OHIO WATER
DEVELOPMENT AUTHORITY

Financial Statements

December 31, 2009

(With Independent Auditors' Report Thereon)

Mary Taylor, CPA
Auditor of State

Ohio Water Development Authority
408 South High Street
Columbus, Ohio 43215

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 1, 2010

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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OHIO WATER DEVELOPMENT AUTHORITY

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Ohio Water Development Authority
408 South High Street
Columbus, Ohio 43215

We have audited the accompanying financial statements of each major fund of the Ohio Water Development Authority (the Authority), a component unit of the State of Ohio, as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit 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 the 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 opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and the changes in the financial position and cash flows of only that portion of each major fund of the Authority that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Ohio and the results of the State of Ohio's operations and cash flows, where applicable, 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 respective financial position of each major fund of the Authority, as of December 31, 2009, and the respective changes in financial position and cash flows thereof 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 March 19, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquires of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
March 19, 2010

OHIO WATER DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

December 31, 2009

As management of the Ohio Water Development Authority (the Authority), a discretely presented component unit of the State of Ohio, we offer readers of the Authority's financial statements this unaudited narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2009. We encourage readers to consider the information presented here in conjunction with the Authority's audited financial statements, which begin on page 8 of this report.

Financial Highlights

- The Authority's net assets increased during fiscal year 2009 by $150,658,384 or 5.13%.
- During 2009, the Authority's bonds and notes payable balance decreased by $204,003,284 or 8.16%.
- During 2009, the Authority earned $13,749,775 in investment income, a decrease of $36,299,145, or 72.53%, from 2008.
- During 2009, The Authority received a ratings upgrade on its Community Assistance Series Bonds from "AA" to "AA+" from Fitch.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) combining financial statements and 2) notes to financial statements.

Combining financial statements. The Authority follows proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The *combining financial statements* are designed to provide readers with a broad overview of the Authority's finances by fund and in total. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These statements offer short and long-term financial information about its activities.

The *combining balance sheet* presents information on all of the Authority's assets and liabilities, including information about the nature and amounts of investments in resources (assets), the obligations (liabilities) of the Authority and the Authority's net assets as of December 31, 2009. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *combining statement of revenues, expenses and changes in fund net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The *combining statement of cash flows* provides information about the Authority's cash receipts and cash payments during the reporting period. This statement summarizes the net changes in cash resulting from operating, investing and noncapital financing activities.

Each of the combining financial statements highlight programs of the Authority that are principally supported by loan and investment income, programs that are intended to recover all or a significant portion of their costs through program fees or investment earnings on contributed capital (*business-type activities*). The combining financial statements can be found on pages 8-13 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the combining financial statements. The notes to financial statements can be found on pages 14-50 of this report.

Financial Analysis of the Authority's Financial Position and Results of Operations

The tables below provide a summary of the Authority's financial position and operations for 2009 and 2008, respectively. The Authority first implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* in 2001; therefore, comparative numbers have been included for analysis purposes.

The following table summarizes changes in net assets of the Authority between December 31, 2009 and December 31, 2008:

Condensed Balance Sheet

(all amounts expressed in thousands of dollars)

	2009	2008	Dollar Change	Total Percent Change
Current assets	$87,330	$89,048	$(1,718)	(1.93%)
Noncurrent restricted assets	5,204,660	5,290,756	(86,096)	(1.63%)
Noncurrent unrestricted assets	153,596	105,950	47,646	44.97%
Capital assets	1,666	1,709	(43)	(2.52%)
Total assets	5,447,252	5,487,463	(40,211)	(0.73%)
Current liabilities	234,885	388,782	(153,897)	(39.58%)
Noncurrent revenue bonds and notes payable	2,124,281	2,161,244	(36,963)	(1.71%)
Other noncurrent liabilities	189	199	(10)	(5.03%)
Total liabilities	2,359,355	2,550,225	(190,870)	(7.48%)
Net assets:				
Invested in capital assets	1,666	1,709	(43)	(2.52%)
Restricted	2,936,136	2,782,157	153,979	5.53%
Unrestricted	150,095	153,372	(3,277)	(2.14%)
Total net assets	3,087,897	2,937,238	150,659	5.13%
Total liabilities and net assets	$5,447,252	$5,487,463	$(40,211)	(0.73%)

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $3,087,896,666 as of December 31, 2009, $2,936,135,508 of which is restricted for debt and grant covenants.

By far, the largest portion of the Authority's net assets is reflected in its loan receivables, less any related debt still outstanding used to fund these loans to local government agencies.

During fiscal year 2009, the Authority's net assets increased by $150,658,384 or 5.13%. The majority of this increase was due to the following:

- An $85,475,519 increase in loan receivables primarily funded by U.S. EPA capitalization grant contributions and disbursements of bond and note proceeds.
- A $204,003,284 decrease in bonds and notes payable caused by the scheduled redemption of debt.
- A $174,098,187 decrease in cash, cash equivalents and investments caused by the lending of bond proceeds, repayment of bonds payable and lower investment income.

The following table summarizes the changes in revenues and expenses for the Authority between 2009 and 2008:

Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets

(all amounts expressed in thousands of dollars)

	2009	2008	Dollar Change	Total Percent Change
Operating revenues:				
Loan income	$145,614	$144,632	$982	0.68%
Investment income	13,750	50,049	(36,299)	(72.53%)
Administrative fees from projects	2,200	2,231	(31)	(1.39%)
Total operating revenues	161,564	196,912	(35,348)	(17.95%)
Operating expenses:				
Interest on bonds and notes	101,964	105,984	(4,020)	(3.79%)
Amortization of bond and note issuance expense	1,729	1,843	(114)	(6.19%)
Other	59,270	14,935	44,335	296.85%
Total operating expenses	162,963	122,762	40,201	32.75%
Operating income (loss)	(1,399)	74,150	(75,549)	(101.89%)
Nonoperating other revenues, net	4,689	226	4,463	1974.78%
Contribution from U.S. EPA	147,369	81,070	66,299	81.78%
Change in net assets	$150,659	$155,446	($4,787)	(3.08%)

The two primary sources of operating revenue for the Authority are loan income and investment income, while the significant operating expense is interest expense on bonds and notes. For the year ending December 31, 2009, the Authority had a decrease in operating income compared to 2008 of $75,549,520 or 101.89%. This decrease was attributed to the following:

- A $36,299,145 decrease in investment income caused by a decrease in the yields that the Authority was able to obtain on securities traded in 2009.
- A $44,334,373 increase in other expenses caused by loan forgiveness for projects funded with The American Recovery and Reinvestment Act (ARRA).
- A $4,020,172 decrease in interest on bonds and notes caused by lower interest rates and a lower balance of bonds and notes payable.

Debt Administration

As of December 31, 2009, the Authority had bond and note principal outstanding of $2,294,810,736. The Authority's debt represents bonds and notes secured solely by loan repayments of pledged loans. The table below summarizes the amount of debt outstanding for 2009 and 2008.

Outstanding Debt at December 31, 2009 and December 31, 2008
(net of discount, premiums and deferred losses)

(all amounts expressed in thousands of dollars)

		2009	2008
Revenue Bonds	$	2,294,811	2,297,218
Revenue Notes		-	201,596
Total	$	2,294,811	2,498,814

During 2009, the Authority issued the following bonds for the purpose of retiring commercial paper used to provide loan funding to local governments under its Fresh Water loan program, refinancing some of its existing debt to take advantage of favorable interest rates, or for refunding notes, as follows:

- Water Development Refunding Revenue Bonds—Community Assistance Series 2009 were issued to refund previously outstanding Water Development Refunding Revenue Bond Anticipation Notes – Community Assistance Series 2008B.
- Water Development Revenue Bonds—Fresh Water Series 2009A were issued to retire commercial paper used to provide loan funding to local governments and to partially current refund previously outstanding Water Development Revenue Bonds—Fresh Water Improvement Series 1998. The refunding portion of this transaction enabled the Authority to save $502,390 in future debt service payments.
- Water Development Revenue Bonds—Fresh Water Refunding Series 2009B were issued to partially advance refund previously outstanding Water Development Revenue Bonds—Fresh Water Improvement Series 1998, Series 2001A, Series 2002 and Series 2004. This transaction enabled the Authority to save $5,338,632 in future debt service payments.
- Water Pollution Control Loan Fund Refunding Revenue Bonds—Water Quality Series 2009 were issued to partially advance refund previously outstanding Water Pollution Control Loan

Fund Revenue Bonds—Water Quality Series 2004 and Series 2005B. This transaction enabled the Authority to save $80,552,344 in future debt service payments.

The Authority continues to maintain strong ratings from Moody's, Standard & Poor's and Fitch. The table below summarizes the ratings from Moody's, Standard & Poor's and Fitch for the 2009 bond and note issuances of the Authority.

Bond Series	Moody's	Standard & Poor's	Fitch
Community Assistance	Aa2	—	AA+
Fresh Water	Aaa	AAA	—
WPCLF – Water Quality	Aaa	AAA	—

Additional information on the Authority's long-term debt can be found in the Notes to Financial Statements, pages 29-46 of this report.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Operating Officer, Ohio Water Development Authority, 480 S. High Street, Columbus, Ohio 43215, or call (614) 466-5822, or visit the Authority's website at www.owda.org.

OHIO WATER DEVELOPMENT AUTHORITY

Combining Balance Sheet

December 31, 2009

		Trusted Funds				
Assets		Operating Fund	Working Capital Fund	Other Projects Fund	Rural Utility Services Fund	Community Assistance Fund (Note 4)
Current assets:						
Cash and cash equivalents -- Note 2	$	531,442	-	38,204,669	-	-
Investments -- Note 2		2,980,633	-	45,084,097	-	-
Receivables:						
Loan and Fee receivables		524,614	-	-	-	-
Other		4,394	-	-	-	-
Total current assets		4,041,083	-	83,288,766	-	-
Noncurrent assets:						
Restricted grant, bond and note covenant assets:						
Cash and cash equivalents -- Note 2		-	-	-	22,291,317	28,444,516
Investments -- Note 2		-	-	-	-	17,489,582
Loan receivables		-	-	-	13,135,568	186,590,372
Total restricted assets		-	-	-	35,426,885	232,524,470
Investments -- Note 2		1,212,336	-	3,081,952	-	-
Loan receivables		-	670,198	44,059,172	-	-
Other receivables		-	-	-	-	1,035,000
Deferred debt issuance and other expense		-	-	-	-	988,272
Due from other funds -- Note 3		222,759	-	-	-	-
Capital assets, at depreciated cost		1,666,281	-	-	-	-
Total noncurrent unrestricted assets		3,101,376	670,198	47,141,124	-	2,023,272
Total assets	$	7,142,459	670,198	130,429,890	35,426,885	234,547,742
Liabilities						
Current liabilities:						
Accounts payable	$	123,104	-	150,679	-	-
Compensated absences		13,008	-	-	-	-
Total current liabilities		136,112	-	150,679	-	-
Current liabilities payable from restricted assets:						
Due to other funds -- Note 3		-	-	-	-	-
Accounts payable		-	-	-	389,135	1,909,649
Accrued interest		-	-	-	-	401,531
Revenue bonds payable		-	-	-	-	5,335,000
Total current liabilities payable from restricted assets		-	-	-	389,135	7,646,180
Noncurrent liabilities:						
Compensated absences		189,117	-	-	-	-
Revenue bonds and notes payable (net of discount, premiums and deferred losses)		-	-	-	-	97,768,844
Total noncurrent liabilities		189,117	-	-	-	97,768,844
Total liabilities		325,229	-	150,679	389,135	105,415,024
Net Assets						
Invested in capital assets		1,666,281	-	-	-	-
Restricted for debt and grant covenants		-	670,198	-	35,037,750	129,132,718
Unrestricted		5,150,949	-	130,279,211	-	-
Total net assets		6,817,230	670,198	130,279,211	35,037,750	129,132,718
Total liabilities and net assets	$	7,142,459	670,198	130,429,890	35,426,885	234,547,742

See accompanying notes to financial statements.

Trusteed Funds				
Fresh Water Fund (Note 5)	Pure Water Refunding Fund (Note 6)	Water Pollution Control Loan Fund (Notes 7 & 8)	Drinking Water Assistance Fund (Notes 9 & 10)	Total Combining 2009
-	-	-	-	38,736,111
-	-	-	-	48,064,730
-	-	-	-	524,614
-	-	-	-	4,394
-	-	-	-	87,329,849
71,687,361	12,369,533	186,417,556	93,379,228	414,589,511
121,835,942	61,731,226	427,610,018	15,044,102	643,710,870
753,042,102	112,787,487	2,594,110,914	486,693,058	4,146,359,501
946,565,405	186,888,246	3,208,138,488	595,116,388	5,204,659,882
-	-	-	-	4,294,288
-	-	-	-	44,729,370
1,086,940	-	36,260,389	9,411,509	47,793,838
3,236,579	551,597	49,716,761	2,062,160	56,555,369
-	-	-	-	222,759
-	-	-	-	1,666,281
4,323,519	551,597	85,977,150	11,473,669	155,261,905
950,888,924	187,439,843	3,294,115,638	606,590,057	5,447,251,636
-	-	-	-	273,783
-	-	-	-	13,008
-	-	-	-	286,791
-	-	-	222,759	222,759
8,152,248	52,064	33,517,087	9,411,509	53,431,692
1,834,374	2,163,868	4,948,132	1,065,970	10,413,875
31,325,000	17,400,000	103,205,000	13,265,000	170,530,000
41,311,622	19,615,932	141,670,219	23,965,238	234,598,326
-	-	-	-	189,117
437,803,263	58,712,409	1,260,388,040	269,608,180	2,124,280,736
437,803,263	58,712,409	1,260,388,040	269,608,180	2,124,469,853
479,114,885	78,328,341	1,402,058,259	293,573,418	2,359,354,970
-	-	-	-	1,666,281
467,747,863	98,472,961	1,892,057,379	313,016,639	2,936,135,508
4,026,176	10,638,541	-	-	150,094,877
471,774,039	109,111,502	1,892,057,379	313,016,639	3,087,896,666
950,888,924	187,439,843	3,294,115,638	606,590,057	5,447,251,636

OHIO WATER DEVELOPMENT AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended December 31, 2009

		Trusted Funds			
	Operating Fund	Working Capital Fund	Other Projects Fund	Rural Utility Services Fund	Community Assistance Fund (Note 4)
Operating revenues:					
Loan income	$ -	60,634	1,420,341	557,694	3,030,404
Investment income	68,724	-	754,877	63,329	174,064
Administrative fees from projects	1,991,136	-	-	-	-
Total operating revenues	2,059,860	60,634	2,175,218	621,023	3,204,468
Operating expenses:					
Interest on bonds and notes	-	-	-	1,050,149	4,151,169
Amortization of bond and note issuance expense	-	-	-	45,757	123,809
Other	2,693,955	-	1,304,841	-	7,600
Total operating expenses	2,693,955	-	1,304,841	1,095,906	4,282,578
Operating income (loss)	(634,095)	60,634	870,377	(474,883)	(1,078,110)
Nonoperating other revenues (expenses)	848	-	-	270,433	-
Income (loss) before contributions and transfers	(633,247)	60,634	870,377	(204,450)	(1,078,110)
Contribution from U.S. EPA	-	-	-	-	-
Transfers in (out), net--Note 15	-	(414,351)	(1,948,302)	-	20,000,000
Change in net assets	(633,247)	(353,717)	(1,077,925)	(204,450)	18,921,890
Net assets at beginning of year	7,450,477	1,023,915	131,357,136	35,242,200	110,210,828
Net assets at end of year	$ 6,817,230	670,198	130,279,211	35,037,750	129,132,718

See accompanying notes to financial statements.

Trusted Funds: Fresh Water Fund (Note 5)	Pure Water Refunding Fund (Note 6)	Water Pollution Control Loan Fund (Notes 7 & 8)	Drinking Water Assistance Fund (Notes 9 & 10)	Total Combining 2009
36,044,331	9,346,537	79,386,741	15,767,427	145,614,109
2,877,056	2,232,668	6,871,466	707,591	13,749,775
-	-	-	208,863	2,199,999
38,921,387	11,579,205	86,258,207	16,683,881	161,563,883
19,297,695	4,623,481	60,864,102	11,977,643	101,964,239
341,874	61,288	1,016,338	140,385	1,729,451
1,443,638	1,633,969	30,044,367	22,141,162	59,269,532
21,083,207	6,318,738	91,924,807	34,259,190	162,963,222
17,838,180	5,260,467	(5,666,600)	(17,575,309)	(1,399,339)
4,429,805	-	(252,621)	240,721	4,689,186
22,267,985	5,260,467	(5,919,221)	(17,334,588)	3,289,847
-	-	95,924,963	51,443,574	147,368,537
3,958,235	(21,595,582)	-	-	-
26,226,220	(16,335,115)	90,005,742	34,108,986	150,658,384
445,547,819	125,446,617	1,802,051,637	278,907,653	2,937,238,282
471,774,039	109,111,502	1,892,057,379	313,016,639	3,087,896,666

OHIO WATER DEVELOPMENT AUTHORITY

Combining Statement of Cash Flows

Year ended December 31, 2009

	Trusted Funds				
	Operating Fund	Working Capital Fund	Other Projects Fund	Rural Utility Services Fund	Community Assistance Fund (Note 4)
Operating activities:					
Administrative fees from projects	$ 1,571,705	-	-	-	-
Operating expenses	(821,164)	-	(542,033)	-	(7,600)
Salaries and fringes expense	(1,792,675)	-	-	-	-
Net cash (used) by operating activities	(1,042,134)	-	(542,033)	-	(7,600)
Investing activities:					
Proceeds from maturity or sale of investments	3,065,207	-	68,796,909	30,856,000	5,410,123
Purchase of investments	(2,237,504)	-	(60,932,531)	(31,348,973)	(19,424,284)
Interest received on investments, net of purchased interest	215,898	-	1,378,808	560,808	360,646
Interest received on projects	-	-	1,205,748	-	2,899,566
Principal collected on projects	-	-	2,077,442	14,620,565	8,210,485
Payment for construction of projects	-	-	(2,764,016)	(8,555,242)	(18,660,127)
Net cash provided (used) by investing activities	1,043,601	-	9,762,360	6,133,158	(21,203,591)
Noncapital financing activities:					
Interest paid on bonds and notes, net of purchased interest	-	-	-	(1,519,000)	(4,696,786)
Proceeds of bonds and notes	-	-	-	-	25,968,674
Bond and note issuance expense	-	-	-	-	(196,976)
Redemption of bonds and notes	-	-	-	(31,000,000)	(29,920,000)
Contribution from U.S. EPA	-	-	-	-	-
Other	269,146	-	-	-	-
Transfers (to) from other funds	-	-	(1,948,302)	-	20,000,000
Net cash provided (used) by noncapital financing activities	269,146	-	(1,948,302)	(32,519,000)	11,154,912
Net increase (decrease) in cash and cash equivalents	270,613	-	7,272,025	(26,385,842)	(10,056,279)
Cash and cash equivalents at beginning of year	260,829	-	30,929,509	48,676,935	38,499,370
Cash and cash equivalents at end of year -- Note 2	$ 531,442	-	38,201,534	22,291,093	28,443,091
Reconciliation of operating income (loss) to net cash (used) by operating activities:					
Operating income (loss)	$ (634,095)	60,634	870,377	(474,883)	(1,078,110)
Adjustments:					
Investment income	(68,724)	-	(754,877)	(63,329)	(174,064)
Operating expenses	-	-	762,808	-	-
Interest on bonds and notes	-	-	-	1,050,149	4,151,169
Loan income	-	(60,634)	(1,420,341)	(557,694)	(3,030,404)
Amortization of bond and note issuance expense	-	-	-	45,757	123,809
Net change in other assets and other liabilities	(339,315)	-	-	-	-
Net cash (used) by operating activities	$ (1,042,134)	-	(542,033)	-	(7,600)

See accompanying notes to financial statements.

Trusteed Funds				
Fresh Water Fund (Note 5)	Pure Water Refunding Fund (Note 6)	Water Pollution Control Loan Fund (Notes 7 & 8)	Drinking Water Assistance Fund (Notes 9 & 10)	Total Combining 2009
-	-	-	862,405	2,434,110
(551,763)	(526,866)	(5,060,259)	(2,823,033)	(10,332,718)
-	-	-	-	(1,792,675)
(551,763)	(526,866)	(5,060,259)	(1,960,628)	(9,691,283)
199,441,002	129,389,044	601,198,947	29,026,743	1,067,183,975
(205,552,255)	(114,569,060)	(605,426,642)	(14,800,091)	(1,054,291,340)
5,608,146	3,977,757	13,654,513	1,314,577	27,071,153
31,647,124	8,420,495	82,522,015	14,952,363	141,647,311
45,242,212	20,537,142	156,535,693	23,237,685	270,461,224
(95,914,556)	-	(203,967,539)	(62,154,013)	(392,015,493)
(19,528,327)	47,755,378	44,516,987	(8,422,736)	60,056,830
(20,232,859)	(2,417,237)	(61,157,341)	(13,148,726)	(103,171,949)
266,956,545	-	252,384,876	-	545,310,095
(1,489,060)	-	(1,488,240)	-	(3,174,276)
(281,065,977)	(18,700,000)	(372,924,828)	(12,640,000)	(746,250,805)
-	-	62,701,582	42,032,065	104,733,647
4,783,201	-	(256,586)	(268,632)	4,527,129
3,543,884	(21,595,582)	-	-	-
(27,504,266)	(42,712,819)	(120,740,537)	15,974,707	(198,026,159)
(47,584,356)	4,515,693	(81,283,809)	5,591,343	(147,660,612)
119,255,008	7,851,501	267,667,998	87,766,101	600,907,251
71,670,652	12,367,194	186,384,189	93,357,444	453,246,639
17,838,180	5,260,467	(5,666,600)	(17,575,309)	(1,399,339)
(2,877,056)	(2,232,668)	(6,871,466)	(707,591)	(13,749,775)
891,875	1,107,103	24,984,108	19,318,129	47,064,023
19,297,695	4,623,481	60,864,102	11,977,643	101,964,239
(36,044,331)	(9,346,537)	(79,386,741)	(15,767,427)	(145,614,109)
341,874	61,288	1,016,338	140,385	1,729,451
-	-	-	653,542	314,227
(551,763)	(526,866)	(5,060,259)	(1,960,628)	(9,691,283)

(1) AUTHORIZING LEGISLATION, REPORTING ENTITY, PROGRAM DESCRIPTIONS, FUND ACCOUNTING AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation

The Ohio Water Development Authority (Authority) is a body corporate and politic in the State of Ohio created by an Act of the General Assembly of the State of Ohio effective March 7, 1968. It is authorized and empowered to acquire, construct, maintain, repair, and operate water development projects and solid waste projects, to issue water development and solid waste revenue bonds and notes, and to collect rentals and other charges to pay such bonds and notes and the interest thereon. The Authority was given jurisdiction over financing solid waste control by an Act of the General Assembly of the State of Ohio during 1970. Under provisions of the Act, such revenue bonds and notes shall not be deemed to constitute a debt or a pledge of faith and credit of the State nor any political subdivision thereof.

Reporting Entity

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities, functions and component units for which the Authority (the reporting entity) is financially accountable. Financial accountability is defined by Statement No. 14 as the level of accountability that exists if the reporting entity appoints a voting majority of the component unit's board, and is either (1) able to impose its will on that component unit, or (2) there is a potential for the component unit to provide specific financial benefits to, or to impose specific financial burdens on, the reporting entity. Based on this definition, the Authority does not have any component units. However, the Authority is a discretely presented component unit of the State of Ohio.

Programs

The Authority has established the following programs:

Local Communities

The Authority has established financing programs to provide loans to local communities in the State of Ohio for the construction of sewage and related water treatment facilities. These programs are accounted for in various funds, which are described in the following paragraphs. These loans provide for the financing of project construction costs. The federal government's share of costs (federal grants) is secured and assigned by the local community to the Authority. The local community agrees to pay to the Authority its share of project costs plus any costs ineligible for federal reimbursement over a period of years not to exceed 40 years. Revenue from the underlying project is pledged toward repayment of the loan.

The Authority's initial funding of the program came from a $100,000,000 appropriation, all of which has been designated for use, from the State of Ohio. Subsequent funding of this program resulted from issuance by the Authority of bonds and notes.

Industrial

The Authority has established financing programs to assist private industry and certain municipalities participating in a manner similar to private industry, all located in the State of Ohio, in controlling water pollution and solid waste by constructing appropriate facilities. These programs are accounted for in various funds, which are described in Note 12. The Authority issues revenue bonds and notes to finance these programs. The Authority and the industrial companies and municipalities enter into agreements whereby the industrial companies and municipalities are required to make payments, as they become due, sufficient to pay the interest and principal on the bonds and notes issued to finance the projects.

These bonds and notes are principally secured by either revenues from the services, lease purchase agreements, mortgages, letters of credit or a combination thereof and are not secured by assets of the Authority.

Basis of Presentation—Fund Accounting

The accounts of the Authority are organized on the basis of funds, each of which is considered to be an independent fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses; and are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with laws, regulations or other restrictions. The following is a description of the funds adopted by the Authority.

(a) Operating Fund

The Operating Fund was established to account for the administrative activities and transactions of the Authority, which are required to carry out the provisions of the aforementioned authorizing legislation.

Revenues for Authority operations are principally provided by an administrative fee charged as a percentage of the total cost of each project which the Authority assists by providing financing. Fee income is recognized at the time that the financing agreements are finalized since substantially all of the costs associated with the agreements have been incurred by that time. Operating expenses, which are primarily salaries, employee fringe benefits and legal and professional fees, include administrative expenses of the Authority and other expenses incurred in connection with the financing of projects.

(b) Working Capital Fund

The Working Capital Fund was established to account for loans made to eligible municipalities, counties and other public bodies for the purpose of financing construction of sewage treatment and related facilities required by orders of the Ohio Environmental Protection Agency (Ohio EPA). The resources of this fund came from the aforementioned $100,000,000 appropriation from the State of Ohio.

Construction costs may be reimbursed by federal grants in amounts up to 55% of the total eligible costs. The balance of the construction costs is repaid by Local Government Agencies (LGAs) under the terms of installment contracts (loan agreements) over a period of 40 years with interest at 6.25% to 6.50%.

(Continued)

All payments received from LGAs for project costs, interest and maturities of investments are deposited in the accounts of the Fresh Water Fund.

(c) Other Projects Fund – Unallocated Reserve

In March 1992, the Unallocated Reserve Account was established by a resolution of the Authority and is administered by a Trustee. Initial funding for the Unallocated Reserve Account was provided by an $8,300,000 transfer from the Pure Water Refunding Fund. Additional funding has been provided by monetary transfers from the Pure Water Refunding Fund and the Fresh Water Fund.

This account was established for potential collectibility or cash flow problems that may arise in the future on any Authority project.

(d) Other Projects Fund – Interest Rate Management

The Interest Rate Management Account was established during 2004 by a resolution of the Authority and is administered by a Trustee. Initial funding for the Interest Rate Management Account was provided by the proceeds received on an interest rate swap agreement as described in Note 5.

The purpose of the account is to hedge the Authority's exposure to variable rate interest.

(e) Other Projects Fund – Endowment Grant

The Endowment Grant Account was established during 1990 by a resolution of the Authority and is administered by a Trustee. Initial funding for the Endowment Grant Account was provided by a $6,000,000 transfer from the Pure Water Refunding Fund.

The purpose of the account is to provide grants to local governments in Ohio to develop innovative projects in the areas of drinking water, wastewater and solid waste management. Each grant will fund 50% of the total project cost; funding for the remaining 50% is to be provided by a cash match from the local government.

(f) Other Projects Fund – Solid Waste

The Solid Waste Account was established during 1991 by a resolution of the Authority and is administered by a Trustee. Funding for the Solid Waste Account was provided by a $15,000,000 transfer from the Pure Water Refunding Fund. Additional funding has been provided through monetary transfers from the Pure Water Refunding Fund.

The purpose of the account is to provide financing to local governments in Ohio for the construction of solid waste facilities including recycling projects, composting, waste-to-energy projects and landfills. The balance of the construction costs are to be repaid by the solid waste facilities under terms of installment contracts over 12 to 20 years with interest at 5.60% to 5.70%.

(Continued)

(g) Other Projects Fund – Local Economic Development

The Local Economic Development Account was established during 1995 by a resolution of the Authority and is administered by a Trustee. Funding for the Local Economic Development Account was provided by a $4,196,200 transfer from the Safe Water Refunding Fund, which was consolidated into the Fresh Water Fund in 2007, and a $5,803,800 transfer from the Pure Water Refunding Fund. Additional funding has been provided by monetary transfers from the Fresh Water Fund.

The purpose of the account is to provide financing to local governments in Ohio to construct projects which will provide economic development benefits. The interest rate for each loan is negotiated by the local government and the Ohio Department of Development.

The account also provides financing for the clean-up of contaminated brownfield sites under the state's voluntary action program. The loans are to be repaid under terms of installment contracts over periods of 5 to 25 years with interest at 1.00 % to 4.28%.

(h) Other Projects Fund – Village Capital Improvements

The Village Capital Improvements Account was established during 1995 by the Budget Reconciliation Bill which gave the Authority the responsibility to principally administer this program after pre-approval by the Ohio EPA. Initial funding was provided by a $1,961,037 contribution from the Ohio EPA, consisting of loans receivable of $1,595,433 and cash of $365,604. Additional funding has been provided by monetary transfers from the Pure Water Refunding Fund.

The purpose of the account is to provide interest-free planning and design loans to qualifying villages in Ohio for water and wastewater facilities. These loans are to be repaid at a term not to exceed 10 years.

(i) Other Projects Fund – Emergency Relief

The Emergency Relief Account was established during 1997 by a resolution of the Authority and is administered by a Trustee. Initial funding was provided by a $5,000,000 transfer from the Fresh Water Fund. Additional funding has been provided by monetary transfers from the Fresh Water Fund.

The purpose of the account is to provide financial assistance to Ohio communities that have sustained damage to their water or wastewater facilities as the result of a natural disaster. To be eligible, communities must have an outstanding loan from the Authority and be in a federal or state designated disaster area. The account can provide a community with up to two semi-annual loan payments to the Authority in an amount equivalent to the damage sustained by the water or wastewater systems during the disaster.

As of December 31, 2009, the Authority has approved $4,984,846 in grant assistance to forty communities for damage caused by flooding in Ohio.

(Continued)

(j) Other Projects Fund – Dam Safety

The Dam Safety Account was established during 1999 by a resolution of the Authority and is administered by a Trustee. Initial funding was provided by a $10,000,000 transfer from the Solid Waste Account.

The purpose of the account is to help eligible Ohio dam owners receive below market interest rate loans to finance dam repairs and improvements that have been so ordered by the Ohio Department of Natural Resources. These loans are available through the Dam Safety Linked Deposit Program. In the program, Dam Safety funds are invested in local participating banks at below-market rates. The banks, in return, issue low interest rate loans to qualified participants. The amount invested in this program as of December 31, 2009 was $2,576,637.

(k) Other Projects Fund – Lake Erie Soil Erosion

The Lake Erie Soil Erosion Account was established during 2000 by a resolution of the Authority and is administered by a Trustee. Initial funding was provided by a $10,000,000 transfer from the Fresh Water Fund.

The purpose of the account is to provide financing to the eight counties with Lake Erie shorelines containing coastal erosion areas. Any county receiving financing from the program will then provide financial assistance to property owners for the construction of erosion control structures in areas defined by statute as coastal erosion areas.

The loans to the counties are to be repaid under terms of installment contracts. As of December 31, 2009, two loans have been awarded from this account totaling $661,000 over 15 years with interest at 4.67% to 5.34%.

(l) Other Projects Fund – Security Assistance

The Security Assistance Account was established during 2001 by a resolution of the Authority and is administered by a Trustee. Initial funding was provided by a $5,000,000 transfer from the Fresh Water Fund.

The purpose of the account is to provide financing to local governments in Ohio to protect the communities' water and wastewater systems. Eligible items under the program include lighting, fencing, cameras, motion detectors, gating and security systems and terrorism preparedness plans.

The loans to the LGAs are to be repaid under terms of installment contracts with interest at 2.00%. As of December 31, 2009, two loans have been awarded from this account totaling $251,281 over 20 and 30 years.

(m) Other Projects Fund – Interest Rate Subsidy

The Interest Rate Subsidy Account was established during 2003 by a resolution of the Authority and is administered by a Trustee. Initial funding was provided by transfers from the Rural Utility Services and Fresh Water Funds of $3,415,574 and $19,790,902, respectively.

(Continued)

The purpose of the account is to provide a subsidy to the local governments in Ohio that obtained financing under the Authority's Fresh Water, Refunding (which was also consolidated into Fresh Water in 2007), Safe Water Refunding and Pure Water Refunding programs whose loan interest rates exceed 7.00%. The subsidy provided by this account reduces the effective interest rate on these loans to 7.00% beginning with the loan repayment due on January 1, 2004.

(n) Other Projects Fund – Unsewered Areas

The Unsewered Areas Account was established during 2009 by a resolution of the Authority and is administered by a Trustee. The Authority committed $10 million to the Unsewered Areas Account. As of December 31, 2009, $1,440,000 in funding has been provided by transfers from the Dam Safety Account.

The purpose of the account is to provide interest-free planning loans to unsewered areas where the LGA is considering the construction of a system of sewer facilities. These loans are to be repaid at a term not to exceed 10 years.

(o) Rural Utility Services Fund

The Rural Utility Services Fund was established during 1996 by a resolution of the Authority and is administered by a Trustee. Initial funding for the fund was provided by a $2,800,150 transfer from the Pure Water Refunding Fund. Additional funding was provided by the proceeds of the Water Development Revenue Notes—RUS Loan Advance Series 1996-A, Series 1998-A, Series 1999-A, Series 2000-A, Series 2001-A, Series 2002-A, Series 2003, Series 2004-A, Series 2006-A and monetary transfers from the Fresh Water Fund.

The purpose of these funds is to provide interim loans to local governments in Ohio to finance water development projects pending their receipt of loan or grant money from the United States of America, acting through Rural Utility Services. The loans accrue interest at rates of 1.48% to 4.52%.

(p) Community Assistance Fund

The Community Assistance Fund (formerly known as the Hardship Fund) was established during 1983 by a resolution of the Authority and is administered by a Trustee. The purpose of the fund is to provide a financing program for local governments in Ohio that are unable to meet debt service requirements at normal market interest rates without undue hardship to users.

The balance of the construction costs is paid by the LGA under the terms of installment contracts over periods of 19.5 to 30 years with interest at 1.00% to 3.11%. LGA payments of construction costs may be used for providing additional funding for qualifying projects.

Initial funding for the Community Assistance Fund was provided by a $15,000,000 transfer from the Pure Water Refunding Fund. Additional funding has been provided by monetary transfers from the Fresh Water Fund, Refunding Fund, Safe Water Refunding Fund, Pure Water Refunding Fund and the issuance of the Water Development Revenue Bonds—Community Assistance Series 1997, Series 2003 and Series 2007. The Water Development Revenue Refunding Bonds–Community Assistance Series 2005 Bonds were issued for the purpose of refunding portions of outstanding Community Assistance Series 1997 Bonds. The Water Development Revenue

(Continued)

Refunding Bond Anticipation Notes, Series 2008A and 2008B, were issued to refund the Community Assistance Series 2007 Bonds. The Water Development Revenue Refunding Bonds–Community Assistance Series 2009 Bonds were issued to refund the Community Assistance Series 2008B Bond Anticipation Notes. All loan repayments for this fund are pledged on a parity basis against all debt outstanding within this fund.

(q) Fresh Water Fund

The Fresh Water Fund, which consists of various accounts, was established in 1992 by a resolution providing for the issuance of the Water Development Revenue Refunding Bonds—Pure Water Refunding and Improvement Series. Initial funding was provided by a portion of the proceeds from these bonds and a transfer from the Pure Water Refunding Fund. The Water Development Revenue Bonds—Fresh Water Series 1995, Series 1998, Series 2001A, Series 2002, Series 2004, and Water Development Revenue Notes – Fresh Water Commercial Paper Series 2007A, Series 2008D and Series 2008E were later issued to provide additional funds necessary for making loans to LGAs as part of the Authority's Fresh Water Program. The Water Development Refunding Revenue—Fresh Water Series 2001B, Series 2005, Series 2006A, Series 2009A and Series 2009B Bonds were issued for the purpose of refunding portions of Fresh Water Series 1995, Series 1998, Series 2001A, Series 2002 and Series 2004 Bonds. A portion of the Fresh Water Series 2009A Bonds were used to retire outstanding commercial paper issued in 2007 and 2008. All Fresh Water loan repayments for this fund are pledged on a parity basis against all debt outstanding within this fund.

The purpose of these funds is to provide moneys necessary to finance the LGA portion of costs for planning, designing, acquiring or constructing wastewater treatment, sewage collection, and water supply and distribution facilities in Ohio, and to finance other projects approved by the Authority.

The balance of Fresh Water construction costs is repaid by LGAs under terms of installment contracts over periods of 5 to 30 years with interest rates of 3.20% to 7.38%.

On December 1, 2007, the Refunding Fund and the Safe Water Refunding Fund (Prior Funds) were closed and the outstanding loan receivable balances were transferred to the Fresh Water Fund. The loan repayments from the Prior Funds are deposited into the Cross-Collateralization account in the Fresh Water Fund and are not pledged towards outstanding Fresh Water debt. The balance of the Prior Program loans is repaid by LGAs under terms of installment contracts over periods of 23.5 to 40 years with interest rates of 5.25% to 11.19%.

(r) Pure Water Refunding Fund

The Pure Water Refunding Fund consists of various accounts which were established by a resolution providing for the issuance of the Water Development Revenue Refunding Bonds—Pure Water Refunding and Improvement 1992 Series. The Water Development Revenue Refunding Bonds – Pure Water Series 2002A and Pure Water Series 2002B were issued for the purpose of refunding portions of outstanding Pure Water Series 1992 Bonds. All loan repayments for this fund are pledged on a parity basis against all debt outstanding within this fund.

Similar to the Refunding Fund, the Safe Water Refunding Fund and the Working Capital Fund, certain financed project costs were reimbursed by federal grants in amounts up to 75% of the total eligible costs. The balance of the costs is repaid by the LGAs under terms of installment contracts over periods of 5 to 30 years with interest rates of 0.00% to 9.48%. LGA repayments of project costs are restricted for the purposes of providing additional moneys for projects or for debt service.

(s) Water Pollution Control Loan Fund

The Water Pollution Control Loan Fund consists of various accounts which were established by an Act of the General Assembly of the State of Ohio in 1989 and are administered by a Trustee. The purpose of this fund is to provide financial assistance for the construction of publicly owned wastewater treatment works in Ohio.

Construction costs are paid by LGAs under terms of installment contracts over periods of 5 to 20 years with interest rates of 0.00% to 5.20%. LGA repayments of project costs are restricted for the purpose of providing additional moneys for projects or for debt service.

The Water Pollution Control Loan Fund (WPCLF) was initially funded in 1989 by a U.S. Environmental Protection Agency capitalization grant, which required a 20% matching contribution from the Ohio EPA. Grant funding has been awarded as detailed in the following table:

Year Awarded	Capitalization Grant	State Match
1989	$ 53,099,244	10,619,849
1990	64,124,705	12,824,941
1991	120,534,782	24,106,956
1992	109,382,724	21,876,545
1993	108,203,832	21,640,766
1994	75,855,333	15,171,067
1995	72,717,472	14,543,495
1996	118,581,512	23,716,302
1997	35,085,699	7,017,140
1998	86,175,844	17,235,168
1999	75,812,616	15,162,523
2000	78,490,933	15,701,752
2002	151,596,245	30,319,250
2003	74,859,808	14,971,962
2004	75,649,985	15,129,997
2005	60,663,240	12,132,648
2006	49,305,643	9,861,129
2007	60,252,687	12,050,537
2009*	297,239,893	15,323,359
Total	$ 1,767,632,197	309,405,386

* The 2009 capitalization grant funding award included $220,623,100 in moneys from The American Recovery and Reinvestment Act (ARRA) with no state match required, and $76,616,793 in capitalization grant moneys requiring a 20% state match.

The WPCLF received additional funding from the proceeds of Water Pollution Control Loan Fund Revenue Bonds and Notes—State Match Series 1991, Series 1993, Series 1995, Series 2000 and Series 2008 and Water Quality Series 1995, Series 1997, Series 2001, Series 2002, Series 2004 and Series 2005B (WPCLF Bonds and Notes). The Water Pollution Control Loan Fund Revenue

Refunding Bonds—State Match Series 2001 and Series 2005 and Water Quality Series 2003, Series 2004, Series 2005 and Series 2009 (WPCLF Bonds) were issued to refund portions of the State Match and Water Quality Series Bonds. The WPCLF Bonds and Notes were established by resolutions providing for the issuance of these bonds and notes and are administered by Trustees.

The WPCLF Bonds and Notes are special obligations of the Authority, issued to fund the State Match account for use in making loans to LGAs provided by the Ohio EPA and the Authority. All interest earned on moneys and/or investments in the WPCLF remain within the fund. All loan repayments for this fund are pledged on a parity basis against all debt outstanding within this fund.

In 1994, the Authority established the Linked Deposit Program. This program is aimed at helping Ohio farmers receive low-interest loans to reduce non-point source pollution from agricultural run-off. In the program, WPCLF funds are invested in local participating banks at below-market rates. The banks, in return, issue low-interest rate loans to qualified participants. The amount invested in this program as of December 31, 2009 was $14,889,881.

(t) Drinking Water Assistance Fund

The Drinking Water Assistance Fund was established by legislation enacted by the General Assembly of the State of Ohio in 1997 and is administered by a Trustee. The purpose of this fund is to assist public water systems to finance the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Act requirements and to protect public health.

Construction costs are paid under terms of installment contracts over periods of 5 to 30 years with interest rates of 0.00% to 4.66%. Repayments of project costs are restricted for the purpose of providing additional moneys for projects.

The Drinking Water Assistance Fund (DWAF) was initially funded in 1998 by a U.S. Environmental Protection Agency capitalization grant, with a required 20% state match contribution from the Ohio EPA. Grant funding has been awarded as detailed in the following table:

Year Awarded	Capitalization Grant	State Match
1998	$ 43,073,000	8,614,600
1999	22,806,200	4,561,240
2000	48,745,300	9,749,060
2001	24,944,900	4,988,980
2002	24,547,600	4,909,520
2003	24,400,100	4,880,020
2004	25,311,500	5,062,300
2005	25,257,900	5,051,580
2006	24,670,900	4,934,180
2007	24,671,000	4,934,200
2008	24,421,000	4,884,200
2009*	82,881,000	4,884,200
Total	$ 395,730,400	67,454,080

(Continued)

* The 2009 capitalization grant funding award included $58,460,000 in moneys from ARRA with no state match required, and $24,421,000 in capitalization grant moneys requiring a 20% state match.

The DWAF received additional funding from the proceeds of the Drinking Water Assistance Fund Revenue Bond Anticipation Notes—State Match Series 2001 and the Drinking Water Assistance Fund Revenue Bonds and Notes—State Match Series 2002 and Series 2004 and Leverage Series 2002, Series 2004, Series 2005B and Series 2006. Drinking Water Assistance Fund Refunding Revenue Bonds—Leverage Series 2005 were issued to refund a portion of the Leverage Series 2002 Series Bonds and Leverage Series 2008 were issued to refund the Leverage Series 2006 Notes. The DWAF Bonds and Notes were established by resolutions providing for the issuance of these bonds and notes and are administered by Trustees. All loan repayments for this fund are pledged on a parity basis against all debt outstanding within this fund.

Summary of Significant Accounting Policies

(a) Basis of Accounting

The basis of accounting determines when transactions and economic events are reflected in financial statements. The Authority has prepared the financial statements on the full accrual basis of accounting. Accordingly, revenues are recognized as earned and expenses are recognized as incurred, including interest expense on bonds and notes outstanding.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority follows GASB pronouncements as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The Authority has elected to not implement any Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued after November 30, 1989.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit with Trustees and petty cash, as defined in GASB Statement No. 9 for the purpose of the statement of cash flows, in addition to money market investments and holdings in the State Treasury Asset Reserve of Ohio (STAROhio) investment pool. STAROhio operates in a manner consistent with Rule 2a7 of the Investment Company Act of 1940, which requires investments in the 2a7-like pool to be reported at amortized cost (which approximates fair value).

For the purpose of the statement of cash flows, the Authority considers cash deposits with a maturity of three months or less when purchased to be cash equivalents. Additionally, the Authority does not consider its loans to be program loans, and as a result, reports its loan cash flows within the investing activities section of the statement of cash flows.

(c) Investments

With the exception of participating interest-earning investment contracts and nonnegotiable certificates of deposit, investments are carried at fair value, which includes accrued interest receivable. Accordingly, the Authority reports participating interest-earning investment contracts and nonnegotiable certificates of deposit at amortized cost plus accrued interest receivable.

The Authority enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements. For further detail and risk management of the interest rate swap agreements within the Fresh Water Fund and Pure Water Refunding Fund, see Notes 5 & 6, respectively.

(d) Due to and Due from Other Funds

Interfund receivables and payables, otherwise referred to as due to and due from other funds, arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. All interfund balances at December 31, 2009 resulted from the time lag between the dates that transactions are recorded in the accounting system and the dates that payments between funds are made. The Authority expects that all interfund balances will be repaid within one year.

(e) Loan Income as Defined by the Contracts

Loan income consists primarily of interest charged to LGAs, as defined by the contracts with LGAs, on the amounts estimated to be paid under the loan agreements. Interest charged during the construction period is capitalized by the Authority and is reflected as part of loan receivables.

(f) Amortization of Premium, Discount and Issuance Expense of Bonds and Notes

Premium, discount and issuance expense are amortized over the life of the bonds and notes, following the effective interest method.

(g) Interfund Transfers/Net Assets

The Authority reports interfund transactions when incurred, as follows:

- Transfers in (out), net: Transfers to a receiving fund from a disbursing fund required to meet routine operating requirements, such as debt service repayments and loan disbursements, in addition to transfers between funds for initial and/or additional funding needs.

Interfund transfers have not been eliminated in the combining column of the financial statements.

Net assets in excess of those amounts required by the various trust agreements may, upon Board authorization, be used for any lawful purpose.

(h) Capital Assets and Facilities

Capital assets of the Authority include an office building with attached garage, two parking lots, office furniture and equipment. Capital assets are defined by the Authority as assets with an initial, individual cost of $1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Depreciation is computed on the building, capital improvements and other capital assets only, using the straight line method with no salvage value. Current year depreciation expense is detailed below as ‘additions’ to accumulated depreciation.

Capital asset activity for the year ended December 31, 2009 was as follows:

		Beginning Balance	Additions	Deletions	Ending Balance
Land (non-depreciable)	$	538,676	–	–	538,676
Building (useful life: 20-45 years)		887,524	–	–	887,524
Capital Improvements (useful life: 20 years)		628,314	–	–	628,314
Other (useful life: 3-10 years)		1,444,232	60,789	(7,521)	1,497,500
Total capital assets	$	3,498,746	60,789	(7,521)	3,552,014
Less: Accumulated Depreciation-Building		(230,819)	(37,494)	–	(268,313)
Less: Accumulated Depreciation-Cap Impr		(151,057)	(31,852)	–	(182,909)
Less: Accumulated Depreciation-Other		(1,407,646)	(34,386)	7,521	(1,434,511)
Capital Assets, at Depreciated Cost	$	1,709,224	(42,943)	–	1,666,281

(i) Balance Sheet Classifications

The Authority is required to classify its balance sheet, detailing current and noncurrent assets and liabilities and restricted and unrestricted net assets, as follows:

- Current: Due within one year from December 31, 2009
- Noncurrent: Due after December 31, 2010
- Restricted: Restricted for usage by bond and note covenants and grant restrictions
- Unrestricted: Not restricted for usage

Within the Fresh Water Fund and the Pure Water Refunding Fund, there exist both restricted and unrestricted net assets. The unrestricted net assets may, upon Board authorization, be used by the Authority for any lawful purpose.

(j) Revenue and Expense Classifications

The Authority’s policy for revenue and expense classification is as follows:

- Operating revenues consist of loan income, investment income and administrative fees from projects
- Operating expenses consist of interest on bonds and notes, amortization of bond and note issuance expense and other operating expenses
- Nonoperating other revenues (expenses)
- Contribution from U.S. EPA

(k) Risk Management

It is the policy of the Authority to eliminate or transfer risk. The Authority does not self-insure any risk resulting from acts of God, injury to employees or breach of contract.

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The Authority carries commercial property insurance on property and equipment in the aggregate sum of approximately $1,950,000. The Authority carries commercial liability insurance coverage in the amount of approximately $56,385,000. The Authority also carries premium-based medical, dental and vision coverage for all employees.

During 2009, there were no claims by the Authority that exceed the insurance coverage, nor has there been a reduction in insurance coverage in the past three years.

(2) CASH AND INVESTMENTS

As of December 31, 2009, the Authority's carrying amount of deposits was $13,182,538 and bank balance of deposits was $13,131,117. Of this amount, $1,208,255 was covered by federal depository insurance, and $11,922,862 was collateralized with securities held by the bank's agent but not in the Authority's name. The Authority's carrying amount of long-term nonnegotiable certificates of deposit as of December 31, 2009 was $17,486,022. These deposits were collateralized with securities held by the bank's agent but not in the Authority's name.

The Authority's investment policy and relevant trust indentures, which are in compliance with the Ohio Revised Code, authorizes investments in obligations of the U.S. Treasury, U.S. Agencies, obligations of the State of Ohio or any political subdivision, obligations of any State of the United States, repurchase agreements from financial institutions with a Moody's or Standard & Poor's rating of "A", investment agreements from financial institutions rated in the highest short-term categories or one of the top three long-term categories by Moody's and/or Standard & Poor's, money market mutual funds whose portfolio consists of authorized investments, the State Treasurer's investment pool and any debt or fixed income security, the issuer of which is rated in the highest short-term or in the top three long-term categories. All investments must mature within five years of settlement unless the investment is matched to a specific obligation or debt of the Authority. Securities are purchased with the expectation that they may be held to maturity.

As of December 31, 2009, the Authority had the following investments and maturities:

		Investment Maturity (in Years)			
Fund - Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More Than 10
Operating:					
U.S. Agencies	$4,192,969	2,980,633	1,212,336	-	-
Other Projects:					
U.S. Treasuries	8,753,854	8,753,854	-	-	-
U.S. Agencies	36,828,626	36,323,311	505,315	-	-
STAROhio	31,971,142	31,971,142	-	-	-
Money Market	5,770,523	5,770,523	-	-	-
	83,324,145	82,818,830	505,315	-	-
Rural Utility Services:					
STAROhio	2,611,734	2,611,734	-	-	-
Money Market	19,679,583	19,679,583	-	-	-
	22,291,317	22,291,317	-	-	-

(Continued)

Fund - Investment Type	Fair Value	Investment Maturity (in Years) - Continued Less than 1	1 - 5	6 - 10	More Than 10
Community Assistance:					
U.S. Treasuries	$9,676,202	9,676,202	-	-	-
U.S. Agencies	7,813,380	5,885,569	1,927,811	-	-
STAROhio	11,484,367	11,484,367	-	-	-
Money Market	16,123,528	16,123,528	-	-	-
	45,097,477	43,169,666	1,927,811	-	-
Fresh Water:					
U.S. Treasuries	51,453,557	10,462,215	38,188,901	1,357,383	1,445,058
U.S. Agencies	61,376,728	24,394,853	36,981,875	-	-
Municipal Bonds	3,526,581	477,438	3,049,143	-	-
Investment Contract	5,479,076	-	-	-	5,479,076
STAROhio	12,146,973	12,146,973	-	-	-
Money Market	56,078,784	56,078,784	-	-	-
	190,061,699	103,560,263	78,219,919	1,357,383	6,924,134
Pure Water Refunding:					
U.S. Treasuries	22,895,672	6,225,701	16,669,971	-	-
U.S. Agencies	37,333,039	8,314,600	29,018,439	-	-
Municipal Bonds	1,502,515	1,068,071	434,444	-	-
STAROhio	540	540	-	-	-
Money Market	10,396,043	10,396,043	-	-	-
	72,127,809	26,004,955	46,122,854	-	-
Water Pollution Control Loan:					
U.S. Treasuries	99,661,741	43,937,732	54,601,582	773,059	349,368
U.S. Agencies	294,398,986	255,124,582	39,274,404	-	-
Investment Contract	18,646,838	-	-	-	18,646,838
STAROhio	98,764,337	98,764,337	-	-	-
Money Market	83,048,297	83,048,297	-	-	-
	594,520,199	480,874,948	93,875,986	773,059	18,996,206
Drinking Water Assistance:					
U.S. Agencies	15,044,102	-	15,044,102	-	-
STAROhio	28,991,981	28,991,981	-	-	-
Money Market	63,075,252	63,075,252	-	-	-
	107,111,335	92,067,233	15,044,102	-	-

The Authority's U.S. Treasuries, U.S. Agencies, and municipal bonds are uninsured and unregistered investments for which the securities are held by the Authority’s agent but not in the Authority’s name. As of December 31, 2009, the Authority’s investments in U.S. Treasuries were backed by the full faith and credit of the U.S. Government. The investments in U.S. Agencies were rated AAA by Standard & Poor’s and Aaa by Moody’s. The Authority’s investments in investment contracts were unrated. The Authority’s investments in municipal bonds were rated within the top three long-term categories by

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Moody's and/or Standard & Poor's. The Authority's investments in STAROhio (a statewide external investment pool created pursuant to Ohio statutes and administered by the Treasurer of the State of Ohio) were rated AAAm by Standard & Poor's. The Authority's money market investments were rated AAAm by Standard & Poor's. As of December 31, 2009, 99.85% of the Authority's rated investments were rated in the highest short-term or long-term rating category.

As of December 31, 2009, the Authority had investment balances with the following issuers which are greater than or equal to 5% of the respective fund's investment balance:

Fund	Issuer	Percent of Fund's Investments
Operating	Federal Home Loan Bank	61%
	Federal National Mortgage Association	28%
	Federal Home Loan Mortgage Corporation	11%
Other Projects	Federal Home Loan Mortgage Corporation	16%
	Federal National Mortgage Association	16%
	Federal Home Loan Bank	11%
Community Assistance	Federal National Mortgage Association	9%
	Federal Home Loan Mortgage Corporation	8%
Fresh Water	Federal National Mortgage Association	27%
Pure Water Refunding	Federal National Mortgage Association	31%
	Federal Home Loan Mortgage Corporation	11%
	Federal Home Loan Bank	6%
Water Pollution Control Loan	Federal National Mortgage Association	19%
	Federal Home Loan Mortgage Corporation	14%
	Federal Home Loan Bank	12%
Drinking Water Assistance	Federal National Mortgage Association	6%
	Federal Home Loan Bank	5%

The Authority manages its concentration risk by limiting investments to U.S. Treasuries, U.S. Agencies or to issuers with the highest short-term ratings from Moody's or Standard & Poor's or one of the three highest long-term ratings from Moody's or Standard & Poor's.

As of December 31, 2009, the Authority had cash and cash equivalents balances of $453,325,622, which includes accrued interest receivables on money market balances. Below is a reconciliation of balance sheet and cash flows cash and cash equivalents balances:

Fund		Balance Sheet Cash and Cash Equivalents Balance	Cash and Cash Equivalents Accrued Interest Receivable	Cash Flows Cash and Cash Equivalents Balance
Operating	$	531,442	-	531,442
Other Projects		38,204,669	(3,135)	38,201,534
Rural Utility Services		22,291,317	(224)	22,291,093
Community Assistance		28,444,516	(1,425)	28,443,091
Fresh Water		71,687,361	(16,709)	71,670,652
Pure Water Refunding		12,369,533	(2,339)	12,367,194
Water Pollution Control Loan		186,417,556	(33,367)	186,384,189
Drinking Water Assistance		93,379,228	(21,784)	93,357,444
	$	453,325,622	(78,983)	453,246,639

(3) INTERFUND RECEIVABLES AND PAYABLES

Interfund balances, which are caused by the timing of pending loan fee repayment allocations, consisted of $222,759 owed to the Operating Fund by the Drinking Water Assistance Fund on December 31, 2009.

(4) WATER DEVELOPMENT REVENUE AND REFUNDING BONDS AND NOTES—COMMUNITY ASSISTANCE FUND

As of December 31, 2009, there was $102,380,000 of Community Assistance Water Development Revenue and Refunding Bonds and Notes outstanding, broken down by series as follows:

Series	Type	Interest Rate	Maturity		Current	Long-Term	Total
2003	Serial	3.25% to 5.00%	2010-2017	$	1,815,000	8,270,000	10,085,000
	Term	4.625% to 5.00%	2014-2030		-	35,435,000	35,435,000
2005 ref	Serial	3.50% to 5.25%	2010-2017		2,655,000	17,655,000	20,310,000
	Term	4.10% to 4.625%	2018-2024		-	11,365,000	11,365,000
2009 ref	Serial	2.00% to 4.00%	2010-2019		865,000	8,775,000	9,640,000
	Term	3.25% to 5.00%	2020-2030		-	15,545,000	15,545,000
Community Assistance Fund Totals					5,335,000	97,045,000	102,380,000
		Add: unamortized premiums			-	2,878,073	2,878,073
		Less: deferred loss			-	(2,154,229)	(2,154,229)
				$	5,335,000	97,768,844	103,103,844

The Community Assistance Fund debt service requirements to maturity are as follows:

		Principal	Interest	Total
2010	$	5,335,000	4,465,692	9,800,692
2011		5,480,000	4,294,204	9,774,204
2012		5,545,000	4,102,166	9,647,166
2013		5,540,000	3,871,523	9,411,523
2014		5,540,000	3,638,173	9,178,173
2015-2019		28,205,000	14,242,413	42,447,413
2020-2024		25,790,000	8,029,928	33,819,928
2025-2029		17,345,000	2,966,116	20,311,116
2030		3,600,000	122,450	3,722,450
	$	102,380,000	45,732,665	148,112,665

The Community Assistance Series bonds are subject to mandatory and optional redemption, by series, as follows:

a) Community Assistance Series 2003 – The term bonds are subject to mandatory redemption beginning June 1, 2014. Both the term and serial bonds maturing on or after December 1, 2014 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on December 1, 2013, or any interest payment date thereafter at par plus accrued interest.
b) Community Assistance Refunding Series 2005 – The term bonds are subject to mandatory redemption beginning December 1, 2018. The term bonds maturing on or after December 1, 2018 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on June 1, 2015, or any interest payment date thereafter at par plus accrued interest.
c) Community Assistance Refunding Series 2009 – The term bonds are subject to mandatory redemption beginning June 1, 2020. The term bonds maturing on or after December 1, 2020 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on December 1, 2019, or at any time thereafter in any order of maturity, at a redemption price equal to the par value for the principal amount redeemed plus accrued interest to the redemption date.

LGA reimbursements of Community Assistance project costs, including interest, are pledged as security for the bonds. In the event that LGA reimbursements of Community Assistance project costs are insufficient to cover Community Assistance debt service requirements, unencumbered assets of the Community Assistance Fund Debt Service Reserve, Surplus and Construction accounts are also pledged as security for the bonds. For the calendar year 2009, the amount received from reimbursements of Community Assistance project costs was $11,110,051, compared to the required bond debt service payments of $10,066,786.

The bond resolution provides for six separate accounts designated as the Community Assistance Fund Construction account, Revenue account, Debt Service account, Debt Service Reserve account, Surplus account and Rebate account. As of December 1, 2009, there is no accrued rebate liability for these bonds.

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Amounts received from the LGAs as reimbursements of project or construction costs, including capitalized interest, are deposited in the Revenue account. The trustee then allocates or pays out moneys in the Revenue account as follows:

a) To the trustee for the payment of its fees on the first day of each May and November.

b) To the Debt Service account on the first day of each May and November, commencing on the first May or November preceding the first bond maturity date (1) a sum which, when added to any available balance then on deposit in the Debt Service account, will be equal to the interest due on that day on all bonds outstanding; (2) a sum which will be equal to the next ensuing mandatory redemption for term bonds; and (3) a sum which will be equal to the next ensuing principal maturity on all outstanding bonds.

c) To the Debt Service Reserve account on the first day of each May and November, a sum as necessary to maintain in the Debt Service Reserve account investments or cash having an aggregate value at least equal to the maximum annual bond service charges required to be paid in that year or any succeeding year.

d) To the Surplus account, on the first day of June and December of each year, remaining moneys (after making up any deficiencies) in the Revenue account (excluding amounts received for the next ensuing LGA repayment date).

After the Debt Service Reserve account has reached the required reserve fund balance, interest earned on that balance will be transferred to the Debt Service account on the first day of November of each year, prior to making allocations or payments of moneys on hand in the Revenue account.

Any deficiency in the amounts required to be deposited in the Debt Service account or the Debt Service Reserve account is to be made up by moneys available in the Surplus account.

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(5) WATER DEVELOPMENT REVENUE AND REFUNDING BONDS AND NOTES—FRESH WATER FUND

As of December 31, 2009, there was $449,535,000 of Fresh Water Development Revenue and Refunding Bonds and Notes outstanding, broken down by series as follows:

Series	Type	Interest Rate	Maturity		Current	Long-Term	Total
1998	Serial	5.25%	2010-2011	$	-	2,210,000	2,210,000
2001 A	Serial	4.00%	2010-2011		810,000	845,000	1,655,000
2001 A	Term	5.00% to 5.375%	2012-2017		-	705,000	705,000
2001 B	Serial	4.75% to 5.50%	2012-2021		-	52,175,000	52,175,000
2002	Serial	3.50% to 5.25%	2010-2012		4,000,000	7,745,000	11,745,000
	Term	4.75% to 5.375%	2013-2027		-	2,090,000	2,090,000
2004	Serial	3.50% to 5.25%	2010-2014		5,070,000	20,255,000	25,325,000
	Term	5.00% to 5.25%	2015-2022		-	3,980,000	3,980,000
2005 ref	Serial	5.00% to 5.50%	2011-2025		-	103,310,000	103,310,000
2006 ref	Term	5.25%	2023-2034		-	51,100,000	51,100,000
2009A	Serial	2.00% to 5.00%	2010-2016		21,315,000	92,695,000	114,010,000
2009B ref	Serial	2.50% to 5.00%	2010-2022		130,000	54,090,000	54,220,000
	Term	3.125% to 5.25%	2020-2027		-	27,010,000	27,010,000
Fresh Water Fund Totals					31,325,000	418,210,000	449,535,000
		Add: unamortized premiums			-	39,790,104	39,790,104
		Less: deferred losses			-	(20,196,841)	(20,196,841)
				$	31,325,000	437,803,263	469,128,263

The Fresh Water Fund debt service requirements to maturity are as follows:

		Principal	Interest	Total
2010	$	31,325,000	21,744,878	53,069,878
2011		35,035,000	20,454,541	55,489,541
2012		34,510,000	18,822,910	53,332,910
2013		38,015,000	17,137,303	55,152,303
2014		39,070,000	15,302,878	54,372,878
2015-2019		144,845,000	51,395,655	196,240,655
2020-2024		82,620,000	22,098,663	104,718,663
2025-2029		29,870,000	7,381,969	37,251,969
2030-2034		14,245,000	1,889,606	16,134,606
	$	449,535,000	176,228,403	625,763,403

The Fresh Water Series 2009A Bonds were issued to current refund $16,235,000 of the Fresh Water Series 1998 Bonds. Although the refunding resulted in a deferred accounting loss of $272,964, the Authority in effect reduced its aggregate debt service payments by $502,390 and achieved an economic gain of $493,352.

The Fresh Water Series 2009B Bonds were issued to advance refund $3,240,000 of the Fresh Water Series 1998 Bonds, $3,740,000 of the Fresh Water Series 2001A Bonds, $31,900,000 of the Fresh Water Series 2002 Bonds and $44,525,000 of the Fresh Water Series 2004 Bonds. Although the refunding resulted in a deferred accounting loss of $9,015,392, the Authority in effect reduced its aggregate debt service payments by $5,338,632 and achieved an economic gain of $4,170,779.

The Fresh Water Series bonds are subject to mandatory and optional redemption, by series, as follows:

a) Fresh Water Series 1998 – The bonds maturing on or after December 1, 2008 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2008, or on any interest payment thereafter at par plus accrued interest plus a premium of 1%, which diminishes to zero by June 1, 2010.
b) Fresh Water Series 2001 A&B – The Series 2001 B bonds are not subject to redemption prior to maturity. The series A term bonds are subject to mandatory redemption beginning June 1, 2012. The series A bonds maturing on or after June 1, 2012 are also callable for redemption prior to maturity at the option of the Authority, in whole or in part, on December 1, 2011, or any interest payment thereafter at par plus accrued interest.
c) Fresh Water Series 2002 – The term bonds are subject to mandatory redemption beginning June 1, 2013. The bonds maturing on or after June 1, 2013 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2012, or on any interest payment thereafter at par plus accrued interest.
d) Fresh Water Series 2004 – The term bonds are subject to mandatory redemption beginning June 1, 2015. The bonds maturing on or after December 1, 2014 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2014, or on any interest payment thereafter at par plus accrued interest.
e) Fresh Water Refunding Series 2005 – The series 2005 bonds are not subject to redemption prior to maturity.
f) Fresh Water Refunding Series 2006 – The series 2006 bonds are not subject to optional redemption prior to their stated maturity. The term bonds are subject to mandatory redemption beginning December 1, 2022. The term bonds maturing on December 1, 2030 are subject to an extraordinary mandatory redemption at any time during the ninety-day period following May 27, 2007, in whole or in part, at a redemption price equal to 105% of the amortized value of the bonds.
g) Fresh Water Series 2009A – The series 2009A bonds are not subject to redemption prior to maturity.
h) Fresh Water Refunding Series 2009B – The series 2009B bonds are not subject to optional redemption prior to their stated maturity. The term bonds are subject to mandatory redemption beginning December 1, 2020.

On September 14, 2006, the Authority entered into a twenty-year interest rate swap agreement for $103,310,000 of its Fresh Water Series Bonds. The effective date for this agreement is March 1, 2007. As a result of the agreement, the Authority receives interest payments from Morgan Stanley and UBS (the counterparties) based on 85.05% of the 10-year BMA swap rate and makes interest payments to the counterparties based on the weekly BMA Municipal Swap Index. The purpose of the swap was to allow the Authority to lower the net cost of borrowing for the Fresh Water Program. On June 4, 2009, the Authority agreed to terminate the interest rate swap agreement. The total amount received on this swap, including the termination payment, was $4,603,418.

LGA reimbursements of Fresh Water project costs, including interest, are pledged as security for the bonds. In the event that LGA reimbursements of Fresh Water project costs are insufficient to cover Fresh Water debt service payments, unencumbered assets of the Fresh Water Fund Debt Service Reserve, Surplus, Cross-Collateralization and Construction accounts are also pledged as security for the bonds. For the calendar year 2009, the amount received from reimbursements of Fresh Water project costs was $76,889,336, compared to the required bond debt service payments of $44,767,859.

The bond resolution provides for six separate accounts designated as the Fresh Water Construction account, Revenue account, Debt Service account, Debt Service Reserve account, Surplus account and Rebate account. As of December 1, 2009, there is no accrued rebate liability for these bonds.

Amounts received from the LGAs as reimbursements of project or construction costs, including capitalized interest, are deposited in the Revenue account. The trustee then allocates or pays out moneys in the Revenue account as follows:

a) To the trustee for the payment of its fees on the first day of each May and November.

b) To the Debt Service account on the first day of each May and November (1) a sum which, when added to any available balance then on deposit in the Debt Service account, will be equal to the interest due on that day on all bonds outstanding; (2) a sum which will be equal to the next ensuing mandatory redemption for term bonds; and (3) a sum which will be equal to the next ensuing principal maturity on all outstanding bonds.

c) To the Debt Service Reserve account, a semiannual sum as necessary to maintain in the Debt Service Reserve account investments or cash having an aggregate value at least equal to 50% of the maximum annual bond service charges required to be paid in that year or any succeeding year.

After the Debt Service Reserve account has reached the required reserve fund balance, interest earned on that balance will be transferred to the Debt Service account on the first day of November of each year, prior to making allocations or payments of moneys on hand in the Revenue account.

On the first day of June and December of each year, all remaining moneys (after making up any deficiencies) in the Revenue account (excluding amounts received for the next ensuing LGA repayment date) are allocated to the Surplus account.

Any deficiency in the amounts required to be deposited in the Debt Service account or the Debt Service Reserve account is to be made up by moneys available in the Surplus account.

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(6) WATER DEVELOPMENT REVENUE REFUNDING BONDS—PURE WATER FUND

As of December 31, 2009, there was $80,400,000 of Water Development Revenue Refunding Bonds—Pure Water Refunding and Improvement Series outstanding, as follows:

Series	Type	Interest Rate	Maturity		Current	Long-Term	Total
2002B	Serial	Variable	2010-2018	$	17,400,000	63,000,000	80,400,000
		Less: deferred losses			-	(4,287,591)	(4,287,591)
Pure Water Fund Totals				$	17,400,000	58,712,409	76,112,409

The Pure Water Refunding Series 2002B Bonds have an adjustable interest rate that is reset weekly at a rate determined by the remarketing agent. The rate for these notes at December 31, 2009 was 0.22%.

On December 1, 2002, the Authority entered into a sixteen-year interest rate swap agreement with Bear Sterns Financial Products, Inc. (BSFP) for $108,000,000 of its Pure Water Refunding Series 2002B Bonds (Series 2002B Bonds). On May 15, 2009, the counterparty to the agreement was transferred from BSFP to JPMorgan Chase Bank (JPM). As a result of the agreement, the Authority makes interest payments to the counterparty at a fixed rate of 4.55%, and receives interest payments from JPM at a rate equal to the Series 2002B Bonds or the BMA Municipal Swap Index if the Series 2002B Bonds no longer bear interest at a weekly rate. The Authority received a $3,010,263 swap exercise fee from BSFP when the swap was executed. The purpose of the swap was to allow the Authority to issue synthetic fixed rate debt to achieve a 5% savings on a current refunding of a portion of its Pure Water Refunding and Improvement Series Bonds. As of December 31, 2009, the swap had a negative fair value of $5,889,706, which was calculated using the par-value method. The risks associated with the swap are as follows:

a) Credit risk: As of December 31, 2009, the Authority was not exposed to credit risk as the swap had a negative fair value. Should the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the swap's value. JPM was rated Aa3 by Moody's and A+ by Standard & Poor's as of December 31, 2009.

b) Basis risk: As of December 31, 2009, the Authority was not exposed to basis risk as the interest rate on the swap was equal to the rate on the Series 2002B Bonds. Should the rate on the Series 2002B Bonds be changed to anything other than a weekly reset, the expected savings of the swap transaction may not be realized.

c) Termination risk: The swap may be terminated by the Authority or JPM for standard events such as failure to pay and bankruptcy. Additionally, the swap may be terminated by the Authority if the credit rating for JPM falls below A3 for Moody's or A- for Standard & Poor's. Should the swap be terminated, the Authority would either require JPM to assign its obligations under the swap to a substitute counterparty or be exposed to variable rate interest on the Series 2002B Bonds. If at termination the swap had a negative fair value, the Authority would be liable to JPM for a payment equal to the swap's fair value.

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The Pure Water Fund debt service requirements to maturity are as follows:

		Principal	Interest (a)	Total
2010	$	17,400,000	3,455,725	20,855,725
2011		17,100,000	2,670,850	19,770,850
2012		16,500,000	1,899,625	18,399,625
2013		12,300,000	1,167,075	13,467,075
2014		5,900,000	687,050	6,587,050
2015-2018		11,200,000	969,150	12,169,150
	$	80,400,000	10,849,475	91,249,475

(a) - The Series 2002B debt service requirements to maturity are based on the swap fixed rate of 4.55%.

LGA reimbursements of Pure Water project costs, including interest, are pledged as security for the bonds. In the event that LGA reimbursements of Pure Water project costs are insufficient to cover Pure Water debt service payments, unencumbered assets of the Pure Water Fund Debt Service Reserve and Surplus accounts are also pledged as security for the bonds. For the calendar year 2009, the amount received from reimbursements of Pure Water project costs was $28,957,637 compared to the required bond debt service payments of $21,117,237.

The bond resolution provides for five separate accounts designated as Pure Water Refunding Revenue account, Debt Service account, Debt Service Reserve account, Surplus account and Rebate account. As of October 14, 2009, there is no accrued rebate liability for these bonds.

Amounts received from the LGAs as reimbursement of project or construction costs, including capitalized interest, are deposited in the Revenue account. The trustee then allocates or pays out moneys in the Revenue account as follows:

a) To the trustee for the payment of its fees on the first day of each May and November.

b) To the Debt Service account on the first day of each May and November (1) a sum which, when added to any available balance then on deposit in the Debt Service account, will be equal to the interest due on that day on all bonds outstanding; (2) a sum which will be equal to the next ensuing mandatory redemption for term bonds; and (3) a sum which will be equal to the next ensuing principal maturity on all outstanding bonds.

c) To the Debt Service Reserve account, a semiannual sum as necessary to maintain in the Debt Service Reserve account investments or cash having a par value at least equal to 50% of the maximum annual bond service charges required to be paid in that year or any succeeding year.

After the Debt Service Reserve account has reached the required reserve fund balance, interest earned on that balance will be transferred to the Debt Service account on the first day of November of each year, prior to making allocations or payments of moneys on hand in the Revenue account.

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On December 1 of each year, all remaining moneys (after making up any deficiencies) in the Revenue account (excluding amounts received for the next ensuing LGA repayment date) are allocated to the Surplus account.

Any deficiency in the amounts required to be deposited in the Debt Service account or the Debt Service Reserve account is to be made up by moneys available in the Surplus account.

(7) WATER POLLUTION CONTROL LOAN FUND REVENUE AND REFUNDING BONDS AND NOTES—STATE MATCH SERIES

As of December 31, 2009, there was $42,360,000 of Water Pollution Control Loan Fund (WPCLF) Revenue and Refunding Bonds and Notes—State Match Series outstanding, as follows:

Series	Type	Interest Rate	Maturity		Current	Long-Term	Total
2000	Serial	5.00% to 5.50%	2010-2012	$	3,815,000	4,875,000	8,690,000
2001 ref	Serial	4.00% to 5.25%	2010-2016		6,175,000	13,900,000	20,075,000
2005 ref	Serial	4.00% to 5.00%	2013-2015		-	7,390,000	7,390,000
	Term	5.25%	2016-2021		-	6,205,000	6,205,000
WPCLF State Match Series Totals					9,990,000	32,370,000	42,360,000
		Add: unamortized premiums			-	1,108,622	1,108,622
		Less: deferred losses			-	(3,092,611)	(3,092,611)
				$	9,990,000	30,386,011	40,376,011

Prior redemption of WPCLF – State Match Series bonds, by series, is as follows:

a) State Match Series 2000 - The bonds maturing on or before June 1, 2010 are not subject to prior redemption. The bonds maturing on or after December 1, 2010 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2010, at par plus accrued interest.

b) State Match Refunding Series 2001 – The bonds maturing on or before December 1, 2012 are not subject to prior redemption. The bonds maturing on or after June 1, 2013 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after December 1, 2012, at par plus accrued interest.

c) State Match Refunding Series 2005 – The term bonds are subject to mandatory sinking fund redemption beginning December 1, 2016. Neither the term or serial bonds are subject to optional redemption prior to their stated maturity.

LGA reimbursements of WPCLF project costs of interest only, not the principal, pursuant to WPCLF loan agreements, are pledged as security for the bonds. In the event that LGA reimbursements of WPCLF interest project costs are insufficient to cover WPCLF State Match debt service payments, unencumbered assets of the WPCLF State Match Interest, Debt Service Reserve and Other Projects accounts are also pledged as security for the bonds. For the calendar year 2009, the amount received from reimbursements of WPCLF interest project costs was $82,522,015 compared to the required bond and note debt service payments of $55,497,696.

The bond resolution provides for five separate accounts designated as Net Bond Proceeds account, Debt Service account, Debt Service Reserve account, Cost of Issuance account and Rebate account. As of December 1, 2009, there is an $8,611 accrued rebate liability for these bonds.

The WPCLF – State Match Series debt service requirements to maturity are as follows:

		Principal	Interest	Total
2010	$	9,990,000	1,922,433	11,912,433
2011		7,480,000	1,441,546	8,921,546
2012		6,205,000	1,114,321	7,319,321
2013		5,190,000	830,971	6,020,971
2014		4,385,000	623,201	5,008,201
2015-2019		8,010,000	1,194,871	9,204,871
2020-2021		1,100,000	54,206	1,154,206
	$	42,360,000	7,181,549	49,541,549

Amounts received as interest from the LGAs as reimbursement of project or construction costs are deposited in the Interest account. The trustee then allocates or pays out moneys in the Interest account as follows:

a) To the Debt Service account, (a) all revenues as soon as received until the balance in the Debt Service account equals an amount which, when added to any balance then on deposit in the Debt Service account and available for such purpose, will be equal to the sum of (1) the interest on all outstanding WPCLF Bonds due on the next interest payment date, and (2) the principal of all outstanding WPCLF Bonds due on the next interest payment date, and (3) the mandatory sinking fund requirement for all outstanding WPCLF Bonds due on the next interest payment date and (b) on the last day of May, the amount contained in a direction from the Authority to be used to purchase WPCLF Bonds received by the trustee pursuant to any invitation to the holders to tender such WPCLF Bonds in accordance with the provisions of the applicable Series resolution.

b) To the trustee for the payment of its fees on the last day of each May and November.

c) To the Debt Service Reserve account, a semiannual sum on June 1 and December 1 as may be necessary to maintain in the Debt Service Reserve account investments or cash having a par value at least equal to the lesser of 50% of the maximum annual bond service charges required to be paid on all WPCLF Bonds issued and outstanding, or 10% of the principal amount of WPCLF Bonds issued and outstanding computed in accordance with the Trust Agreement.

d) To the Rebate Fund, as necessary to make any payment required under Section 148(f) of the Internal Revenue Code.

After the Debt Service Reserve account has reached the required reserve fund balance, interest earned on that balance will be transferred to the Debt Service account on the last day of May or November of each year.

(Continued)

(8) WATER POLLUTION CONTROL LOAN FUND REVENUE AND REFUNDING BONDS—WATER QUALITY SERIES

As of December 31, 2009, there was $1,288,535,840 of Water Pollution Control Loan Fund (WPCLF) Revenue and Refunding Bonds—Water Quality Series outstanding, as follows:

Series	Type	Interest Rate	Maturity		Current	Long-Term	Total
1997	Serial	5.00%	2010	$	6,220,000	-	6,220,000
2002	Serial	4.00% to 5.25%	2010-2014		2,325,000	21,675,000	24,000,000
2003	Serial	4.00% to 5.25%	2010-2015		17,870,000	82,795,000	100,665,000
2004	Serial	3.60% to 5.00%	2010-2025		24,795,000	332,565,000	357,360,000
2004 ref	Serial	5.00%	2010-2014		6,465,000	57,190,000	63,655,000
2005 ref	Serial	5.25% to 5.50%	2015-2023		-	215,445,000	215,445,000
2005B	Serial	4.25% to 5.00%	2010-2025		18,525,000	176,945,000	195,470,000
2005B	CABS*	4.06% to 4.45%	2012-2017		-	105,560,840	105,560,840
2009 ref	Serial	2.00% to 5.00%	2010-2019		17,015,000	203,145,000	220,160,000
WPCLF Water Quality Series Totals					93,215,000	1,195,320,840	1,288,535,840
			Add: unamortized premiums		-	75,253,838	75,253,838
			Less: deferred losses		-	(40,572,649)	(40,572,649)
				$	93,215,000	1,230,002,029	1,323,217,029

CABS* - Capital Appreciation Bonds

The Water Quality Series 2009 Bonds were issued to advance refund $75,170,000 of the Water Quality Series 2004 Bonds and $137,685,000 of the Water Quality Series 2005B Bonds. Although the refunding resulted in a deferred accounting loss of $19,601,642, the Authority in effect reduced its aggregate debt service payments by $80,552,344 and achieved an economic gain of $36,736,994.

Prior redemption of WPCLF – Water Quality Series bonds, by series, is as follows:

a) Water Quality Series 1997 – The bonds maturing on or after June 1, 2008 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after December 1, 2007, at par plus accrued interest plus a premium of 1%, which diminishes to zero by December 1, 2009.
b) Water Quality Series 2002 – The bonds maturing on or after June 1, 2015 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2012, at par plus accrued interest.
c) Water Quality Series 2003 – These bonds are not subject to mandatory or optional redemption prior to maturity.
d) Water Quality Series 2004 – The bonds maturing on or after December 1, 2014 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2014, at par plus accrued interest.
e) Water Quality Refunding Series 2004 – These bonds are not subject to mandatory or optional redemption prior to maturity.
f) Water Quality Refunding Series 2005 – These bonds are not subject to redemption prior to stated maturity.

(Continued)

g) Water Quality Series 2005B – The bonds maturing on or after December 1, 2017 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2015, at par plus accrued interest.

h) Water Quality Refunding Series 2009 – These bonds are not subject to redemption prior to stated maturity.

The WPCLF – Water Quality Series debt service requirements to maturity are as follows:

		Principal (a)	Interest	Total (a)
2010	$	93,215,000	56,319,809	149,534,809
2011		101,490,000	52,109,634	153,599,634
2012		106,825,000	47,624,565	154,449,565
2013		112,750,000	43,604,309	156,354,309
2014		115,740,000	39,305,167	155,045,167
2015-2019		569,760,000	125,195,839	694,955,839
2020-2024		204,180,000	20,284,076	224,464,076
2025		9,235,000	414,638	9,649,638
	$	1,313,195,000	384,858,037	1,698,053,037

(a) Includes capital appreciation bonds at matured value.

LGA reimbursements of WPCLF project costs of principal only, not the interest, pursuant to WPCLF loan agreements, are pledged as security for the bonds. In the event that LGA reimbursements of WPCLF principal project costs are insufficient to cover WPCLF Water Quality debt service payments, unencumbered assets of the WPCLF Water Quality Debt Service Reserve, Surplus and Other Projects accounts are also pledged as security for the bonds. For the calendar year 2009, the amount received from reimbursements of WPCLF principal project costs was $156,535,693, compared to the required bond debt service payments of $135,039,645.

The bond resolution provides for five separate accounts designated as Net Bond Proceeds account, Debt Service account, Debt Service Reserve account, Cost of Issuance account and Rebate account. As of December 31, 2009, there is no accrued rebate liability for these bonds.

Amounts received as principal from the LGAs as reimbursement of project or construction costs are deposited in the Repayment account. The trustee then allocates or pays out moneys in the Repayment account as follows:

a) To the Debt Service account, (a) all revenues as soon as received until the balance in the Debt Service account equals an amount which, when added to any balance then on deposit in the Debt Service account and available for such purpose, will be equal to the sum of (1) the interest on all outstanding WPCLF Bonds due on the next interest payment date, (2) the principal of all outstanding WPCLF Bonds due on the next interest payment date, and (3) the mandatory sinking fund requirement for all outstanding WPCLF Bonds due on the next interest payment date and

(Continued)

(b) on the last day of May and November, the amount contained in a direction from the Authority to be used to purchase WPCLF Bonds received by the trustee pursuant to any invitation to the holders to tender such WPCLF Bonds in accordance with the provisions of the applicable Series resolution.

b) To the trustee for the payment of its fees on the last day of each May and November.

c) To the Debt Service Reserve account, a semiannual sum on June 1 and December 1 as may be necessary to maintain in the Debt Service Reserve account investments or cash having a par value at least equal to the lesser of 50% of the maximum annual bond service charges required to be paid on all Water Quality Bonds outstanding.

d) To the Rebate Fund, as necessary to make any payment required under section 148(f) of the Internal Revenue Code.

After the Debt Service Reserve account has reached the required reserve fund balance, interest earned on that balance will be transferred to the Debt Service account on the last day of May or November of each year.

(9) DRINKING WATER ASSISTANCE FUND REVENUE BONDS—STATE MATCH SERIES

As of December 31, 2009, there was $37,165,000 of Drinking Water Assistance Fund (DWAF) Revenue Bonds—State Match Series outstanding, as follows:

Series	Type	Interest Rate	Maturity		Current	Long-Term	Total
2002	Serial	4.00% to 5.00%	2010-2021	$	1,915,000	12,245,000	14,160,000
	Term	5.00%	2022-2023		-	115,000	115,000
2004	Serial	3.00% to 5.00%	2010-2013		2,395,000	6,680,000	9,075,000
	Term	4.25% to 5.00%	2014-2025		-	13,815,000	13,815,000
DWAF State Match Series Totals					4,310,000	32,855,000	37,165,000
		Add: unamortized premiums (net)			-	677,881	677,881
				$	4,310,000	33,532,881	37,842,881

Prior redemption of DWAF – State Match Series bonds, by series, is as follows:

a) State Match Series 2002 – The bonds maturing on or after June 1, 2013 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after December 1, 2012, at par plus accrued interest.

b) State Match Series 2004 – The bonds maturing on or after December 1, 2014 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2014, at par plus accrued interest.

The DWAF State Match Series debt service requirements to maturity are as follows:

		Principal	Interest	Total
2010	$	4,310,000	1,658,507	5,968,507
2011		4,135,000	1,463,457	5,598,457
2012		3,940,000	1,274,744	5,214,744
2013		3,720,000	1,104,857	4,824,857
2014		3,470,000	962,688	4,432,688
2015-2019		13,080,000	2,572,257	15,652,257
2020-2024		4,375,000	411,700	4,786,700
2025		135,000	3,931	138,931
	$	37,165,000	9,452,141	46,617,141

LGA reimbursements of DWAF project costs of interest only, not the principal, pursuant to DWAF loan agreements, are pledged as security for the bonds. In the event that LGA reimbursements of DWAF interest project costs are insufficient to cover DWAF State Match debt service payments, unencumbered assets of the DWAF State Match Debt Service Reserve and Other Projects accounts are also pledged as security for the bonds. For the calendar year 2009, the amount received from reimbursements of DWAF interest project costs was $14,952,363, compared to the required bond debt service payments of $6,323,132.

The bond resolution provides for five separate accounts designated as Net Bond Proceeds account, Debt Service account, Debt Service Reserve account, Cost of Issuance account and Rebate account. As of December 31, 2009, there is no accrued rebate liability for these bonds.

Amounts received as interest from the LGAs as reimbursement of project or construction costs are deposited in the Interest account. The trustee then allocates or pays out moneys in the Interest account as follows:

a) To the Debt Service account, (a) all revenues as soon as received until the balance in the Debt Service account equals an amount which, when added to any balance then on deposit in the Debt Service account and available for such purpose, will be equal to the sum of (1) the interest on all outstanding DWAF State Match Bonds due on the next interest payment date, (2) the principal of all outstanding DWAF State Match Bonds due on the next interest payment date, and (3) the mandatory sinking fund requirement for all outstanding DWAF State Match Bonds due on the next interest payment date and (b) on the last day of May, the amount contained in a direction from the Authority to be used to purchase DWAF State Match Bonds received by the trustee pursuant to any invitation to the holders to tender such DWAF State Match Bonds in accordance with the provisions of the applicable Series resolution.

b) To the trustee for the payment of its fees on the last day of each May and November.

c) To the Debt Service Reserve account, a semiannual sum on June 1 and December 1 as may be necessary to maintain in the Debt Service Reserve account investments or cash having a par value at least equal to the lesser of 50% of the maximum annual bond service charges required to be paid on all DWAF State Match Bonds issued and outstanding, or 10% of the principal amount of

DWAF State Match Bonds issued and outstanding computed in accordance with the Trust Agreement.

d) To the Rebate account, as necessary to make any payment required to be paid to the United States of America under Section 148(f) of the Code.

e) From and after any issuance of DWAF Support Obligations and for so long as any DWAF Support Obligations remain outstanding, to the DWAF Support Obligations Debt Service Fund, the balance of the Revenues to the extent required for the payment of accrued interest on and the payment of the principal of DWAF Support Obligations.

After the Debt Service Reserve account has reached the required reserve fund balance, interest earned on that balance will be transferred to the Debt Service account on the last day of May or November of each year.

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(10) DRINKING WATER ASSISTANCE FUND REVENUE AND REFUNDING BONDS—LEVERAGE SERIES

As of December 31, 2009, there was $236,735,000 of Drinking Water Assistance Fund (DWAF) Revenue and Refunding Bonds—Leverage Series outstanding, as follows:

Series	Type	Interest Rate	Maturity		Current	Long-Term	Total
2002	Serial	4.00% to 5.375%	2010-2013	$	2,180,000	8,265,000	10,445,000
	Term	5.50%	2014		-	3,420,000	3,420,000
2004	Serial	3.00% to 5.00%	2010-2013		1,975,000	7,210,000	9,185,000
	Term	4.50% to 5.00%	2014-2025		-	51,660,000	51,660,000
2005 ref	Serial	5.00% to 5.25%	2015-2023		-	18,705,000	18,705,000
	Term	5.25%	2019-2022		-	17,860,000	17,860,000
2005B	Serial	4.00% to 5.00%	2010-2026		2,210,000	17,475,000	19,685,000
	Term	4.50% to 5.00%	2016-2025		-	36,365,000	36,365,000
2008 ref	Serial	3.25% to 5.00%	2010-2018		2,590,000	24,190,000	26,780,000
	Term	5.00%	2019-2028		-	42,630,000	42,630,000
DWAF Leverage Series Totals					8,955,000	227,780,000	236,735,000
		Add: unamortized premiums			-	10,440,597	10,440,597
		Less: deferred loss			-	(2,145,298)	(2,145,298)
				$	8,955,000	236,075,299	245,030,299

Prior redemption of DWAF – Leverage Series bonds, by series, is as follows:

a) Leverage Series 2002 – The bonds maturing on or after June 1, 2013 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after December 1, 2012, at par plus accrued interest.
b) Leverage Series 2004 – The bonds maturing on or after December 1, 2014 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2014, at par plus accrued interest.
c) Leverage Refunding Series 2005 – The term bonds are subject to mandatory redemption beginning June 1, 2019, at par plus accrued interest. Neither the term or serial bonds are subject to optional redemption prior to their stated maturity.
d) Leverage Series 2005B – The term bonds are subject to mandatory redemption beginning June 1, 2016, at par plus accrued interest. Both the term and serial bonds maturing after December 1, 2015 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on any date on or after December 1, 2015, at par plus accrued interest.
e) Leverage Refunding Series 2008 – The bonds maturing after June 1, 2018 are callable for redemption prior to maturity at the option of the Authority, in whole or in part, on or after June 1, 2018, at par plus accrued interest.

The DWAF Leverage Series debt service requirements to maturity are as follows:

		Principal	Interest	Total
2010	$	8,955,000	11,005,713	19,960,713
2011		9,815,000	10,667,538	20,482,538
2012		10,745,000	10,251,429	20,996,429
2013		11,360,000	9,835,591	21,195,591
2014		12,230,000	9,373,988	21,603,988
2015-2019		73,760,000	37,126,127	110,886,127
2020-2024		80,540,000	17,426,001	97,966,001
2025-2028		29,330,000	2,038,475	31,368,475
	$	236,735,000	107,724,862	344,459,862

LGA reimbursements of DWAF project costs of principal only, not the interest, pursuant to DWAF loan agreements, are pledged as security for the bonds. In the event that LGA reimbursements of DWAF principal project costs are insufficient to cover DWAF Leverage debt service payments, unencumbered assets of the DWAF Leverage Debt Service Reserve and Other Projects accounts are also pledged as security for the bonds. For the calendar year 2009, the amount received from reimbursements of DWAF principal project costs was $23,237,685, compared to the required bond debt service payments of $19,465,594.

The bond resolution provides for five separate accounts designated as Net Bond Proceeds account, Debt Service account, Debt Service Reserve account, Cost of Issuance account and Rebate account. As of December 31, 2009, there is no accrued rebate liability for these bonds.

Amounts received as principal from the LGAs as reimbursement of project or construction costs are deposited in the Principal Repayments account. The trustee then allocates or pays out moneys in the Principal Repayments account as follows:

a) To the Debt Service account, (a) all revenues as soon as received until the balance in the Debt Service account equals an amount which, when added to any balance then on deposit in the Debt Service account and available for such purpose, will be equal to the sum of (1) the interest on all outstanding DWAF Leverage Bonds due on the next interest payment date, (2) the principal of all outstanding DWAF Leverage Bonds due on the next interest payment date, and (3) the mandatory sinking fund requirement for all outstanding DWAF Leverage Bonds due on the next interest payment date and (b) on the last day of May, the amount contained in a direction from the Authority to be used to purchase DWAF Leverage Bonds received by the trustee pursuant to any invitation to the holders to tender such DWAF Leverage Bonds in accordance with the provisions of the applicable Series resolution.

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b) To the trustee for the payment of its fees on the last day of each May and November.

c) To the Debt Service Reserve account, a semiannual sum on June 1 and December 1 as may be necessary to maintain in the Debt Service Reserve account investments or cash having a par value at least equal to the lesser of 50% of the maximum annual bond service charges required to be paid on all DWAF Leverage Bonds issued and outstanding, or 10% of the principal amount of DWAF Leverage Bonds issued and outstanding computed in accordance with the Trust Agreement.

d) To the Rebate Fund, as necessary to make any payment required under section 148(f) of the Internal Revenue Code.

After the Debt Service Reserve account has reached the required reserve fund balance, interest earned on that balance will be transferred to the Debt Service account on the last day of May or November of each year.

(11) OUTSTANDING DEFEASED BONDS

For accounting purposes, the assets and liabilities for defeased bonds are not reflected in the Authority's financial statements. Below is a listing of Authority bonds remaining outstanding as of December 31, 2009 which has been defeased:

Series	Year Defeased		Balance Outstanding
Pollution Abatement Series II	1979	$	1,100,000
Safe Water Series II & III	1985		2,895,000
Pure Water Series 1989 & 1990	1992		29,495,000
Fresh Water 1995	1998		11,125,000
Fresh Water 1998, 2001 & 2002	2005		51,620,000
Fresh Water 2004	2006		55,055,000
Fresh Water 2001, 2002 & 2004	2009		80,165,000
WPCLF State Match Series 2000	2005		14,075,000
WPCLF Water Quality Series 2002	2005		162,450,000
WPCLF Water Quality Series 2004 & 2005B	2009		212,855,000
DWAF Leverage Series 2002	2005		37,500,000
		$	658,335,000

(12) WATER DEVELOPMENT REVENUE BONDS AND NOTES—INDUSTRIAL SERIES

The Authority established the industrial program to assist private industry and certain municipalities in financing the construction of water and solid waste pollution control facilities. Under the financing agreements, industrial companies and municipalities are required to make payments for a period of up to 35 years, sufficient to pay, as they become due, interest and principal on the bonds and notes issued to finance the projects. The Authority has no liability for repayment of these bonds and notes. As of December 31, 2009, outstanding bonds and notes under this program total $2,197,180,000.

(13) DEFINED BENEFIT PENSION PLAN

All employees of the Authority participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system that administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. The total payroll as well as the payroll for employees covered by OPERS for the years ended December 31, 2009, 2008 and 2007 were approximately $1,110,000, $1,090,000 and $994,000, respectively. In 2009, the employee and employer contribution rates were 10% and 14%, respectively, for all Authority employees. Total required employer contributions were approximately $155,000, $153,000 and $137,000 for the years ending December 31, 2009, 2008 and 2007, respectively, and are equal to 100% of the dollar amount billed to, and paid by, the Authority.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800) 222-PERS.

Postretirement Healthcare

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension.*

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. The authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund postretirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to healthcare was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The Authority's 2009 employer contributions made to fund post-employment benefits were $64,816, covering 20 participants. The

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Authority's 2008 and 2007 contributions to fund post employment benefits were $76,280 (20 participants) and $55,439 (18 participants), respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

(14) COMMITMENTS

As of December 31, 2009, the Authority has loan commitments to finance LGA construction projects in the following amounts:

Fund	Amount
Other Projects	$ 10,970,546
Rural Utility Services	3,292,422
Community Assistance	13,325,021
Fresh Water	127,964,089
Pure Water Refunding	309,800
Water Pollution Control Loan	584,464,017
Drinking Water Assistance	152,868,450
	$ 893,194,345

Loan commitments consist of loan awards that have been encumbered by the Authority but not yet disbursed to the LGAs. The Authority intends to meet these LGA commitments with currently available funds and grant commitments from the U.S. EPA.

(15) TRANSFERS

Interfund transfers for the year ended December 31, 2009 consisted of the following:

Transfer from Working Capital to:		
Fresh Water	$	(414,351)
Transfers from Other Projects to:		
Fresh Water		(893,263)
Pure Water Refunding		(1,055,039)
	$	(1,948,302)
Transfers to Community Assistance from:		
Fresh Water	$	20,000,000
Transfers to (from) Fresh Water from (to):		
Working Capital		414,351
Other Projects		893,263
Community Assistance		(20,000,000)
Pure Water Refunding		22,650,621
	$	3,958,235
Transfers to (from) Pure Water Refunding from (to):		
Other Projects		1,055,039
Fresh Water		(22,650,621)
		(21,595,582)
Total Transfers, net	$	–

Transfers are used to meet the requirements of certain debt covenants or to fund additional program activities as authorized by the Authority's Board. In the year ended December 31, 2009, the Authority made a non-routine transfer totaling $20,000,000 to the Community Assistance Fund from the Fresh Water Fund for additional funding for Community Assistance loans.

(16) CHANGES IN LONG-TERM LIABILITIES

As of December 31, 2009, the Authority has long-term liabilities in the following amounts:

Long-Term Liability	12/31/2008 Balance	Additions	Reductions	12/31/2009 Balance	Due Within One Year	Due in More Than One Year
Compensated Absences	$ 199,266	153,350	150,491	202,125	13,008	189,117
Revenue Bonds and Notes Payable	2,328,560,786	505,308,708	539,058,758	2,294,810,736	170,530,000	2,124,280,736
Total Long-Term Liabilities	$2,328,760,052	505,462,058	539,209,249	2,295,012,861	170,543,008	2,124,469,853

(17) CHANGES IN SHORT-TERM LIABILITIES

As of December 31, 2009, the Authority has short-term liabilities in the following amounts:

Short-Term Liability	12/31/2008 Balance	Additions	Reductions	12/31/2009 Balance
Revenue Notes Payable	$ 170,253,234	40,000,000	210,253,234	-
Total Short-Term Liabilities	$ 170,253,234	40,000,000	210,253,234	-

(18) SUBSEQUENT EVENT

Since December 31, 2009, the Authority has issued additional debt. The Authority issued $366,290,000 in Water Pollution Loan Fund Revenue Bonds – Water Quality Series 2010 in January 2010. As these bonds were not issued until 2010, they are not included in the long-term debt of the Authority as of December 31, 2009.

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

Ohio Water Development Authority
480 South High Street
Columbus, Ohio 43215

We have audited the financial statements of each major fund of the Ohio Water Development Authority (the Authority), a component unit of the State of Ohio, as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

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Compliance and Other Matters

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

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
March 19, 2010

Mary Taylor, CPA
Auditor of State

OHIO WATER DEVELOPMENT AUTHORITY

FRANKLIN 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
APRIL 13, 2010

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us