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

**CLERMONT COUNTY SEWER DISTRICT
 BATAVIA, OHIO
 WATER SYSTEM
 STATEMENT OF NET ASSETS
 (continued)
 December 31, 2001 and 2000**

LIABILITIES

	2001	2000
Current liabilities:		
Accounts payable	\$ 364,440	\$ 103,013
Accrued wages and benefits	124,029	90,071
Total current liabilities	488,469	193,084
Noncurrent liabilities:		
Payable from restricted assets:		
Current portion of long-term debt	1,660,000	1,580,000
Accounts payable	208,505	339,613
Accrued interest payable	208,249	214,701
Retainage payable	177,197	68,433
Maintenance bond payable	29,475	35,049
Long-term debt	42,835,000	44,495,000
Total noncurrent liabilities	45,118,426	46,732,796
Total liabilities	45,606,895	46,925,880
 NET ASSETS		
Invested in capital assets net of related debt	38,535,352	34,419,143
Restricted for debt service	5,688,627	5,716,868
Unrestricted	32,996,989	32,001,596
Total net assets	\$ 77,220,968	\$ 72,137,607

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

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
for the years ended December 31, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Charges for services	10,610,197	\$ 10,707,807
All other revenues	<u>100,570</u>	<u>203,749</u>
Total operating revenues	<u>10,710,767</u>	<u>10,911,556</u>
Operating expenses:		
Personnel services	752,117	1,011,539
Contractual services	3,717,225	3,350,811
Maintenance and repair	39,058	100,919
Utilities	6,442	178,347
Materials and supplies	258,940	615,606
Depreciation	3,775,196	3,259,818
Other	<u>23,862</u>	<u>10,087</u>
Total operating expenses	<u>8,572,840</u>	<u>8,527,127</u>
Operating income	<u>2,137,927</u>	<u>2,384,429</u>
Nonoperating revenues (expenses):		
Interest income	2,024,722	1,945,743
Change in fair value of investments	32,897	247,474
Interest expense	(2,613,231)	(2,684,738)
Other expense	-	(2,085)
Gain on sale of fixed assets	<u>6,145</u>	<u>4,953</u>
Total nonoperating revenues (expenses)	<u>(549,467)</u>	<u>(488,653)</u>
Income from operations	1,588,460	1,895,776
Cumulative effect on prior years of accounting change	<u>-</u>	<u>(455,998)</u>
Income before contributions	<u>1,588,460</u>	<u>1,439,778</u>
Capital contributions	<u>3,494,901</u>	<u>4,198,724</u>
Change in net assets	5,083,361	5,638,502
Total net assets, beginning	<u>72,137,607</u>	<u>66,499,105</u>
Total net assets, ending	<u>77,220,968</u>	<u>\$ 72,137,607</u>
Pro forma amounts assuming capitalized asset policy applied retroactively:		
Income from operations	<u>1,588,460</u>	<u>\$ 1,895,776</u>
Change in net assets	<u>5,083,361</u>	<u>\$ 6,094,500</u>

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

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 10,412,555	\$ 10,663,871
Payments to suppliers	(3,784,099)	(4,368,511)
Payments to employees	(718,159)	(1,319,708)
Other receipts	<u>100,569</u>	<u>203,749</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,010,866</u>	<u>5,179,401</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
FINANCING ACTIVITIES:		
Principle and interest paid on long-term debt	(4,156,412)	(4,157,382)
Construction of capital assets	(4,754,662)	(2,448,683)
Proceeds from sale of fixed assets	42,975	41,784
Retainage receipts	142,862	54,739
Retainage payments	(34,098)	-
Maintenance bond receipts	1,650	3,900
Maintenance bond payments	(7,224)	(4,376)
Proceeds from grants	-	14,966
Proceeds from assessments	59,817	233,605
System capacity charges	<u>1,825,655</u>	<u>1,946,300</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,879,437)</u>	<u>(4,315,147)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(26,309,999)	(25,446,000)
Investment sales	28,107,175	23,609,255
Interest received on investments	<u>2,224,233</u>	<u>1,643,474</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	4,021,409	<u>(193,271)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>3,152,838</u>	<u>670,983</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,773,270</u>	<u>4,102,287</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$7,926,108</u></u>	<u><u>\$ 4,773,270</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 2,137,927	\$ 2,384,429
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,775,196	3,259,818
Change in assets and liabilities:		
Net change in customer accounts receivable	(197,642)	(43,936)
Net change in inventory	-	(20,573)
Net change in operating accounts payable	261,427	(92,168)
Net change in accrued payroll and related expenses	<u>33,958</u>	<u>(308,169)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 6,010,866</u></u>	<u><u>\$ 5,179,401</u></u>
NON-CASH TRANSACTIONS:		
Contributions from developers	<u><u>\$ 1,607,850</u></u>	<u><u>\$ 2,002,650</u></u>

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

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

1. Summary of Significant Accounting Policies

A. Organization

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

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

B. Basis of Accounting

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

C. Property, Plant and Equipment

Property, plant and equipment are stated at historical cost and updated for the cost of additions and retirements during the year. Routine maintenance and repairs are expensed as incurred. Contributed fixed assets are recorded at their fair market values as of the date donated, and depreciation on those assets is included in the Statements of Revenues and Expenses. Interest during construction is capitalized until substantial completion of the project. Depreciation is computed on the straight-line basis over the estimated useful life of the asset as follows:

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

Description	Estimated Lives (Years)
Autos and trucks	3-5
Machinery, equipment, furniture and fixtures	5-20
Water treatment plants and structures	20-50
Distribution mains	50

D. Inventory

Supplies, materials, and fuel are stated at the lower of cost or market on a first-in, first-out (FIFO) basis.

E. Statement of Cash Flows

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

F. Unamortized Financing Costs

The unamortized financing costs include bond discounts, consulting fees, and attorneys' fees incurred in connection with the revenue bond obligations. These costs are capitalized and are amortized on the straight-line method over the lives of the revenue bonds and are included as interest expense. The amount amortized amounted to \$43,270 in 2001 and 2000.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

G. Insurance

The District participates in Ohio Workers' Compensation and Ohio State Unemployment programs. The District maintains insurance coverage for liability and property damage through policies with private carriers.

H. Investments

In accordance with GASB Statement 31, investments are recorded at fair value as stated by the District's investment Trustees.

I. Compensated Absences

A liability is provided for accumulated unpaid sick, vacation and compensated time benefits when earned by employees. 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, with a minimum of ten years of service, are paid one-fourth of accumulated sick time upon retirement. However, if employees earned sick leave prior to January 23, 1984, they are eligible for 100 percent conversion.

Such payment may not exceed the value of thirty days of accrued but unused sick leave. In general, employees are eligible to be paid for unused compensation time upon termination of employment. Sick, vacation and compensation payments are made at the employee's current wage rate.

J. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding long-term debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by county legislation or external restrictions by other governments, creditors or grantors.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

K. System Capacity Charges

System capacity charges are recorded as capital contributions as they represent one-time charges to customers for the privilege of accessing the water system.

2. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments at December 31, 2001 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the Clermont County Treasurer:			
Unrestricted pooled cash, revenue account	\$ 2,501,015	\$ -	\$ 2,501,015
Restricted pooled cash, construction account	60	-	60
Retainage accounts	177,197	-	177,197
Amounts held by trustees:			
Bond account	167,048	4,348,302	4,515,350
Replacement and improvement account	129,687	2,883,886	3,013,573
Surplus account	<u>4,951,101</u>	<u>23,057,670</u>	<u>28,008,771</u>
 Total	 <u>\$ 7,926,108</u>	 <u>\$ 30,289,858</u>	 <u>\$ 38,215,966</u>

Cash, cash equivalents and investments at December 31, 2000 are summarized below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the Clermont County Treasurer:			
Unrestricted pooled cash, revenue account	\$ 3,604,574	\$ -	\$ 3,604,574
Restricted pooled cash, construction account	-	-	-
Retainage accounts	68,433	-	68,433
Amounts held by trustees:			
Bond account	216,682	4,257,344	4,474,026
Replacement and improvement account	11,778	2,929,469	2,941,247
Surplus account	<u>871,803</u>	<u>24,867,324</u>	<u>25,739,127</u>
 Total	 <u>\$ 4,773,270</u>	 <u>\$ 32,054,137</u>	 <u>\$ 36,827,407</u>

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

Pooled Cash held by Clermont County Treasurer

Operating and construction account funds, except for trustee funds described below, are controlled on the District's behalf by the Clermont County Treasurer's Office (County). Cash is deposited into bank accounts of the County for which the County Treasurer maintains accountability. The pooled cash of the County includes the proportionate share belonging to the District. The County is responsible for the collateralization of pooled cash balances belonging to the District. The collateralization of County funds is discussed in the County's 2001 Comprehensive Annual Financial Report.

Retainage Accounts

Retainage accounts represent bank deposit accounts controlled by the District. All of these accounts represent cash retained from construction contractor payments until satisfactory completion of projects. The District's and the contractor's approval are required before funds can be released. Individual retainage accounts are collateralized by insurance provided by the Federal Deposit Insurance Corporation up to \$100,000. Any excess is collateralized through the use of the Federal Reserve book entry system to hold U.S. Government securities as collateral. The securities are registered in the name of the financial institution, not in the name of the District. As of December 31, 2001 retainage accounts totaled \$177,197, all of which was covered by FDIC Insurance.

Amounts Held by Trustees

Bond legislation requires the establishment of various accounts to be held by trustees. The District may invest these funds in direct obligations of the United States of America or highest rated bonds, notes or other evidences of indebtedness having maturity dates no longer than five years from the date of such investment.

Trustee account investments at December 31, 2001 are categorized according to credit risk into the following categories: (1) insured or registered, or securities held by the District's or its agent (bank trust department) in the District's name; or (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name; or (3) uninsured, unregistered securities held by the counterparty, or its trust department or agent but

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

not in the District's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Categorized Investments:			
U.S. Treasury Notes	\$ 18,248,476	\$ 18,248,476	\$ 18,248,476
U.S. Treasury Bills	12,041,382	12,041,382	12,041,382
Money Market Funds	<u>-</u>	<u>5,247,836</u>	<u>5,247,836</u>
Total	<u>\$ 30,289,858</u>	<u>\$ 35,537,694</u>	<u>\$ 35,537,694</u>

3. Restrictions on Assets

The Trust Agreement for the Revenue Bonds requires the establishment of certain trust accounts, including a Bond Account, Bond Reserve Account, Replacement and Improvement Account, Construction Account, and a Surplus Account. Cash and investments in the accounts are held by trustee financial institutions.

The Bond Account is used to accumulate periodic principal and interest payments. The Bond Reserve Account is to be funded in an amount equal to the maximum annual bond principal and interest requirement. The Replacement and Improvement Account is to be maintained with a balance equal to the greater of five percent of the amount of bonds outstanding or \$2,000,000. The Surplus Account accumulates any remaining net revenues which are available for several purposes at the direction of the County Commissioners. The Construction Account is established to pay for project costs.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

4. Property, Plant and Equipment

The following summarizes the changes to property plant and equipment during 2000.

	<u>Balance January 1, 2001*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2001</u>
Land	523,269	\$ 87,977	-	\$ 611,246
Structure	35,267,642	-	-	35,267,642
Machinery	79,548,112	5,407,151	(300)	84,955,563
Furniture	407,999	-	(10,241)	418,240
Autos and trucks	<u>789,956</u>	<u>-</u>	<u>-</u>	<u>789,956</u>
	<u>\$ 116,536,978</u>	<u>\$ 5,495,128</u>	<u>\$ (10,541)</u>	122,042,647
Accumulated depreciation				<u>(42,892,705)</u>
Net property, plant and equipment				<u>79,149,942</u>
Construction in progress as of January 1, 2001				\$ 1,504,915
Additions				4,456,520
Construction projects closed				<u>(3,719,943)</u>
Construction in progress as of December 31, 2001				<u>\$ 2,241,492</u>

* January 1, 2001 balances reflect the District's new capitalization policy (see Note 11).

Assets contributed by developers and others in 2001 amounted to \$1,607,850.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

5. Long-Term Debt

For the year ended December 31, 2001, changes in long-term debt consisted of the following:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance January 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2001</u>	<u>Interest Paid During 2001</u>
Revenue bonds:							
1993	2.6-5.8%	2018	\$46,075,000	\$ -	\$1,580,000	\$ 44,495,000	\$ 2,576,413
Total			<u>\$46,075,000</u>	<u>\$ -</u>	<u>\$1,580,000</u>	44,495,000	<u>\$ 2,576,413</u>
Less current portion						<u>(1,660,000)</u>	
Long-term portion						<u>\$ 42,835,000</u>	

Principal and interest payments on long-term debt for the next five years and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 1,660,000	\$ 2,498,993	\$ 4,158,993
2003	1,740,000	2,415,993	4,155,993
2004	1,830,000	2,327,253	4,157,253
2005	1,925,000	2,232,092	4,157,092
2006	2,025,000	2,130,068	4,155,068
Thereafter	<u>35,315,000</u>	<u>14,571,903</u>	<u>49,886,903</u>
Total	<u>\$ 44,495,000</u>	<u>\$26,176,302</u>	<u>\$ 70,671,302</u>

The District issued Waterworks System Revenue Improvement and Refunding Bonds, Series 1993, dated May 1, 1993 to advance refund the outstanding Series 1977, Series 1987, Series 1989 and Series 1991 water revenue bonds of the County and to finance a portion of the costs of the 1993 Project as defined by the Official Statement.

The remaining balance of the Series 1993 bonds will mature on December 1 in various amounts ranging from \$1,660,000 in 2001 to \$17,610,000 in 2018, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 2.6 percent to 5.8 percent per annum, is

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

payable semi-annually on June 1 and December 1. The District is to provide funding for the retirement of principal amounts when they mature, by funding the Bond Account in varying amounts ranging from \$1,660,000 in 2002 to \$3,930,000 in 2018.

The revenue bond issues are subject to optional redemption in whole or in part at various redemption prices plus accrued interest for portions maturing at various times in the future. In addition, portions of these issues are subject to mandatory sinking fund redemption prior to maturing, from funds in the bond account created by the Bond Legislation through the Trustee without action by the County.

Bond Legislation provides that if the surplus account is funded in excess of 10 percent of the aggregate principal amount outstanding on all bonds and other obligations and the reserve account and replacement and improvement accounts are at the required balances, the County will charge rates for the services and facilities of the system sufficient for the excess of revenues over expenditures 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 Bond Legislation utilizing the 110 percent level is as follows:

Income from operations	\$	1,588,460
Add items to convert income from operations to pledged revenues:		
Interest on bonds (accrual basis)		2,569,961
Deferred debt amortization		43,270
Depreciation expense		3,775,196
System capacity charges		<u>1,825,655</u>
Net pledged revenues	\$	<u><u>9,802,542</u></u>
Debt service requirement during 2001	\$	<u><u>4,156,413</u></u>
Coverage ratio		<u><u>236%</u></u>
Required coverage ratio		<u><u>110%</u></u>

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

6. Defeased Debt

The District defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements.

At December 31, 2001, and 2000, the total amount of defeased debt outstanding amounted to \$535,000 and \$14,965,000, respectively.

7. Other Contingent Liabilities

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 general obligation bonds of the County.

If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the District. During 2001 and 2000, no payments were made by the District to the County's debt service fund.

8. Pension and Retirement

All District full-time employees participate in the Public Employees' Retirement System administered by the State of Ohio (State PERS). The plan is a cost-sharing, multiple-employer, public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer pension contribution rate for the District was 13.55 percent of covered payroll, increased from 10.84 percent in 2000. Contributions are authorized by State statute. The contribution rates are determined actuarially.

The District's required contributions to PERS for the years ending December 31, 2001, 2000 and 1999 were \$180,276, \$116,168 and \$270,422, respectively; 73 percent has been contributed for 2001 and 100 percent for 2000 and 1999. The unpaid contribution for 2001 is recorded as a liability.

Other Post-Employment Benefits The Public Employees Retirement System of Ohio (PERS) provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.3 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.3 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 411,076. The District's actual contributions for 2001 which were used to fund post employment benefits were \$57,209. The actual contribution and the actuarially required contribution amounts are the same.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

9. Interfund Transactions

The District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2001 and 2000 were \$154,228 and \$97,939 respectively and are classified as contractual services.

During 1997, the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. The sale of the assets results in the District recognizing amounts due from other funds totaling \$184,153 and \$220,983 at December 31, 2001 and 2000, respectively.

10. Plant Operations

On February 10, 2000, the Board of County Commissioners approved contracts with vendors for the operations of both the water and sewer systems. The vendors are responsible for the daily operations of treatment plants, storage and distribution systems as well as customer billing and collections. Vendors will collect operating revenues on behalf of the District and will be paid a monthly lump sum amount for operating expenses.

11. Prior Year Restatements

In 2000, the District implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 34 "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments." Statement No. 34 established new financial reporting requirements for all state and local governments. The effect of implementing Statement No. 34 for the District is the addition of management's discussion and analysis and revising the presentation of the District's financial statements.

**CLERMONT COUNTY SEWER DISTRICT
BATAVIA, OHIO
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS**

for the years ended December 31, 2001 and 2000

12. Change in Accounting Principles

During 2000, the District changed its policy for capitalizing fixed assets by raising the capitalization threshold to \$5,000. The District has removed all items previously recorded with a value less than \$5,000 from fixed asset records and eliminated those items, and related accumulated depreciation, for reporting purposes. The effect of this change is to reduce amounts reported as fixed assets and accumulated depreciation at January 1, 2000 by a net amount totaling \$455,998.

The Statement of Revenues, Expenses and Changes in Net Assets reflects this new policy for the year ended December 31, 2000. The cumulative effect on prior years for this accounting change and pro forma amounts have been presented to provide comparative data as though the change had been applied to amounts previously reported.

13. Risk Management

The District carries commercial insurance coverage with private carriers for real property damage, vehicles, workers' compensation and employee health and accident insurance.

REPORT

CLERMONT COUNTY SEWER DISTRICT

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING**

for the year ended December 31, 2001

CLERMONT COUNTY SEWER DISTRICT
REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING

for the year ended December 31, 2001

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Foxx & Company
Certified Public Accountants

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

The Honorable Board of County Commissioners
Clermont County, Ohio

We have audited the financial statements of the Clermont County Sewer District, Water and Sewer Systems, as of and for the year ended December 31, 2001, and have issued our report thereon dated April 12, 2002. 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.

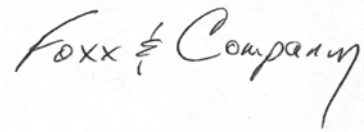
Compliance

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

Internal Control Over Financial Reporting

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

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

A handwritten signature in black ink that reads "Foxx & Company". The signature is written in a cursive style with a large, stylized 'F' and a long, sweeping underline.

Cincinnati, Ohio
April 12, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CLERMONT COUNTY WATER AND SEWER DISTRICT

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 2, 2002**