

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

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

for the years ended December 31, 2002 and 2001





**Auditor of State  
Betty Montgomery**

The Honorable Board of County Commissioners  
Clermont County Sewer District  
Batavia, Ohio

We have reviewed the Independent Auditor's Reports of the Clermont County Sewer District's Water System and Sewer System, prepared by Bastin & Company, LLC, for the audit period January 1, 2002 through December 31, 2002. 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.

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

BETTY MONTGOMERY  
Auditor of State

May 22, 2003

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# Bastin & Company, LLC

*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners  
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Sewer District (District), Sewer System, Batavia, Ohio, as of and for the years ended December 31, 2002 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the District as of December 31, 2001, were audited by other auditors whose report dated April 12, 2002, expresses an unqualified opinion on those statements.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Sewer System, as of December 31, 2002 and the results of its operations and its cash flows for the year 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 22, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



Cincinnati, Ohio  
April 22, 2003



# CLERMONT COUNTY SEWER DISTRICT SEWER SYSTEM

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Our discussion and analysis of Clermont County Sewer District's Sewer System's financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2002.

### FINANCIAL HIGHLIGHTS

- The Sewer System's net assets increased by \$5.0 million or 3.8% in 2002.
- During the year, the System generated \$851.2 thousand from operations and used \$766.8 thousand in other financing activities, as a result of lower interest income.
- The operating income was up \$0.7 million from 2001 as a result of increases in service charge revenues of \$0.6 million.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets (Page 9) and the Statement of Revenue, Expenses and Changes in Net Assets (page 10), 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 11). The primary purpose of this statement is to provide information about the System's cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.



## SYSTEM SUMMARY

The Sewer System's total net assets increased from \$130.7 million to \$135.6 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System.

Net assets of the System increased by 3.8%. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements-decreased by \$0.6 million in 2002. Restricted assets-those restricted mainly for capital projects and bond covenants-increased by \$0.8 million. The investment in capital assets, net of debt increased by \$4.7 million. This increase reflects capital assets financed primarily from the System's net assets of which a majority (\$4.6 million) came from capital contributions in the form of system capacity fees, donated assets, assessments and grants.

### Table 1 Net Assets (in Millions)

Sewer System	2002	2001
Current and Other Assets	\$ 58.3	\$ 58.8
Capital Assets	\$ 127.0	\$123.9
<b>Total Assets</b>	<b>\$185.3</b>	<b>\$182.7</b>
Long Term Debt Outstanding	(\$ 46.3)	(\$ 48.0)
Other Liabilities	(\$ 3.3)	(\$ 4.0)
<b>Total Liabilities</b>	<b>(\$ 49.6)</b>	<b>(\$ 52.0)</b>
<b>Net Assets:</b>		
Invested in capital assets, net of debt	\$ 80.7	\$ 76.0
Restricted	\$ 7.0	\$ 6.2
Unrestricted (deficit)	\$ 47.9	\$ 48.5
<b>Total Net Assets</b>	<b>\$ 135.6</b>	<b>\$ 130.7</b>

While the Statement of Net Assets shows the change in the financial position of the net assets, the Statement of Revenues, Expenses, and Net Assets provides answers as to the nature and source of these changes. As seen in table 2, below, the Sewer System's capital contributions of \$4.9 million was the source of the increase in net assets in 2002. Operating revenues increased by 4.9% (\$0.6 million) from 2001 to 2002. Non-Operating revenues were down \$1.3 million due to lower interest earnings on held funds. Total expenses reflected a decrease of 0.7% in 2002. The \$0.4 million decrease in depreciation is due to the 2001 change in depreciation methods that resulted in a one time increase of \$0.8 million in 2001. The increase of \$0.3 million in operating expenses is due to the change in the contract operations annual fee for 2002. Capital contributions dropped by \$0.2 million as a result of reduced system capacity fees and donated assets throughout the year.

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

Sewer System	2002	2001
Operating Revenues	\$ 13.6	\$ 13.0
Non-Operating Revenues	1.7	3.0
<b>Total Revenues</b>	<b>\$ 15.3</b>	<b>\$ 16.0</b>
Operating Expenses	\$ 6.2	\$ 5.9
Depreciation Expense	6.6	7.0
Other Expenses	2.4	2.4
<b>Total Expenses</b>	<b>\$ 15.2</b>	<b>\$ 15.3</b>
<b>Income before Capital Contributions</b>	<b>\$ 0.1</b>	<b>\$ 0.6</b>
<b>Capital Contributions</b>	<b>\$ 4.9</b>	<b>\$ 5.1</b>
<b>Increase(Decrease) in Net Assets</b>	<b>\$ 5.0</b>	<b>\$ 5.7</b>

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

## Sewer System Financial Ratios (dollars in thousands)

<b>Ratio</b>	<b>1996</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Working Capital	\$29,455	\$33,905	\$39,887	\$48,118	\$46,179	\$45,569
Current Ratio	32.2	34.2	47.1	91.2	77.0	74.3
Days Cash & Investments	1,419	1,698	2,038	2,436	2,442	2,352
Liabilities to Net Assets	53%	49%	46%	42%	40%	37%
Return on Assets	1%	2%	2%	3%	2%	1%
Days in Receivable	60	65	65	67	83	72

**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.

<b>CAPITAL ASSETS AND DEBT ADMINISTRATION</b>
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**Capital Assets**

At the end of 2002, the Sewer System had \$216.4 million invested in capital assets including sewer lines, pump stations, treatments plants in operations or under construction. This amount represents a net increase of \$9.7 million (including additions and deletions).

<b>Capital Assets at Year End (Net of Depreciation, in millions)</b>	<b>2002</b>	<b>2001</b>
Land	\$ 2.7	\$ 2.7
Structures	88.2	76.7
Machinery	10.0	9.9
Collection Systems	106.3	103.7
Autos/Trucks	1.5	1.4
Construction in Progress	7.7	12.3
Subtotal Capital Assets	\$216.4	206.7
Accumulated Depreciation	89.4	82.8
Total Capital Assets	\$127.0	\$ 123.9

The year's major additions/completions included:

- \$6.9 Million for the Nine Mile Treatment Plant Expansion
- \$4.5 Million for the Lower East Fork Treatment Plant Expansion
- \$1.4 Million of sewerlines donated by developers

The Sewer System's 2003 capital budget anticipates a spending level of \$19.6 million for capital projects. The District anticipates grants, loans and assessment bond proceeds (approx \$5.5 million) to help fund some of these expenditures.

## Debt

At year end, 2002, the System had \$48.0 million in bonds and loans outstanding, a decrease of \$1.6 million or 3.2% from 2001.

<b>Outstanding Debt, as of 12/31 (in millions)</b>	<b>2002</b>	<b>2001</b>
1993 Revenue Bonds	\$ 38.3	\$ 39.5
1984 Revenue Bonds	4.6	4.7
OWDA Loans	1.7	1.9
OPWC Loans	3.4	3.5
<b>Total Outstanding Debt</b>	<b>\$ 48.0</b>	<b>\$ 49.6</b>

One area that demonstrates the System's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a strong 324%. The impact of this is that the System has the ability and the capacity to finance additional debt.

<b>Debt Coverage Ratio (in millions)</b>	
Income from Operations	\$ 0.1
Add Items to convert income to pledged revenues	
Interest Paid on Bonds	2.3
Depreciation Expense	6.6
System Capacity Charges	2.6
Net Pledged Revenues	11.6
Debt Service Requirement during 2001	\$ 3.6
Coverage Ratio	324%
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**  
**SEWER SYSTEM**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2002 and 2001**

**ASSETS**

	<u>2002</u>	<u>2001</u>
<b>CURRENT ASSETS:</b>		
Equity in pooled cash and cash equivalents	\$ 3,320,346	\$ 2,720,033
Cash and cash equivalents in segregated accounts	1,828,562	5,228,993
Investments in segregated accounts	38,309,751	35,852,385
Accounts receivable (net of allowance for doubtful accounts of \$77,237 for 2002 and \$95,122 for 2001)	2,659,876	2,912,943
Inventory of supplies at cost	<u>72,510</u>	<u>72,510</u>
<b>Total current assets</b>	<u>46,191,045</u>	<u>46,786,864</u>
<b>NONCURRENT ASSETS:</b>		
Restricted assets:		
Cash and cash equivalents in segregated accounts	392,302	436,145
Investments in segregated accounts	8,763,617	8,460,587
Contractor retainage accounts	254,650	434,785
Accrued interest	<u>264,192</u>	<u>263,682</u>
Total restricted assets	9,674,761	9,595,199
Capital assets, net	127,043,823	123,938,393
Grants Receivable	115,536	-
Loans receivable	1,029,095	1,029,095
Unamortized financing costs	927,121	975,917
Interfund receivable	<u>286,291</u>	<u>357,864</u>
<b>Total noncurrent assets</b>	<u>139,076,627</u>	<u>135,896,468</u>
<b>TOTAL ASSETS</b>	<u>185,267,672</u>	<u>182,683,332</u>

**LIABILITIES**

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 500,843	\$ 487,469
Accrued wages and benefits	121,069	120,256
Current portion of OWDA notes payable	133,519	126,639
Current portion of OPWC loans payable	<u>193,538</u>	<u>192,479</u>
<b>Total current liabilities</b>	<u>948,969</u>	<u>926,843</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accounts payable	509,122	1,125,471
Current portion of revenue bonds payable	1,370,000	1,315,000
Accrued interest payable	182,832	187,711
Contractor retainages payable	<u>254,650</u>	<u>434,785</u>
<b>Total current liabilities payable from restricted assets</b>	<u>2,316,604</u>	<u>3,062,967</u>
<b>NONCURRENT LIABILITIES:</b>		
Contractor maintenance bonds payable	18,700	29,475
Long-term portion of OWDA notes payable	1,593,605	1,727,124
Long -term portion of OPWC loans payable	3,205,884	3,329,335
Long term portion of revenue bonds payable	<u>41,545,000</u>	<u>42,915,000</u>
<b>Total noncurrent liabilities</b>	<u>46,363,189</u>	<u>48,000,934</u>
<b>TOTAL LIABILITIES</b>	<u>49,628,762</u>	<u>51,990,744</u>

**NET ASSETS**

Invested in capital assets, net of related debt	80,699,334	75,966,934
Restricted for debt service	7,031,100	6,213,114
Unrestricted	<u>47,908,476</u>	<u>48,512,540</u>
<b>TOTAL NET ASSETS</b>	<u>\$135,638,910</u>	<u>\$130,692,588</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**for the years ended December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$13,450,099	\$12,859,750
New meters, services and reviews	66,881	78,294
Other revenues	<u>94,305</u>	<u>34,121</u>
<b>Total operating revenues</b>	<u>13,611,285</u>	<u>12,972,165</u>
<b>OPERATING EXPENSES:</b>		
Personnel services	723,044	761,362
Contractual services	5,338,734	4,968,123
Maintenance and repair	105,488	29,629
Materials and supplies	16,986	20,772
Utilities	7,102	6,442
Depreciation	6,591,225	7,013,242
Other	<u>(22,505)</u>	<u>52,008</u>
<b>Total operating expenses</b>	<u>12,760,074</u>	<u>12,851,578</u>
<b>OPERATING INCOME</b>	<u>851,211</u>	<u>120,587</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	1,729,567	2,752,623
Net increase (decrease) in fair value of investments	(86,187)	215,898
Interest and fiscal charges	(2,410,197)	(2,473,009)
Gain on disposal of fixed assets	<u>-</u>	<u>6,145</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(766,817)</u>	<u>501,657</u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	84,394	622,244
<b>CAPITAL CONTRIBUTIONS:</b>		
Capital contributions	4,601,928	5,062,175
Transfer from County	<u>260,000</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	4,946,322	5,684,419
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>130,692,588</u>	<u>125,008,169</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$135,638,910</u>	<u>\$130,692,588</u>

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



**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**for the years ended December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 13,770,047	\$ 12,535,747
Payments to suppliers	(5,432,431)	(5,031,060)
Payments to employees	(722,231)	(733,118)
Other receipts	<u>94,305</u>	<u>34,121</u>
<b>Net cash provided by operating activities</b>	<u>7,709,690</u>	<u>6,805,690</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal and interest paid on long-term debt	(3,930,311)	(3,930,261)
Construction/acquisition of capital assets	(8,887,140)	(11,854,180)
Contractor maintenance bond receipts	2,900	1,650
Contractor maintenance bond payments	(13,675)	(7,225)
Proceeds from assessments	43,851	-
Proceeds from OPWC loans	-	543,741
Cash contributions from developers	424,432	-
Contractor retainage receipts	235,088	430,803
Contractor retainage payments	(415,223)	(52,073)
Proceeds from sale of fixed assets	-	6,145
Proceeds from interfund receivables	71,573	71,573
Transfer from County	260,000	-
System capacity charges	<u>2,592,245</u>	<u>2,966,092</u>
<b>Net cash used by capital and related financing activities</b>	<u>(9,616,260)</u>	<u>(11,823,735)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment purchases	(42,855,817)	(40,807,106)
Investment sales	40,009,234	42,423,547
Interest received on investments	<u>1,729,057</u>	<u>3,162,848</u>
<b>Net cash provided (used) by investing activities</b>	<u>(1,117,526)</u>	<u>4,779,289</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,024,096)	(238,756)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>8,819,956</u>	<u>9,058,712</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 5,795,860</u>	<u>\$ 8,819,956</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 851,211	\$ 120,587
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,591,225	7,013,242
Change in assets and liabilities:		
Net change in customer accounts receivable	253,067	(402,297)
Net change in operating accounts payable	13,374	45,914
Net change in accrued payroll and related expenses	<u>813</u>	<u>28,244</u>
<b>Net cash provided by operating activities</b>	<u>\$ 7,709,690</u>	<u>\$ 6,805,690</u>
<b>NON-CASH TRANSACTIONS:</b>		
Contributions from developers	\$ 1,425,863	\$ 2,111,174
Net increase (decrease) in the fair value of investments	<u>(86,187)</u>	<u>215,898</u>
<b>Total non-cash transactions</b>	<u>\$1,339,676</u>	<u>\$ 2,327,072</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
***SEWER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

**1. Summary of Significant Accounting Policies**

**Organization**

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

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

**Basis of Accounting**

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

**Cash and Investments**

Cash and investments consist of the District's portion of the County's pooled cash and investment balances and funds maintained with a trustee in accordance with revenue bond legislation. During 2002 investments were limited treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 2 provides additional information regarding the District's cash and investments.

**Statements of Cash Flows**

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

**Inventory**

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

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

**Restricted Assets**

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

**Capital Assets**

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

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

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

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

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

**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.

**Interfund Receivable**

During 1997 the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. Interfund receivable totaled \$286,291 and \$357,864 at December 31, 2002 and 2001, respectively.

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

**Unamortized Financing Costs**

The unamortized financing costs include bond discount, 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 was \$48,796 for 2002 and 2001.

**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.

**Contractor Maintenance Bonds Payable**

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

**Self Insurance**

The District, as a enterprise fund of the County, participates in the self insurance program for employee care benefits. During 2002, the program was administered by Anthem Blue Cross & Shield, which provides claims review and processing services. The District is charged its proportionate share of covered employees.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed by creditors, grantors, laws, or regulations of other governments.

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

**CLERMONT COUNTY SEWER DISTRICT**  
***SEWER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

**Operating Revenues and Expenses**

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

**Contributions of Capital**

Contributions of capital arise from contributions of fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges.

**Interfund Activity**

During 2002, the County transferred \$260,000 to the District for the reimbursement of costs related to a sewer construction project. The County issued special assessment bonds during 2002 to finance the construction costs incurred by the District.

The Ohio Revised Code provides for the issuance of special assessment bonds for sewer improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as special assessment bonds of the County.

If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the District. During 2002 and 2001 no payments were made by the District to the County's debt service fund.

In addition, the District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2002 and 2001 were \$159,897 and \$238,771 respectively and are classified as contractual services.

**Estimates**

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

**CLERMONT COUNTY SEWER DISTRICT**  
***SEWER SYSTEM***  
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**2. Cash, Cash Equivalents and Investments**

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;

**CLERMONT COUNTY SEWER DISTRICT**  
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**NOTES TO FINANCIAL STATEMENTS**  
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5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool(STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in (1) or (2) above or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
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Cash, cash equivalents and investments at December 31, 2002 are summarized below:

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

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

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by the County:			
Equity in pooled cash and cash equivalents	\$2,720,033	\$ -	\$ 2,720,033
Retainage accounts	<u>434,785</u>	<u>-</u>	<u>434,785</u>
Total funds held by County	<u>3,154,818</u>	<u>-</u>	<u>3,154,818</u>
Held by trustee:			
Construction account	197,452	1,195,464	1,392,916
Bond accounts	136,548	3,633,718	3,770,266
Replacement and improvement account	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 funds held by trustee	<u>5,665,138</u>	<u>44,312,972</u>	<u>49,978,110</u>
Total all accounts	<u>\$8,819,956</u>	<u>\$44,312,972</u>	<u>\$53,132,928</u>

Held by County

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



**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
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Retainage accounts represent restricted bank accounts controlled by the District which are not part of the cash and investment pooled maintained by the County Treasurer. These accounts maintain cash retained from construction contractor payments until satisfactory completion of projects and are managed by District personnel. The District and the contractor must approve any release of funds. Individual retainage accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Any excess is collateralized through the use of the Federal Reserve book entry system to hold U.S. Government securities as collateral. The securities are registered in the name of the financial institution, not in the name of the District. As of December 31, 2002 retainage accounts totaled \$254,650 of which \$213,348 was covered by FDIC Insurance.

*Held by Trustee*

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

The construction account is established to pay for project costs. 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 following information classifies deposits and investments maintained in the trustee accounts by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Funds held in trustee accounts are categorized below to give an indication of the level of risk assumed by the District at December 31, 2002. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured or unregistered investments which are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or its trust department or agent but not in the District's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

	<u>Category</u> <u>2</u>	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
<b>Categorized Investments:</b>			
U.S. Treasury Notes	\$ 32,190,113	\$32,190,113	\$ 32,190,113
U.S. Treasury Bills	14,883,255	14,883,255	14,883,255
Money Market Funds	<u>-</u>	<u>2,220,864</u>	<u>2,220,864</u>
Total	<u>\$47,073,368</u>	<u>\$49,294,232</u>	<u>\$49,294,232</u>

**3. Capital Assets**

The following summarizes the changes to property plant and equipment during 2002.

	<u>Balance</u> <u>December 31,</u> <u>2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2002</u>
Land	\$ 2,670,384	\$ -	\$ -	\$ 2,670,384
Structure	76,729,723	11,529,751	-	88,259,474
Machinery	9,940,075	65,494	-	10,005,569
Collection systems	103,659,180	2,690,195	-	106,349,375
Autos and trucks	<u>1,437,813</u>	<u>15,792</u>	<u>-</u>	<u>1,453,605</u>
	<u>\$194,437,175</u>	<u>\$14,301,232</u>	<u>\$ -</u>	208,738,407
Accumulated depreciation				<u>(89,409,703)</u>
Property, plant and equipment net of accumulated depreciation				<u>\$119,328,704</u>
Construction in progress as of December 31, 2001				\$ 12,319,696
Additions				8,306,237
Construction projects closed to property, plant and equipment				<u>(12,910,814)</u>
Construction in progress as of December 31, 2002				<u>\$ 7,715,119</u>
Total capital assets, net of accumulated depreciation				<u>\$127,043,823</u>

Assets contributed by developers and others in 2002 mounted to \$1,425,863.

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

**4. Long-Term Debt**

For the year ended December 31, 2002, changes in long-term debt consisted of the following:

	Interest Rate	Maturity	Balance December 31, 2001	Additions	Deletions	Balance December 31, 2002
1972 Ohio Water Development Authority Notes - \$2,900,437	5.2-6.5%	2014	\$ 1,853,763	\$ -	\$ 126,639	\$ 1,727,124
1994 OPWC Loans - \$4,179,610	0-2.00%	2023	3,521,814	-	122,392	3,399,422
1984 O'Bannonville Revenue Bonds - \$5,970,000	5%	2024	4,710,000	-	115,000	4,595,000
1993 Sewer System Refunding Revenue Bonds - \$48,280,000	2.6-5.2%	2021	<u>39,520,000</u>	<u>-</u>	<u>1,200,000</u>	<u>38,320,000</u>
Total			<u>\$49,605,577</u>	<u>\$ -</u>	<u>\$1,564,031</u>	48,041,546
Less current portion						<u>(1,697,057)</u>
Long-term portion						<u>\$46,344,489</u>

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

Year	OWDA Notes	OWDA Note Interest	OPWC Loans	OPWC Loans Interest	Revenue Bonds	Revenue Bond Interest	Total
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	10,853	1,575,000	1,990,220	4,007,889
2007	165,011	60,161	207,792	9,704	1,655,000	1,911,470	4,009,138
2008-2012	953,117	155,739	1,056,983	30,500	9,620,000	8,209,430	20,025,769
2013-2017	29,775	1,286	880,433	3,328	12,385,000	5,447,190	18,747,012
2018-2022	-	-	434,291	-	12,725,000	1,887,970	15,047,261
2023-2024	-	-	9,800	-	650,000	49,250	709,050
	<u>\$1,727,124</u>	<u>\$538,651</u>	<u>\$3,399,422</u>	<u>\$93,597</u>	<u>\$42,915,000</u>	<u>\$25,886,460</u>	<u>\$74,560,254</u>

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

Notes payable at December 31, 2002 consist of \$1,727,124 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.

OPWC loans payable at December 31, 2002, consist of \$3,399,422 due to the Ohio Public Works Commission. Payments of principal and interest are payable semi-annually through 2023 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 \$1,250,000 in 2003 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 \$1,250,000 in 2003 to \$3,060,000 in 2021.

The Series 1984 bonds mature on December 1 in various amounts ranging from \$120,000 in 2003 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).

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

Net income	\$ 84,394
Add items to convert net income to pledged revenues:	
Interest paid on bonds	2,252,530
Deferred debt amortization	48,796
Depreciation expense	6,591,225
System capacity charges	<u>2,592,245</u>
Net pledged revenues	<u>\$11,569,190</u>
Debt service requirement on bonds during 2002	<u>\$ 3,567,530</u>
Coverage ratio	<u>324%</u>
Required coverage ratio	<u>110%</u>

**CLERMONT COUNTY SEWER DISTRICT**  
***SEWER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

**5. Defeased Debt**

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

At December 31, 2002 and 2001, the total amount of defeased debt outstanding amounted to \$930,000 and \$1,185,000, respectively.

**6. Other Contingent Liabilities**

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

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

In addition, Earth Tech, the contract operations provider for the Sewer System, is in a formal dispute resolution under the terms of the contract with regard to a claim for additional expenses. The County has undertaken resolution of the dispute in good faith and continues to dispute most, if not all, of the claims as costs were incurred within the scope of the contract. Resolution should occur in 2003 and may amount to purchase of contractor equipment, mutual rescission of the contract or a settlement of their claim.

**7. Defined Benefit Pension Plans**

All District full-time employees participate in the Ohio Public Employees Retirement System administered by the State of Ohio (OPERS). Ohio Public Employees Retirement System is a cost-sharing, multiple-employer, defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent for employees. The 2002 employer contribution rate was 13.55% of covered payroll.

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

The District's contributions to OPERS for the years ending December 31, 2002, 2001 and 2000 were \$175,885, \$181,531 and \$132,275, respectively; 72 percent has been contributed for 2002 and 100 percent for 2001 and 2000. A total of \$49,654 representing the unpaid contributions for 2002 is recorded as a liability.

**8. Other Post-Employment Benefits**

Ohio Public Employees Retirement System provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate was 13.55% and 5.00% was used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001.

*Funding Method.* An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

*Assets Valuation Method.* All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

*Investment Return.* The investment assumption rate for 2001 was 8.00%

*Active Employee Total Payroll.* An annual increase of 4.00% compounded annually, is the base portion of individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range to 0.50% to 6.30%.

*Health Care.* Health care costs were assumed to increase 4.0% annually.

OPEB are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,401. The rates stated in paragraph one of this note are the actuarially determined

**CLERMONT COUNTY SEWER DISTRICT**  
**SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

contribution requirements for OPERS. The employer contributions actually made to fund post-employment benefits were \$64,902 for 2002.

The Retirement System's net assets available for OPEB at December 31, 2001 totaled \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

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

**9. Contracted 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 and distribution/collection systems as well as customer billing.

**10. Risk Management**

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

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

Real and personal property, general liability, including law enforcement liability and public officials liability, are coverages that fall under the County's Protected Self-insurance program. United National Insurance Company provides a \$1,000,000 limit for comprehensive general liability including law enforcement activities, and \$6,990,800 limit for real and personal property coverage. United National Insurance Company provides a \$9,000,000 limit excess of primary liability policies subject to \$5,000,000 limit for employment practices liability. Travelers Indemnity provides a \$99,000,000 limit excess of all real and personal property policies. United National Insurance Company covers up to \$1,000,000 for public officials liability.

All coverages in the program are subject to the following per occurrence retention: Property - \$1,000,000; General Liability - \$1,000,000; and a Combined maximum - \$2,000,000.

**CLERMONT COUNTY SEWER DISTRICT**  
***SEWER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for years ended December 31, 2002 and 2001**

The United National Insurance Company provides fleet insurance coverage with \$1,000,000 liability limit subject to a \$1,000,000 property damage liability and comprehensive and collision coverage for certain vehicles subject to deductibles of \$25,000 . The Travelers Indemnity Company provides boiler and machinery coverage with limits up to \$50,000,000 subject to a \$10,000 deductible. The Travelers Casualty and Surety Company of America provides the County's crime insurance. The County is insured up to \$250,000 for dishonest acts of employees, theft or destruction of liquid assets, and \$75,000 for money and securities limits. Deductibles are \$1,000 employee dishonesty and \$1,000 money and securities.

Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in coverage from last year.

The County pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The County has elected to provide employees major medical, vision and hospitalization through a self-insured program. The County maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator, United HealthCare and Dental Care Plus Insurance Companies, reviews all claims which are then paid by the County. The County purchases stop-loss coverage of \$100,000 per employee and an aggregate limit of \$1,000,000. The County pays into the self-insurance internal service fund \$583.62 for family coverage and \$302.90 for individual coverage per employee per month which represents the entire premium required. The premium is paid by the fund that pays the salary for the employee and is based on historic cost information.

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

**11. Reclassifications**

Various items previously presented as of and for the year ended December 31, 2001 have been reclassified to conform to 2002 presentations.



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

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

for the years ended December 31, 2002 and 2001

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# Bastin & Company, LLC

*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners  
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Sewer District (District), Water System, Batavia, Ohio, as of and for the years ended December 31, 2002 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the District as of December 31, 2001, were audited by other auditors whose report dated April 12, 2002, expresses an unqualified opinion on those statements.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Water System, as of December 31, 2002 and the results of its operations and its cash flows for the year 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 22, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



Cincinnati, Ohio  
April 22, 2003



# CLERMONT COUNTY SEWER DISTRICT WATER SYSTEM

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Our discussion and analysis of Clermont County Sewer District's Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2002.

### FINANCIAL HIGHLIGHTS

- The Water System's net assets increased by \$5.6 million or 7.2% in 2002.
- During the year, the System generated \$3.4 million from operations and used \$1.3 million for other financing activities, principally interest expense.
- The operating income was up 60.2%, or \$1.3 million from 2001 as a result of the increase in service charge revenues.

### USING THIS ANNUAL REPORT

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

## SYSTEM SUMMARY

The Water System's total net assets increased from \$77.2 million to \$82.8 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System.

Net assets of the System increased by 7.2%. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements-increased by \$ 0.5 million in 2002. Restricted assets-those restricted mainly for capital projects and bond covenants-increased \$0.1 million. The investment in capital assets, net of debt increased, \$5.0 million. This increase reflects capital assets financed primarily from the System's net assets of which a part (\$3.1 million) came from capital contributions in the form of system capacity fees, donated assets, assessments and grants.

### Table 1 Net Assets (in Millions)

Water System	2002	2001
Current and Other Assets	\$ 42.1	\$ 41.4
Capital Assets	\$ 84.6	\$ 81.4
<b>Total Assets</b>	<b>\$ 126.7</b>	<b>\$ 122.8</b>
Long Term Debt Outstanding	(\$ 41.1)	(\$ 42.8)
Other Liabilities	(\$ 2.8)	(\$ 2.8)
<b>Total Liabilities</b>	<b>(\$ 43.9)</b>	<b>(\$ 45.6)</b>
<b>Net Assets:</b>		
Invested in capital assets, net of debt	\$ 43.5	\$ 38.5
Restricted	\$ 5.8	\$ 5.7
Unrestricted (deficit)	\$ 33.5	\$ 33.0
<b>Total Net Assets</b>	<b>\$ 82.8</b>	<b>\$ 77.2</b>

While the Statement of Net Assets shows the change in the financial position of the net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As seen in table 2 the Water System's income before capital contributions of \$2.1 million and capital contributions of \$3.5 million were the two sources of the increase in net assets of \$5.6 million in 2002. Operating revenues increased by 11% (\$ 1.2 million) from 2001 to 2002. Contributions remained constant at a level of \$3.5 million. Other revenue decreased \$0.8 million primarily due to lower interest earnings on held funds.

The increase of \$0.4 million in operating expenses is due to the annual increase in the operations contract. This is offset by a reduction in depreciation expense from that reported in 2001 when the method of depreciation was slightly modified.

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

<b>Water System</b>	<b>2002</b>	<b>2001</b>
Operating Revenues	\$ 11.9	\$ 10.7
Non Operating Revenues	1.2	2.1
<b>Total Revenues</b>	<b>\$ 13.1</b>	<b>\$ 12.8</b>
Operating Expenses	\$ 5.2	\$ 4.8
Depreciation Expense	3.3	3.8
Other Expenses	2.5	2.6
<b>Total Expenses</b>	<b>\$ 11.0</b>	<b>\$ 11.2</b>
<b>Income Before Capital Contributions</b>	<b>\$ 2.1</b>	<b>\$ 1.6</b>
<b>Capital Contributions</b>	<b>3.5</b>	<b>3.5</b>
<b>Increase(Decrease) in Net Assets</b>	<b>\$ 5.6</b>	<b>\$ 5.1</b>

The following financial ratios should be used to assess the financial stability of the System over an extended period of time. The balance of Working Capital demonstrates the continuing ability to finance operations with cash. The strong Current Ratio and the reduction in the Liabilities to Net Assets ratio demonstrates the fact that the System has not financed its Working Capital with an increasing proportion of debt. The reduction in Days in Receivable reflects an increase in collections efforts in 2002 by the contract operator. The stability in Days Cash and Investment in Reserve is not being financed by a reduction in receivables, but represents the strong cash balances of the system.

## Water System Financial Ratios (dollars in thousands)

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

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

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

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

**Liabilities to Net Assets** indicated the extent of borrowings.

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

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2002, the Water System had \$130.8 million invested in capital assets including water lines, booster stations, storage tanks, treatments plants and construction of new assets. This amount represents a net increase in 2002 of \$6.5 million.

<b>Capital Assets at Year-End (Net of Depreciation, in millions)</b>	<b>2002</b>	<b>2001</b>
Land	\$1.4	\$1.3
Structures	51.0	50.3
Machinery	7.3	7.0
Distribution Systems	66.0	62.6
Autos/Trucks	0.9	0.9
Construction in Progress	4.2	2.2
Subtotal Capital Assets	130.8	124.3
Accumulated Depreciation	46.2	42.9
Total Capital Assets	<u>\$84.6</u>	<u>\$81.4</u>

The year's major additions/completions included:

\$1.4 Million of waterlines donated from developers

\$0.6 Million for the Clough Pike Water Transmission Main

\$0.6 Million for the Branch Hill Miamiville Water Storage Tank

\$0.3 Million for the Old State Route 74 Water Main

\$2.3 Million has been spent to date on the Buckwheat Road Water Storage Tank and is included in the Construction in Progress

The Water System's 2003 capital budget anticipates a spending level of \$ 12.3 million for capital projects. The District anticipates that grants, loans and assessment bond proceeds (approx \$ 1.9 million) will help fund some of these expenditures.



## Debt

At year end, 2002, the System had \$ 42.8 million in bonds and loans outstanding, a decrease of \$ 1.7 million or 4% from 2001.

<b>Outstanding Debt, at Year-End (in millions)</b>	<b>2002</b>	<b>2001</b>
1993 Revenue Bonds	\$42.8	\$ 44.5
<b>Total Outstanding Debt</b>	<b>\$42.8</b>	<b>\$ 44.5</b>

One area that demonstrates the System's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a strong 238%. The impact of this is that the System has the ability and the capacity to finance additional debt.

<b>Debt Coverage Ratio (in millions)</b>	
Income From Operations	\$2.1
Add Items to convert income from operations to pledged revenues:	
Interest Paid on Bonds	2.5
Depreciation Expense	3.3
System Capacity Charges	2.0
Net Pledged Revenues	<u>\$ 9.9</u>
Debt Service Requirements during 2001	<u>\$ 4.2</u>
Coverage Ratio	238%
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**  
**WATER SYSTEM**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2002 and 2001**

**ASSETS**

	<u>2002</u>	<u>2001</u>
<b>CURRENT ASSETS:</b>		
Equity in pooled cash and cash equivalents	\$ 4,088,431	\$ 2,501,015
Cash and cash equivalents in segregated accounts	2,444,743	4,951,101
Investments in segregated accounts	24,257,650	23,057,670
Accounts receivable (net of allowance for doubtful accounts of \$41,996 for 2002 and \$15,013 for 2001)	1,849,402	1,876,708
Inventory of supplies at cost	<u>193,106</u>	<u>193,106</u>
<b>Total current assets</b>	<u>32,833,332</u>	<u>32,579,600</u>
<b>NONCURRENT ASSETS:</b>		
Restricted assets:		
Equity in pooled cash and cash equivalents	238,405	60
Cash and cash equivalents in segregated accounts	110,695	296,735
Investments in segregated accounts	7,355,508	7,232,188
Contractor retainage accounts	213,256	177,197
Accrued interest	<u>177,957</u>	<u>236,398</u>
Total restricted assets	8,095,821	7,942,578
Capital assets, net	84,571,131	81,370,352
Grant receivable	56,043	15,581
Unamortized financing costs	692,329	735,599
Interfund receivable	147,322	184,153
Non current receivables	<u>279,626</u>	<u>-</u>
<b>Total noncurrent assets</b>	<u>93,842,272</u>	<u>90,248,263</u>
<b>TOTAL ASSETS</b>	<u>\$126,675,604</u>	<u>\$122,827,863</u>

**LIABILITIES**

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 404,688	\$ 364,440
Accrued wages and benefits	<u>120,870</u>	<u>124,029</u>
<b>Total current liabilities</b>	<u>525,558</u>	<u>488,469</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accounts payable	84,680	208,505
Current portion of revenue bonds payable	1,740,000	1,660,000
Accrued interest payable	201,333	208,249
Contractor retainages payable	<u>213,256</u>	<u>177,197</u>
<b>Total current liabilities payable from restricted assets</b>	<u>2,239,269</u>	<u>2,253,951</u>
<b>NONCURRENT LIABILITIES:</b>		
Contractor maintenance bonds payable	18,700	29,475
Long term portion of revenue bonds payable	<u>41,095,000</u>	<u>42,835,000</u>
<b>Total noncurrent liabilities</b>	<u>41,113,700</u>	<u>42,864,475</u>
<b>TOTAL LIABILITIES</b>	<u>43,878,527</u>	<u>45,606,895</u>

**NET ASSETS**

Invested in capital assets, net of related debt	43,476,131	38,535,352
Restricted for debt service	5,856,552	5,688,627
Unrestricted	<u>33,464,394</u>	<u>32,996,989</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 82,797,077</u>	<u>\$ 77,220,968</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
**WATER SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**for the years ended December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 11,020,109	\$ 9,764,862
New meters, services & reviews	780,715	845,335
Other revenues	<u>111,444</u>	<u>100,570</u>
<b>Total operating revenues</b>	<u>11,912,268</u>	<u>10,710,767</u>
<b>OPERATING EXPENSES:</b>		
Personnel services	702,703	752,117
Contractual services	4,209,800	3,717,225
Maintenance and repair	27,254	39,058
Materials and supplies	233,429	258,940
Utilities	7,102	6,442
Depreciation 3,304,783	3,775,196	
Other	<u>596</u>	<u>23,862</u>
<b>Total operating expenses</b>	<u>8,485,667</u>	<u>8,572,840</u>
<b>OPERATING INCOME</b>	<u>3,426,601</u>	<u>2,137,927</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	1,194,867	2,024,722
Net increase in value of investments	34,608	32,897
Interest and fiscal charges	(2,535,346)	(2,613,231)
Gain on disposal of fixed assets	<u>-</u>	<u>6,145</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(1,305,871)</u>	<u>(549,467)</u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>2,120,730</u>	<u>1,588,460</u>
<b>CAPITAL CONTRIBUTIONS:</b>		
Capital contributions	3,395,379	3,454,901
Transfer from County	<u>60,000</u>	<u>40,000</u>
<b>CHANGE IN NET ASSETS</b>	5,576,109	5,083,361
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>77,220,968</u>	<u>72,137,607</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$82,797,077</u>	<u>\$77,220,968</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
**WATER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**for the years ended December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 11,828,130	\$ 10,412,555
Payments to suppliers	(4,437,933)	(3,784,099)
Payments to employees	(705,862)	(718,159)
Other receipts	<u>111,444</u>	<u>100,569</u>
<b>Net cash provided by operating activities</b>	<u>6,795,779</u>	<u>6,010,866</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principle and interest paid on long-term debt	(4,158,992)	(4,156,412)
Construction/acquisition of capital assets	(5,240,052)	(4,754,662)
Contractor maintenance bond receipts	2,900	1,650
Contractor maintenance bond payments	(13,675)	(7,224)
Proceeds from assessments	5,366	19,817
Cash contributions from developers	1,800	-
Contractor retainage receipts	148,314	142,862
Contractor retainage payments	(112,255)	(34,098)
Proceeds from sale of fixed assets	-	6,144
Proceeds from interfund receivable	36,831	36,831
Transfer from County	60,000	40,000
System capacity charges	<u>1,678,790</u>	<u>1,825,655</u>
<b>Net cash used by capital and related financing activities</b>	<u>(7,590,973)</u>	<u>(6,879,437)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment purchases	(34,572,018)	(26,277,102)
Investment sales	33,283,326	28,107,175
Interest received on investments	<u>1,253,308</u>	<u>2,191,336</u>
<b>Net cash provided (used) by investing activities</b>	<u>(35,384)</u>	<u>4,021,409</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(830,578)</u>	<u>3,152,838</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,926,108</u>	<u>4,773,270</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 7,095,530</u>	<u>\$ 7,926,108</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 3,426,601	\$ 2,137,927
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,304,783	3,775,196
Change in assets and liabilities:		
Net change in operating accounts receivable	27,306	(197,642)
Net change in operating accounts payable	40,248	261,427
Net change in accrued payroll and related expenses	<u>(3,159)</u>	<u>33,958</u>
<b>Net cash provide by operating activities</b>	<u>\$ 6,795,779</u>	<u>\$ 6,010,866</u>
<b>NON-CASH TRANSACTIONS:</b>		
Contributions from developers	\$ 1,389,335	\$ 1,607,850
Net increase in the fair value of investments	<u>34,608</u>	<u>32,897</u>
<b>Total non-cash transactions</b>	<u>\$ 1,423,943</u>	<u>\$ 1,640,747</u>

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

**CLERMONT COUNTY SEWER DISTRICT**  
***WATER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2002 and 2001**

**1. Summary of Significant Accounting Policies**

**Organization**

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

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

**Basis of Accounting**

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

**Cash and Investments**

Cash and investments consist of the District's portion of the County's pooled cash and investment balances and funds maintained with a trustee in accordance with revenue bond legislation. During 2002 investments were limited treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 2 provides additional information regarding the District's cash and investments.

**Statements of Cash Flows**

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

**Inventory**

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

**CLERMONT COUNTY SEWER DISTRICT**  
***WATER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2002 and 2001**

**Restricted Assets**

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

**Capital Assets**

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

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

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

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

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

**Interfund Receivable**

During 1997 the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. Interfund receivables totaled \$147,322 and \$184,153 at December 31, 2002 and 2001, respectively.

**Unamortized Financing Costs**

The unamortized financing costs include bond discount, 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 was \$43,270 for 2002 and 2001.

**CLERMONT COUNTY SEWER DISTRICT**  
***WATER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2002 and 2001**

**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.

**Contractor Maintenance Bonds Payable**

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

**Self Insurance**

The District, as a enterprise fund of the County, participates in the self insurance program for employee care benefits. During 2002, the program was administered by Anthem Blue Cross & Shield, which provides claims review and processing services. The District is charged its proportionate share of covered employees.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed by creditors, grantors, laws, or regulations of other governments.

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

**Operating Revenues and Expenses**

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



**CLERMONT COUNTY SEWER DISTRICT**  
***WATER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2002 and 2001**

**Contributions of Capital**

Contributions of capital arise from the contributions of fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges.

**Interfund Activity**

During 2002, the County transferred \$60,000 to the District for the reimbursement of costs related to a water construction project. The County issued special assessment bonds during 2002 to finance the construction costs incurred by the District.

The Ohio Revised Code provides for the issuance of special assessment bonds for water improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as special assessment bonds of the County.

If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the District. During 2002 and 2001 no payments were made by the District to the County's debt service fund.

In addition, the District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2002 and 2001 were \$97,939 and \$194,228 respectively and are classified as contractual services.

**Estimates**

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

**CLERMONT COUNTY SEWER DISTRICT**  
***WATER SYSTEM***  
**NOTES TO FINANCIAL STATEMENTS**  
**for the years ended December 31, 2002 and 2001**

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

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;

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5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool(STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in (1) or (2) above or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

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

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

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
Held by County:			
Unrestricted pooled cash, revenue account	\$2,501,015	\$ -	\$ 2,501,015
Restricted pooled cash, construction account	60	-	60
Retainage accounts	<u>177,197</u>	-	<u>177,197</u>
Total funds held by County	<u>2,678,272</u>	-	<u>2,678,272</u>
Held by trustee:			
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 funds held by trustee	<u>5,247,836</u>	<u>30,289,858</u>	<u>35,537,694</u>
 Total all accounts	 <u>\$7,926,108</u>	 <u>\$30,289,858</u>	 <u>\$38,215,966</u>

Held by County

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

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Retainage accounts represent restricted bank accounts controlled by the District which are not part of the cash and investment pooled maintained by the County Treasurer. These accounts maintain cash retained from construction contractor payments until satisfactory completion of projects and are managed by District personnel. The District and the contractor must approve any release of funds. Individual retainage accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Any excess is collateralized through the use of the Federal Reserve book entry system to hold U.S. Government securities as collateral. The securities are registered in the name of the financial institution, not in the name of the District. As of December 31, 2002 retainage accounts totaled \$213,256, all of which was covered by FDIC Insurance.

*Held by Trustee*

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

The construction account is established to pay for project costs. 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 following information classifies deposits and investments maintained in the trustee accounts by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Funds held in trustee accounts are categorized below to give an indication of the level of risk assumed by the District at December 31, 2002. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured or unregistered investments which are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or its trust department or agent but not in the District's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

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	<u>Category</u> <u>2</u>	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
<b>Categorized Investments:</b>			
U.S. Treasury Notes	\$24,530,269	\$24,530,269	\$24,530,269
U.S. Treasury Bills	7,082,889	7,082,889	7,082,889
Money Market Funds	<u>-</u>	<u>2,555,437</u>	<u>2,555,437</u>
 Total	 <u>\$31,613,158</u>	 <u>\$34,168,595</u>	 <u>\$34,168,595</u>

**3. Capital Assets**

The following summarizes the changes to property plant and equipment during 2002.

	<u>Balance</u> <u>December 31,</u> <u>2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2002</u>
Land	\$ 1,269,667	\$ 122,033	\$ -	\$ 1,391,700
Structure	50,302,165	743,718	-	51,045,883
Machinery	7,013,683	274,503	-	7,288,186
Distribution systems	62,556,298	3,385,222	-	65,941,520
Autos and trucks	<u>879,752</u>	<u>-</u>	<u>-</u>	<u>879,752</u>
	<u>\$122,021,565</u>	<u>\$4,525,476</u>	<u>\$ -</u>	126,547,041
Accumulated depreciation				<u>(46,197,488)</u>
Net property, plant and equipment net of accumulated depreciation				<u>\$ 80,349,553</u>
Construction in progress as of December 31, 2001				\$ 2,241,492
Additions				5,066,263
Construction projects closed				<u>(3,086,177)</u>
Construction in progress as of December 31, 2002				<u>\$ 4,221,578</u>
Total capital assets, net of accumulated depreciation				<u>\$84,571,131</u>

Assets contributed by developers and others in 2002 amounted to \$1,389,335.

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**4. Noncurrent Receivables**

The District entered into an agreement with the Village of Batavia, Ohio for payment of the Village's system capacity charges. The Village to makes quarterly payments of \$8,000 through July 2011 with a final payment of \$7,626 due October 1, 2011. The system capacity charge is recorded as a capital contribution.

**5. Long-Term Debt**

For the year ended December 31, 2002, changes in long-term debt consisted of the following:

	<u>Interest</u> <u>Rate</u>	<u>Maturity</u>	<u>Balance</u> <u>January 1,</u> <u>2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2002</u>
Revenue bonds:						
1993 Water System Refunding Revenue Bonds - \$57,885,000	2.6-5.8%	2018	\$44,495,000	\$ -	\$(1,660,000)	\$42,835,000
Total			<u>\$44,495,000</u>	<u>\$ -</u>	<u>\$(1,660,000)</u>	42,835,000
Less current portion						<u>(1,740,000)</u>
Long-term portion						<u>\$41,095,000</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,130,067	4,155,067
2007	2,135,000	2,020,718	4,155,718
2008-2012	12,605,000	8,181,530	20,786,530
2013-2017	16,645,000	4,141,715	20,786,715
2018	<u>3,930,000</u>	<u>227,940</u>	<u>4,157,940</u>
	<u>\$42,835,000</u>	<u>\$23,677,308</u>	<u>\$66,512,308</u>

**CLERMONT COUNTY SEWER DISTRICT**  
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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 \$1,740,000 in 2003 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 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 \$1,740,000 in 2003 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:

Net income	\$ 2,120,730
Add items to convert income from operations to pledged revenues:	
Interest paid on bonds	2,492,076
Deferred debt amortization	43,270
Depreciation expense	3,304,783
System capacity charges	<u>1,958,416</u>
Net pledged revenues	<u>\$ 9,919,275</u>
Debt service requirement on bonds during 2002	<u>\$ 4,158,992</u>
Coverage ratio	<u>238%</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



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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, 2002, and 2001, the total amount of defeased debt outstanding amounted to \$310,000 and \$535,000, respectively.

**7. Defined Benefit Pension Plans**

All District full-time employees participate in the Ohio Public Employees Retirement System administered by the State of Ohio (OPERS). Ohio Public Employees Retirement System is a cost-sharing, multiple-employer, defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent for employees. The 2002 employer contribution rate was 13.55% of covered payroll.

The District's contributions to OPERS for the years ending December 31, 2002, 2001 and 2000 were \$175,885, \$180,276 and \$116,168, respectively; 72 percent has been contributed for 2002 and 100 percent for 2001 and 2000. A total of \$49,654 representing the unpaid contributions for 2002 is recorded as a liability.

**8. Other Post-Employment Benefits**

Ohio Public Employees Retirement System provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate was 13.55% and 5.00% was used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

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The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001.

*Funding Method.* An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

*Assets Valuation Method.* All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

*Investment Return.* The investment assumption rate for 2001 was 8.00%

*Active Employee Total Payroll.* An annual increase of 4.00% compounded annually, is the base portion of individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range to 0.50% to 6.30%.

*Health Care.* Health care costs were assumed to increase 4.0% annually.

OPEB are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,401. The rates stated in paragraph one of this note are the actuarially determined contribution requirements for OPERS. The employer contributions actually made to fund post-employment benefits were \$64,902 for 2002.

The Retirement System's net assets available for OPEB at December 31, 2001 totaled \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

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

**9. Contracted 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 and distribution/collection systems as well as customer billing.

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**10. Risk Management**

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

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

Real and personal property, general liability, including law enforcement liability and public officials liability, are coverages that fall under the County's Protected Self-insurance program. United National Insurance Company provides a \$1,000,000 limit for comprehensive general liability including law enforcement activities, and \$6,990,800 limit for real and personal property coverage. United National Insurance Company provides a \$9,000,000 limit excess of primary liability policies subject to \$5,000,000 limit for employment practices liability. Travelers Indemnity provides a \$99,000,000 limit excess of all real and personal property policies. United National Insurance Company covers up to \$1,000,000 for public officials liability.

All coverages in the program are subject to the following per occurrence retention: Property - \$1,000,000; General Liability - \$1,000,000; and a Combined maximum - \$2,000,000.

The United National Insurance Company provides fleet insurance coverage with \$1,000,000 liability limit subject to a \$1,000,000 property damage liability and comprehensive and collision coverage for certain vehicles subject to deductibles of \$25,000. The Travelers Indemnity Company provides boiler and machinery coverage with limits up to \$50,000,000 subject to a \$10,000 deductible. The Travelers Casualty and Surety Company of America provides the County's crime insurance. The County is insured up to \$250,000 for dishonest acts of employees, theft or destruction of liquid assets, and \$75,000 for money and securities limits. Deductibles are \$1,000 employee dishonesty and \$1,000 money and securities.

Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in coverage from last year.

**CLERMONT COUNTY SEWER DISTRICT**  
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The County pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The County has elected to provide employees major medical, vision and hospitalization through a self-insured program. The County maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator, United HealthCare and Dental Care Plus Insurance Companies, reviews all claims which are then paid by the County. The County purchases stop-loss coverage of \$100,000 per employee and an aggregate limit of \$1,000,000. The County pays into the self-insurance internal service fund \$583.62 for family coverage and \$302.90 for individual coverage per employee per month which represents the entire premium required. The premium is paid by the fund that pays the salary for the employee and is based on historic cost information.

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

**11. Reclassifications**

Various items previously presented as of and for the year ended December 31, 2001 have been reclassified to conform to 2002 presentations.

# Bastin & Company, LLC

*Certified Public Accountants*

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

The Honorable Board of County Commissioners  
Clermont County, Ohio

We have audited the financial statements of Clermont County Sewer District, Water and Sewer Systems, as of and for the year ended December 31, 2002, and have issued our report thereon dated April 22, 2003. 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 Clermont County Sewer District, Water and Sewer System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

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

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

*Bastin & Company, LLC*

Cincinnati, Ohio  
April 22, 2003





**Auditor of State  
Betty Montgomery**

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

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

**CLERMONT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 5, 2003**