CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2005 and 2004

Auditor of State
Betty Montgomery

Board of Commissioners
Clermont County Water and Sewer District
101 East Main Street
Batavia, Ohio 45103

We have reviewed the *Independent Auditor's Report* of the Clermont County Water and Sewer District, Sewer and Water Systems, Clermont County, prepared by Bastin & Company, LLC, for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 24, 2006

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FINANCIAL STATEMENTS:

Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Sewer District (District), Sewer System, Batavia, Ohio, as of and for the years ended December 31, 2005 and 2004 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Sewer System and are not intended to, and do not, present fairly the financial position of Clermont County, Ohio, as of December 31, 2005 and 2004 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Sewer System, as of December 31, 2005 and 2004 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4 , 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Bastin & Company, LLC

Cincinnati, Ohio
April 4 , 2006

4424 Aicholtz Road, Suite D, Cincinnati, Ohio 45245-1561, Telephone/Fax (513) 753-3999

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clermont County Sewer District's Sewer System' s financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2005.

FINANCIAL HIGHLIGHTS

- The Sewer System's net assets increased by $10.4 million or 7.2% in 2005.
- During the year, the System generated $0.2 million from operations and used $0.4 million in other financing activities, primarily for interest expense.
- The operating income was down $0.6 million from 2004, primarily due to increased utility expenses.
- Debt decreased $2.4 million. Retirement of scheduled debt decreased the debt $2.0 million and the finalizations of the amounts of OPWC loans decreased the debt $0.4 million.

USING THIS ANNUAL REPORT

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

SYSTEM SUMMARY

The Sewer System's total net assets increased from $143.3 million to $153.7 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System.

Table 1

NET ASSETS (in Millions)	2005	2004
Current and Other Assets	$ 65.1	$ 64.9
Capital Assets	133.9	125.9
Total Assets	199.0	190.8
Long Term Debt Outstanding	40.9	43.4
Other Liabilities	4.4	4.1
Total Liabilities	45.3	47.5
Net Assets:		
Invested in capital assets, net of debt	90.9	80.5
Restricted for debt service	4.2	4.2
Unrestricted	58.6	58.6
Total Net Assets	$153.7	$143.3

Net assets of the System increased by 7.2%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, remained constant in 2005. Restricted assets, those restricted mainly for capital projects and bond covenants, also remained constant. The investment in capital assets, net of debt increased by $10.4 million. This increase reflects capital assets financed from the System's net assets, which came from capital contributions in the form of system capacity fees, donated assets, assessments and grants.

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

Table 2

CHANGE IN NET ASSETS (in Millions)		2005	2004
Operating Revenues	Charges for Services	$13.5	$13.6
	Plan Review & Inspection	0.2	0.1
	Other Operating Revenues	0.2	0.2
	Total Operating Revenues	13.9	13.9
Operating Expenses	Operating Expenses	7.3	6.7
	Depreciation Expense	6.4	6.4
	Total Operating Expense	13.7	13.1
	Operating Income	0.2	0.8
Non-Operating Revenues	Interest Income	1.5	0.7
	Net Change in Market Value of Investments	(0.1)	(0.3)
	Interest and Fiscal Charges	(1.8)	(2.1)
	Income (Loss) before Contributions	(0.2)	(0.9)
Contributions/Transfers	Capital Contributions and Transfers	10.6	4.7
Change in Net Assets	**Total Change in Net Assets**	$10.4	$ 3.8

As seen in table 2 the Sewer System’s capital contributions/transfers of $10.6 million was the primary source of the increase in net assets in 2005. Operating revenues remained flat in 2005 compared to 2004. Net non-operating revenues were up $1.3 million due mainly due to increases in interest earnings on held funds. The increase in operating expenses of 4.6% ($0.6 million) was primarily a result of increases in the cost of utilities.

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

FINANCIAL RATIOS ($ in thousands)

	1999	2000	2001	2002	2003	2004	2005
Working Capital	$39,887	$48,118	$46,179	$45,569	$50,269	$51,802	$53,883
Current Ratio	47.1	91.2	77.0	74.3	88.7	68.5	74.7
Days Cash & Investments	2,038	2,436	2,442	2,352	2,638	2,369	2,389
Liabilities to Net Assets	46%	42%	40%	37%	34%	33%	30%
Return on Assets	2%	3%	2%	1%	1%	1%	1%
Days in Receivables	65	67	83	72	73	70	79

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the Sewer System had $242.3 million invested in capital assets including sewer lines, pump stations, treatment plants in operations or under construction. This amount represents a net increase of $14.3 million.

Capital Assets at Year-End (Net of Depreciation, in millions)	2005	2004
Land	$ 3.0	$ 2.9
Structures	90.9	90.0
Machinery	10.6	10.5
Collection Systems	119.0	111.9
Autos/Trucks	1.3	1.2
Construction in Progress	17.5	11.5
Subtotal Capital Assets	242.3	228.0
Accumulated Depreciation	(108.4)	(102.1)
Total Capital Assets	$133.9	$125.9

The year's major additions/completions included:

$5.6 Million of sewer lines donated by developers
$0.9 Million for the Shayler Run/Tealtown Sewer Lines
$0.7 Million for the renovations at Lower East Fork Wastewater Treatment Plant
$0.5 Million for the Marcie Lane Sewer Assessment Project

The Sewer System's 2006 capital budget anticipates a spending level of $30.9 million for capital projects. The District anticipates grants, loans and assessment bond proceeds (approx $7.0 million) to help fund some of these expenditures.

Additional information on the District's capital assets can be found in Note 4 on page 19 of this report.

Debt

At year-end, 2005, the System had $43.0 million in bonds and loans outstanding, a reduction of $2.4 million or 5.2% from 2004. The reduction reflects the final amounts for OPWC loans resulting in a $0.4 million reduction as well as $2.0 million of scheduled debt retirements

Outstanding Debt, at Year-End (in millions)	2005	2004
2003 Revenue Bonds	$35.9	$37.6
OWDA Loans	1.3	1.4
OPWC Loan	5.8	6.4
Total Debt	$43.0	$45.4

One area that demonstrates the System's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a strong 348%. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	2005
Income From Operations	($0.2)
Add items to convert income from operations to pledged revenues:	
Interest Paid on Bonds	1.6
Deferred Debt Amortization	0.2
Depreciation Expense	6.4
System Capacity Charges	2.9
Net Pledged Revenues	$10.9
Debt Service Requirements during 2005	$ 3.1
Coverage Ratio	348%
Required Coverage Ratio	110%

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

CONTACTING THE SYSTEM' S FINANCIAL MANAGEMENT

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

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
STATEMENTS OF NET ASSETS
December 31, 2005 and 2004

ASSETS

	2005	2004
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	$ 3,206,794	$ 3,394,892
Cash and cash equivalents in segregated accounts	892,709	2,771,592
Investments in segregated accounts	47,491,070	43,737,495
Accounts receivable (net of allowance for doubtful accounts of $45,747 for 2005 and $56,503 for 2004)	2,920,608	2,608,905
Inventory of supplies at cost	102,622	56,325
Total current assets	54,613,803	52,569,209
NONCURRENT ASSETS:		
Restricted assets:		
Equity in pooled cash and cash equivalents	27,167	1,884
Cash and cash equivalents in segregated accounts	736,560	83,900
Investments in segregated accounts	4,606,389	5,202,323
Contractor retainage accounts	152,820	80,942
Accrued interest	293,075	71,821
Total restricted assets	5,816,011	5,440,870
Capital assets, net	133,921,215	125,940,480
Grants Receivable	355,513	456,846
Loans receivable	2,286,600	4,079,273
Unamortized financing costs	1,949,621	2,163,156
Interfund receivable	115,663	143,146
Total noncurrent assets	144,444,623	138,223,771
TOTAL ASSETS	199,058,426	190,792,980

LIABILITIES

	2005	2004
CURRENT LIABILITIES:		
Accounts payable	435,325	506,117
Accrued wages and benefits	295,827	261,539
Current portion of OWDA notes payable	156,499	148,428
Current portion of OPWC loans payable	285,161	229,771
Total current liabilities	1,172,812	1,145,855
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable	792,430	528,434
Current portion of revenue bonds payable	1,665,000	1,635,000
Accrued interest payable	604,154	617,779
Contractor maintenance bonds payable	50,540	38,540
Contractor retainages payable	152,820	80,942
Total noncurrent liabilities payable from restricted assets	3,264,944	2,900,695
NONCURRENT LIABILITIES:		
Long term portion of OWDA notes payable	1,147,903	1,304,402
Long term portion of OPWC loans payable	5,502,001	6,178,271
Long term portion of revenue bonds payable	34,260,000	35,925,000
Total other noncurrent liabilities	40,909,904	43,407,673
TOTAL LIABILITIES	45,347,660	47,454,223

NET ASSETS

	2005	2004
Invested in capital assets, net of related debt	90,904,651	80,519,608
Restricted for debt service	4,216,067	4,175,175
Unrestricted	58,590,048	58,643,974
TOTAL NET ASSETS	$153,710,766	$143,338,757

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

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2005 and 2004

	2005	2004
OPERATING REVENUES:		
Charges for services	$ 13,548,303	$ 13,527,194
New services and reviews	177,576	177,539
Other revenues	162,905	187,291
Total operating revenues	13,888,784	13,892,024
OPERATING EXPENSES:		
Personnel services	2,738,232	2,700,962
Contractual services	1,257,677	1,067,328
Maintenance and repair	334,506	438,678
Materials and supplies	1,236,476	1,117,582
Utilities	1,705,680	1,360,786
Depreciation	6,402,848	6,393,086
Other	18,417	14,072
Total operating expenses	13,693,836	13,092,494
OPERATING INCOME	194,948	799,530
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,502,321	698,388
Net decrease in fair value of investments	(158,532)	(259,543)
Interest and fiscal charges	(1,771,300)	(2,155,331)
Total nonoperating revenues (expenses)	(427,511)	(1,716,486)
LOSS BEFORE CONTRIBUTIONS AND TRANSFERS	(232,563)	(916,956)
CAPITAL CONTRIBUTIONS:		
Transfers-in from County	1,638,416	459,466
Capital contributions	8,966,156	4,205,810
CHANGE IN NET ASSETS	10,372,009	3,748,320
NET ASSETS BEGINNING OF YEAR	143,338,757	139,590,437
NET ASSETS END OF YEAR	$153,710,766	$143,338,757

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

CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$13,424,932	$13,577,302
Payments to suppliers	(4,601,017)	(3,974,892)
Payments to employees	(2,703,944)	(2,580,427)
Other receipts	162,905	364,830
Net cash provided by operating activities	6,282,876	7,386,813
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(3,576,013)	(3,484,832)
Proceeds from capital related loans	1,392,988	-
Construction and acquisition of capital assets	(8,583,008)	(5,295,030)
Contractor maintenance bond receipts	20,400	12,140
Contractor maintenance bond payments	(8,400)	-
Proceeds from assessments	203,336	3,137
Cash received from developers	105,002	17,100
Contractor retainage receipts	142,050	103,614
Contractor retainage payments	(70,172)	(295,984)
Proceeds from capital related interfund receivable	71,573	71,572
Proceeds from capital related grants	245,572	45,766
Advances to other funds	(44,090)	-
Proceeds from transfer in from County	1,638,416	459,466
System capacity charges	2,897,416	2,349,100
Net cash used by capital and related financing activities	(5,564,930)	(6,013,951)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(54,398,745)	(59,595,520)
Investment sales	51,082,572	51,016,597
Interest received on investments	1,281,067	754,130
Net cash used by investing activities	(2,035,106)	(7,824,793)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,317,160)	(6,451,931)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,333,210	12,785,141
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 5,016,050	$ 6,333,210
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	$ 194,948	$ 799,530
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,402,848	6,393,086
Change in assets and liabilities:		
Net change in customer accounts receivable	(311,703)	50,108
Net change in inventory	(46,297)	(50,276)
Net change in operating accounts payable	8,792	73,840
Net change in accrued payroll and related expenses	34,288	120,525
Net cash provided by operating activities	$ 6,282,876	$ 7,386,813
NON-CASH TRANSACTIONS:		
Contributions from developers	$ 5,616,163	$ 1,529,514
OPWC loans receivable	-	2,286,600
Net change in the fair value of investments	(158,532)	(259,543)
Total non-cash transactions	$ 5,457,631	$ 3,556,571

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

1. Summary of Significant Accounting Policies

Organization

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

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

Basis of Accounting

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

Cash and Investments

Cash and investments consist of the District's portion of the County's pooled cash and investment balances, contractor retainage accounts and funds maintained with a trustee in accordance with revenue bond legislation. During 2005 investments were limited to treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 3 provides additional information regarding the District's cash and investments.

Statements of Cash Flows

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

Inventory

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

Restricted Assets

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

Capital Assets

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

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

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

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

Description	Years
Structures	50
Machinery	20
Collection systems	50
Autos and trucks	5-10

Interfund Receivable

During 1997 the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. Interfund receivable totaled $71,573 and $143,146 at December 31, 2005 and 2004, respectively.

During 2005, the District advanced $44,090 to the County to fund current-year debt service for special assessment debt on deferred assessments. Upon receipt of the deferred assessment by the County, the advance will be repaid to the District.

Loans Receivable

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

Unamortized Financing Costs

The unamortized financing costs include costs incurred in connection with prior revenue bond issues and the 2003 refunding. These costs are being amortized on the interest method over the lives of the revenue bonds and are included as interest expense. The amount amortized was $213,535 and $218,351 for 2005 and 2004, respectively.

Compensated Absences

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

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

Contractor Maintenance Bonds Payable

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

Self Insurance

The District, as a enterprise fund of the County, participates in the self insurance program for employee care benefits. During 2005, the program was administered by Humana Inc. which provides claims review and processing services. The District is charged its proportionate share for covered employees.

Net Assets

Total net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances, of any borrowing (both current and long-term portions) used for the acquisition, construction or improvements of those assets. Net assets restricted for debt service consists of restricted assets reduced by liabilities that are to be paid from those assets. The net assets are reported as restricted when there are limitations imposed by creditors, grantors, laws, or regulations of other governments.

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

Operating Revenues and Expenses

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

Capital Contributions

Contributions of capital arise from the contributions of fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges. During 2005 and 2004, the following capital contributions were received:

	2005	2004
Grants earned/received	$ 144,239	$ 306,959
Donated assets	5,616,163	1,529,514
System capacity charges	2,897,416	2,349,100
Assessment proceeds	203,336	3,137
Cash contributions from developers	105,002	17,100
Total	$8,966,156	$4,205,810

Interfund Activity

The Ohio Revised Code provides for the issuance of special assessment bonds for sewer improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as special assessment bonds of the County. If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the District. During 2005 and 2004, no funds were required to be contributed by the District to finance shortfalls in assessment obligations. During 2005 and 2004, the County transferred $1,638,416 and $459,466 of proceeds from the issuance of special assessment bonds to the District to reimburse applicable assessment project construction costs. In addition, the District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2005 and 2004 were $168,801 and $157,933 respectively and are classified as contractual services.

Estimates

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

2. Change in Accounting Principle

For calendar year, 2005, the District has implemented GASB Statement No. 40 “Deposits and Investment Risk Disclosures”. GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

3. Cash, Cash Equivalents and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States.

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of the federal government agencies or instrumentalities.

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be market to market daily, and that the term of the agreement must not exceed thirty days.

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions,

6. The State Treasurer's investment pool (STAR Ohio).

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any time

8. Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits

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

The County maintains a cash and investment pool used by all funds of the County, including the District. The District's portion of the pooled is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents." As of December 31, 2005 and 2004, the carrying amount of the District's portion of the pool totaled $3,233,961 and $3,396,776, respectively. The District's portion of the pool can not be separately classified by risk. The County's financial statements provides risk disclosures pertaining to the entire cash and investment pool.

The District maintains funds in contractor retainage accounts that represent cash retained from construction contractor payments until satisfactory completion of projects. As of December 31, 2005 the bank and carrying amount of retainage accounts totaled $152,820. Based on criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures" $34,929 of the Districts bank balances of $152,820 was exposed to custodial risk as discussed above, while $117,891 was covered by FDIC Insurance. As of December 31, 2004 retainage accounts totaled $80,942, all of which was covered by FDIC Insurance.

Investments

The District's investments at December 31, 2005 were as follow:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$13,792,355	.41
Treasury Notes	38,305,104	1.11
Money Market Accounts	1,629,269	.00
Total Fair Value	$53,726,728	
Portfolio Weighted Average Maturity		.93

The District's investments at December 31, 2004 were as follow:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$19,204,903	.22
Treasury Notes	29,734,915	1.22
Money Market Accounts	2,855,492	.00
Total Fair Value	$51,795,310	
Portfolio Weighted Average Maturity		.85

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

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

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

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

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation of cash, cash equivalents and investments on the financial statements and the classification per GASB Statement No 3. at December 31, 2005 follows:

	Fair Value Cash and Investments	Fair Value Investments
Per Balance Sheet	$ 5,016,050	$52,097,459
Money market funds	(1,629,269)	1,629,269
Per GASB Statement No. 3	$ 3,866,781	$53,726,728

A reconciliation of cash, cash equivalents and investments at December 31, 2004 follows:

	Fair Value Cash and Investments	Fair Value Investments
Per Balance Sheet	$ 6,333,210	$48,939,818
Money market funds	(2,855,492)	2,855,492
Per GASB Statement No. 3	$ 3,477,718	$51,795,310

4. Capital Assets

The following summarizes the changes to capital assets during 2005.

Class	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	$ 2,890,827	$ 122,458	$ -	$ 3,013,285
Construction in progress	11,538,702	8,669,304	(2,660,747)	17,547,259
Capital assets being depreciated:				
Structure	90,009,673	896,700	-	90,906,373
Machinery	10,514,047	128,406	-	10,642,453
Collection systems	111,895,823	7,123,223	-	119,019,046
Autos and trucks	1,187,865	104,239	(56,285)	1,235,819
Total cost	$228,036,937	$17,044,330	($2,717,032)	$242,364,235
Accumulated depreciation:				
Structure	($50,174,376)	($3,358,151)	$ -	($53,532,527)
Machinery	(8,110,457)	(395,183)	-	(8,505,640)
Collection systems	(42,821,839)	(2,615,108)	-	(45,436,947)
Autos and trucks	(989,785)	(34,406)	56,285	(967,906)
Accumulated depreciation	($102,096,457)	($6,402,848)	$ 56,285	($108,443,020)
Net value	$ 125,940,480			$ 133,921,215

Assets contributed by developers and others in 2005 amounted to $5,616,163. .

5. Long-Term Debt

For the year ended December 31, 2005, changes in long-term debt consisted of the following:

	Matuity/ Interest Rate	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005	Amount Due Within One Year
Ohio Water Development Authority Notes - $2,900,437	2013 5.2-6.5%	$ 1,452,830	$ -	$ 148,428	$ 1,304,402	$ 156,499
OPWC Loans - $7,436,210	2026 0-2%	6,408,042	-	620,880	5,787,162	285,161
2003 Sewer System Refunding Revenue Bonds - $39,345,000	2024 2-4.9%	37,560,000	-	1,635,000	35,925,000	1,665,000
Total		$45,420,872	$ -	$2,404,308	$43,016,564	$2,106,660

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

Year	OWDA Notes	OWDA Note Interest	OPWC Loans	OPWC Loans Interest	Revenue Bonds	Revenue Bond Interest	Total
2006	$ 156,499	$ 68,673	$ 285,161	$10,851	$ 1,665,000	$ 1,449,970	$ 3,636,154
2007	165,011	60,161	350,637	9,705	1,700,000	1,416,670	3,702,184
2008	173,988	51,184	351,807	8,535	1,750,000	1,365,670	3,701,184
2009	183,456	41,715	353,001	7,342	1,805,000	1,313,170	3,703,684
2010	193,443	31,728	354,218	6,124	1,875,000	1,240,970	3,701,483
2011-2015	432,005	32,397	1,721,978	11,826	10,570,000	5,017,250	17,785,456
2016-2020	-	-	1,287,923	-	12,935,000	2,643,700	16,866,623
2021-2025	-	-	1,018,107	-	3,625,000	241,072	4,884,179
2026	-	-	64,330	-	-	-	64,330
	$1,304,402	$285,858	$5,787,162	$54,383	$35,925,000	$14,688,472	$58,045,277

Notes payable at December 31, 2005 consist of $1,304,402 due to the Ohio Water Development Authority. Payments of principal and interest are payable semi-annually through 2013 and include interest at rates ranging from 5.20 percent to 6.50 percent per annum.

OPWC loans payable at December 31, 2005, consist of various individual loans totaling $5,787,162 due to the Ohio Public Works Commission for specified sewer system construction costs. During 2004, the District received two additional non-interest bearing loans totaling $2,286,600. Payments of principal and interest are payable semi-annually through 2026 and include interest at rates ranging from 0 to 2 percent per annum. During 2005, various loans were finalized resulting in a reduction of OPWC loans payable of $399,685. This reduction is reflected as part of the $620,880 in deletions during 2005.

During 2003 the District issued Sewer System Refunding Revenue Bonds, Series 2003, dated September 15, 2003 to retire the outstanding Series 1993 Sewer Revenue Bonds and to refund the balance of the 1984 O'Bannon Creek revenue bonds.

The Series 2003 bonds will mature on August 1 in various amounts ranging from $1,665,000 in 2006 to $240,000 in 2024, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 2 percent to 4.90 percent per annum, is payable semi-annually on February1 and August 1.

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

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

Income (loss) before contributions and transfers	($232,563)
Add items to convert income from operations to pledged revenues:	
Interest paid on debt	1,571,390
Deferred debt amortization	213,535
Depreciation expense	6,402,848
System capacity charges	2,897,416
Net pledged revenues	$10,852,626
Debt service requirement on bonds during 2005	$ 3,117,670
Coverage ratio	348%
Required coverage ratio	110%

6. Defeased Debt

The District defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 2005, and 2004 the amount of defeased debt outstanding amounted to $200,000 and $390,000, respectively.

7. Other Contingent Liabilities

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

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

8. Defined Benefit Pension Plans

All full-time employees of the District participate in the Ohio Public Employees Retirement System (OPERS) which administers three separate pension plans as described below:

- The Traditional Pension Plan - a cost sharing multiple-employer defined benefit pension plan;

- The Member-Directed Plan - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings..

- The Combined Plan - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS, provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits. The authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS, issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6701 or 800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Member and employer contribution rates were consistent across all three plans.

The 2005 member contribution rate was 8.5 percent. The 2005 employer rate was13.55 percent. The District's required contributions to OPERS for the years ended December 31, 2005, 2004 and 2003 were \$284,557, \$260,072, and \$230,389. All of the required contributions were paid within the respective years.

9. Other Post-Employment Benefits

OPERS provides retirement, disability and survivor benefits as well as post-retirement health care coverage to 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.

In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and the Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor 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 No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2005, employers contributed at a rate of 13.55 percent of covered payroll. The portion of employer contributions for all employers allocated to health care was 4.0 percent. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

Summary of Assumptions:

- **Actuarial Review -** The assumptions and calculations below were based on OPERS' latest actuarial review, performed as of December 31, 2004.

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

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

- **Investment Return.** The investment assumption rate for 2004 was 8 percent.

- **Active Employee Total Payroll.** An annual increase of 4 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4 percent base increase, were assumed to range from 0.5 to 6.3 percent.

- **Health Care.** Health care costs were assumed to increase 4 at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined plans totaled 376,109. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was 355,287. The portion of the District's contributions that were used to fund post-employment benefits for 2005 was $84,002. At December 31, 2004, the actuarial value of OPERS' net assets available for OPEB was $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $29.5 billion and $18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into the Retiree Medical Account that can be used to fund future health care expenses.

10. Other Employee Benefits

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

11. Risk Management

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

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

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

Traveler’s Indemnity Company of Illinois provides the County’s Boiler & Machinery coverage with limits up to $50,000,000 subject to a $10,000 deductible. Traveler’s Casualty and Surety Company of America provides the County’s crime insurance with limits up to $250,000 for dishonest acts of employees and limits up to $75,000 for theft, disappearance or destruction of money and securities, subject to a $1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past 5 years.

The County pays the State Workers’ Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs. The County has elected to provide employees major medical, dental, vision and hospitalization through a self-insured program. The County maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. Third party administrators, Humana Inc., Dental Care Plus and Vision Service Plan Insurance Companies, review and pay all claims utilizing County funds. The County purchases stop-loss coverages of $150,000 per employee and an aggregate limit of $2,000,000. In 2005, the District paid into the self-insurance fund $669.75 for family coverages and $309.91 for individual coverages per employee per month which represented 75-100% of the required premium based on the individual employee benefit selections. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information.

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

12. Reclassifications

Net assets restricted for debt service and unrestricted net assets as of December 31, 2004 have been restated by $38,540 as a result of classifying contractor maintenance bonds payable as a liability payable from restricted assets.

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2005 and 2004

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Bastin & Company, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the accompanying financial statements of the Clermont County Sewer District (District), Water System, Batavia, Ohio, as of and for the years ended December 31, 2005 and 2004 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Water System and are not intended to, and do not, present fairly the financial position of Clermont County, Ohio, as of December 31, 2005 and 2004 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Water System, as of December 31, 2005 and 2004 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4 , 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Bastin & Company, LLC

Cincinnati, Ohio
April 4 , 2006

4424 Aicholtz Road, Suite D, Cincinnati, Ohio 45245-1561, Telephone/Fax (513) 753-3999

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Clermont County Sewer District's Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2005.

FINANCIAL HIGHLIGHTS

- The Water System's net assets increased by $5.3 million or 5.8% in 2005.
- During the year, the System generated $2.0 million from operations and used $1.1 million for other financing activities, principally for interest expense.
- The operating income was down $0.77 million from 2004, primarily due to increased utility expenses.
- Debt decreased $2.0 million due to the retirement of scheduled debt.

USING THIS ANNUAL REPORT

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

SYSTEM SUMMARY

The Water System's total net assets increased from $91.6 million to $96.9 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System.

Table 1

NET ASSETS (in Millions)	2005	2004
Current and Other Assets	$ 27.7	$ 32.6
Capital Assets	105.4	97.2
Total Assets	133.1	129.8
Long Term Debt Outstanding	31.5	33.5
Other Liabilities	4.7	4.7
Total Liabilities	36.2	38.2
Net Assets:		
Invested in capital assets, net of debt	71.9	61.7
Restricted for debt service	3.1	2.9
Unrestricted	21.9	27.0
Total Net Assets	$ 96.9	$ 91.6

Net assets of the System increased by 5.8%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, decreased by $5.1 million in 2005. Restricted assets, those restricted mainly for capital projects and bond covenants, increased in 2005 by $0.2 million. The investment in capital assets, net of debt increased $10.2 million. This increase reflects capital assets financed from the System's net assets of which a part ($4.2 million) came from capital contributions in the form of system capacity fees, donated assets, assessments and grants. The remaining portion of the increase came from unrestricted assets.

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

Table 2

CHANGE IN NET ASSETS (in Millions)		2005	2004
Operating Revenues	Charges for Services	$11.0	$10.5
	New Meters, Services & Reviews	0.8	0.7
	Other Operating Revenues	0.3	0.3
	Total Operating Revenues	12.1	11.5
Operating Expenses	Operating Expenses	6.7	5.4
	Depreciation Expense	3.4	3.3
	Total Operating Expense	10.1	8.7
	Operating Income	2.0	2.8
Non-Operating Revenues	Interest Income	0.5	0.5
	Net Change in Market Value of Investments	0.0	(0.2)
	Interest and Fiscal Charges	(1.6)	(2.0)
	Income (Loss) before Contributions	0.9	1.1
Contributions/Transfers	Capital Contributions and Transfers	4.4	2.9
Change in Net Assets	**Total Change in Net Assets**	$ 5.3	$ 4.0

As seen in table 2 the Water System's income before capital contributions of $0.9 million and capital contributions/transfers of $4.4 million were the two sources of the increase in net assets of $5.3 million in 2005. Net non-operating revenues increased $0.6 million due to reductions in interest payments on debt. The increase in operating expenses of 16.1 percent ($1.4 million) was a result of added efforts due to the reestablishment of operations under the District. Operating revenues increased by 5.2% ($0.6 million) from 2004 to 2005. Contributions/transfers increased by $1.5 million.

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

FINANCIAL RATIOS ($ in thousands)

	1999	2000	2001	2002	2003	2004	2005
Working Capital	$28,044	$31,022	$32,091	$32,308	$31,408	$24,510	$20,759
Current Ratio	48.3	161.7	66.7	62.5	66.9	46.4	38.0
Days Cash & Investments	1,586	1,764	1,966	1,908	1,771	1,443	1,145
Liabilities to Net Assets	73%	65%	59%	53%	46%	42%	37%
Return on Assets	4%	4%	3%	4%	3%	2%	2%
Days in Receivables	54	62	70	61	85	63	56

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the Water System had $161.5 million invested in capital assets including water lines, booster stations, storage tanks, treatment plants in operations or under construction. This amount represents a net increase in 2005 of $11.7 million.

Capital Assets at Year-End (Net of Depreciation, in millions)	2005	2004
Land	$ 2.0	$ 1.8
Structures	56.2	55.7
Machinery	7.3	7.3
Distribution Systems	80.2	73.7
Autos/Trucks	1.0	0.9
Construction in Progress	14.8	10.4
Subtotal Capital Assets	161.5	149.8
Accumulated Depreciation	(56.1)	(52.6)
Total Capital Assets	$105.4	$ 97.2

The year's major additions/completions included:

$2.2 Million of waterlines donated from developers
$1.7 Million for the Deerfield Road Water Main
$0.9 Million for the SR126/Beech Road Main
$0.8 Million for the Wolfpen/US50 Water Main

The Water System's 2006 capital budget anticipates a spending level of $ 10.8 million for capital projects. The District anticipates that grants, loans and assessment bond proceeds (approx $0.8 million) to help fund some of these expenditures.

Additional information on the District's capital assets can be found in Note 4 on page 19 of this report.

Debt

At year-end, 2005, the System had $ 33.5 million in bonds and loans outstanding, a reduction of $2.0 million or 5.6% from 2004. The Refunded 2003 bonds carry interest rates varying from 1.2%-5.25%.

Outstanding Debt, at Year-End (in millions)	2005	2004
2003 Revenue Bonds	$33.0	$35.0
OPWC Loan	0.5	0.5
Total Debt	$33.5	$35.5

One area that demonstrates the System's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a strong 226%. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	2005
Income From Operations	$0.9
Add items to convert income from operations to pledged revenues:	
Interest Paid on Bonds	1.5
Deferred Debt Amortization	0.1
Depreciation Expense	3.4
System Capacity Charges	1.9
Net Pledged Revenues	$7.8
Debt Service Requirements during 2005	$3.5
Coverage Ratio	226 %
Required Coverage Ratio	110 %

Additional information on the District's debt can be found in Note 6 on page 20 of this report.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
STATEMENTS OF NET ASSETS
December 31, 2005 and 2004

ASSETS

	2005	2004
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	$ 3,407,170	$ 2,969,036
Cash and cash equivalents in segregated accounts	2,127,815	1,183,467
Investments in segregated accounts	13,883,335	18,881,731
Accounts receivable (net of allowance for doubtful accounts of $19,710 for 2005 and $39,666 for 2004)	1,688,622	1,821,751
Inventory of supplies at cost	214,122	194,454
Total current assets	21,321,064	25,050,439
NONCURRENT ASSETS:		
Restricted assets:		
Cash and cash equivalents in segregated accounts	671,789	1,826,308
Investments in segregated accounts	4,015,734	2,806,906
Contractor retainage accounts	459,542	338,913
Accrued interest	67,337	97,265
Total restricted assets	5,214,402	5,069,392
Capital assets, net	105,380,339	97,232,837
Grant receivable	-	531,518
Unamortized financing costs	765,272	870,504
Interfund receivable	36,830	73,661
Loan receivable	-	528,696
Non current receivables	368,626	455,626
Total noncurrent assets	111,765,469	104,762,234
TOTAL ASSETS	133,086,533	129,812,673

LIABILITIES

	2005	2004
CURRENT LIABILITIES:		
Accounts payable	326,934	347,661
Accrued wages and benefits	234,766	192,309
Total current liabilities	561,700	539,970
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable	992,612	1,166,385
Current portion of OPWC debt	26,435	13,217
Current portion of revenue bonds payable	2,005,000	1,950,000
Accrued interest payable	607,877	632,252
Contractor maintenance bonds payable	50,540	38,540
Contractor retainages payable	459,542	338,913
Total current liabilities payable from restricted assets	4,142,006	4,139,307
NONCURRENT LIABILITIES:		
Long term portion of OPWC debt	475,826	515,479
Long term portion of revenue bonds payable	31,010,000	33,015,000
Total noncurrent liabilities	31,485,826	33,530,479
TOTAL LIABILITIES	36,189,532	38,209,756

NET ASSETS

	2005	2004
Invested in capital assets, net of related debt	71,863,078	61,739,141
Restricted for debt service	3,103,831	2,893,302
Unrestricted	21,930,092	26,970,474
TOTAL NET ASSETS	$ 96,897,001	$ 91,602,917

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

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended December 31, 2005 and 2004

	2005	2004
OPERATING REVENUES:		
Charges for services	$11,022,937	$10,537,795
New meters, services & reviews	772,867	725,995
Other revenues	303,493	244,803
Total operating revenues	12,099,297	11,508,593
OPERATING EXPENSES:		
Personnel services	2,485,020	1,662,806
Contractual services	641,127	1,653,097
Maintenance and repair	993,605	621,052
Materials and supplies	1,311,768	862,807
Utilities	1,164,781	548,805
Depreciation	3,443,166	3,315,314
Other	26,337	43,285
Total operating expenses	10,065,804	8,707,166
OPERATING INCOME	2,033,493	2,801,427
NONOPERATING REVENUES (EXPENSES):		
Interest income	466,789	511,602
Net increase (decrease) in value of investments	12,330	(213,176)
Interest and fiscal charges	(1,598,262)	(2,037,467)
Total nonoperating revenues (expenses)	(1,119,143)	(1,739,041)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	914,350	1,062,386
Transfers-in from County	151,099	-
Capital contributions	4,228,635	2,936,667
CHANGE IN NET ASSETS	5,294,084	3,999,053
NET ASSETS BEGINNING OF YEAR	91,602,917	87,603,864
NET ASSETS END OF YEAR	$96,897,001	$91,602,917

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

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$11,952,933	$11,272,226
Payments to suppliers	(4,178,013)	(3,778,074)
Payments to employees	(2,442,563)	(1,551,950)
Other receipts	303,493	244,803
Net cash provided by operating activities	5,635,850	6,187,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(3,493,840)	(3,468,560)
Construction and acquisition of capital assets	(9,520,808)	(10,636,063)
Contractor maintenance bond receipts	20,400	12,140
Contractor maintenance bond payments	(8,400)	-
Proceeds from assessments	2,580	-
Proceeds from transfer in from County	151,099	-
Cash received from developers	5,265	-
Contractor retainage receipts	376,100	250,665
Contractor retainage payments	(255,471)	(225,787)
Proceeds from capital related interfund receivable	36,831	36,830
Proceeds from capital related loans	528,696	-
Proceeds from capital related grants	641,490	45,766
System capacity charges, including those from non-current receivables	1,930,185	1,580,687
Net cash used by capital and related financing activities	(9,585,873)	(12,404,322)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(9,941,723)	(14,672,754)
Investment sales	13,743,621	19,355,557
Interest received on investments	496,717	506,905
Net cash provided by investing activities	4,298,615	5,189,708
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	348,592	(1,027,609)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,317,724	7,345,333
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,666,316	$ 6,317,724
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	$2,033,493	$ 2,801,427
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,443,166	3,315,314
Change in assets and liabilities:		
Net change in inventory	(19,668)	(1,348)
Net change in operating accounts receivable	157,129	8,436
Net change in operating accounts payable	(20,727)	(47,680)
Net change in accrued payroll and related expenses	42,457	110,856
Net cash provide by operating activities	$ 5,635,850	$ 6,187,005
NON-CASH TRANSACTIONS:		
Contributions from developers	$2,243,634	$ 1,162,554
Net change in the fair value of investments	12,330	(213,176)
Total non-cash transactions	$ 2,255,964	$ 949,378

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

1. Summary of Significant Accounting Policies

Organization

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

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

Basis of Accounting

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

Cash and Investments

Cash and investments consist of the District's portion of the County's pooled cash and investment balances, contractor retainage accounts and funds maintained with a trustee in accordance with revenue bond legislation. During 2005 investments were limited to treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 3 provides additional information regarding the District's cash and investments.

Statements of Cash Flows

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

Inventory

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

Restricted Assets

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

Capital Assets

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

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

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

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

Description	Years
Structures	50
Machinery	20
Distribution systems	50
Autos and trucks	5-10

Interfund Receivable

During 1997 the Board of County Commissioners approved the sale of certain fixed assets of the District to the general fund of the County. Payments for the assets are to be made over 10 years. Interfund receivables totaled $36,830 and $73,661 at December 31, 2005 and 2004, respectively.

Loans Receivable

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

Unamortized Financing Costs

The unamortized financing costs include costs incurred in connection with prior revenue bond issues and the 2003 refunding. These costs are being amortized on the interest method over the lives of the revenue bonds and are included as interest expense. The amount amortized was $105,232 and $109,452 for 2005 and 2004 respectively.

Compensated Absences

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

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

Contractor Maintenance Bonds Payable

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

Self Insurance

The District, as a enterprise fund of the County, participates in the self insurance program for employee care benefits. During 2005, the program was administered by Humana Inc. which provides claims review and processing services. The District is charged its proportionate share for covered employees.

Net Assets

Total net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances, of any borrowing (both current and long-term portions) used for the acquisition, construction or improvements of those assets. Net assets restricted for debt service consists of restricted assets reduced by liabilities that are to be paid from those assets. The net assets are reported as restricted when there are limitations imposed by creditors, grantors, laws, or regulations of other governments.

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

Operating Revenues and Expenses

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

Capital Contributions

Contributions of capital arise from the contributions of fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction, and system capacity charges. During 2005 and 2004, the following capital contributions were received:

	2005	2004
Grants earned	$ 109,971	$ 264,426
Assessment proceeds	2,580	-
Donated assets	2,248,899	1,162,554
System capacity charges	1,867,185	1,509,687
Total	$4,228,635	$2,936,667

Interfund Activity

The Ohio Revised Code provides for the issuance of special assessment bonds for water improvements. Under the Code, such special assessment obligations are issued by the Board of County Commissioners. As general obligation debt, the full faith, credit and revenue of the County has been pledged as security for the outstanding special assessment obligations. These bonds are reflected on the County's financial statements as special assessment bonds of the County. If the special assessments are not paid by the taxpayers or prove to be insufficient to pay the debt service, it is the obligation of the County to pay the debt from whatever source of funds is available to it, including, but not limited to, the funds of the District. During 2005 and 2004, no funds were required to be contributed by the District. During 2005, the County transferred $151,099 of proceeds from the issuance of special assessment bonds to the District to reimburse applicable assessment project construction costs. In addition, the District is charged by other County funds for administrative services based on a cost allocation plan. The charges for 2005 and 2004 were $157,278 and $157,933 respectively and are classified as contractual services.

Estimates

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

2. Change in Accounting Principle

For calendar year, 2005, the District has implemented GASB Statement No. 40 “Deposits and Investment Risk Disclosures”. GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

3. Cash, Cash Equivalents and Investments

State statutes classify monies held by the Water District into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States.

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of the federal government agencies or instrumentalities.

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be market to market daily, and that the term of the agreement must not exceed thirty days.

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions,

6. The State Treasurer's investment pool (STAR Ohio).

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any time

8. Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

The County maintains a cash and investment pool used by all funds of the County, including the District. The District's portion of the pooled is displayed on the statement of net assets as "Equity in pooled cash and cash equivalents." As of December 31, 2005 and 2004, the carrying amount of the District's portion of the pool totaled $3,407,170 and $2,969,036, respectively. The District's portion of the pool can not be separately classified by risk. The County's financial statements provides risk disclosures pertaining to the entire cash and investment pool.

The District maintains funds in contractor retainage accounts that represent cash retained from construction contractor payments until satisfactory completion of projects. As of December 31, 2005 the bank and carrying amount of retainage accounts totaled $459,542. Based on criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures" $12,433 of the Districts bank balances of $459,542 was exposed to custodial risk as discussed above, while $447,109 was covered by FDIC Insurance. As of December 31, 2004 retainage accounts totaled $338,913, all of which was covered by FDIC Insurance.

Investments
The District's investments at December 31, 2005 were as follow:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$ 1,081,862	.08
Treasury Notes	16,817,207	.92
Money Market Accounts	2,799,604	.00
Total Fair Value	$20,698,673	
Portfolio Weighted Average Maturity		.87

The District's investments at December 31, 2004 were as follow:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$ 399,184	.11
Treasury Notes	21,289,453	1.08
Money Market Accounts	3,009,775	.00
Total Fair Value	$24,698,412	
Portfolio Weighted Average Maturity		1.06

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

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

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

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

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation of cash, cash equivalents and investments on the financial statements and the classification per GASB Statement No 3. at December 31, 2005 follows:

	Fair Value Cash and Investments	Fair Value Investments
Per Balance Sheet	$ 6,666,316	$17,899,069
Money market funds	(2,799,604)	2,799,604
Per GASB Statement No. 3	$ 3,866,712	$20,698,673

A reconciliation of cash, cash equivalents and investments at December 31, 2004 follows:

	Fair Value Cash and Investments	Fair Value Investments
Per Balance Sheet	$ 6,317,724	$21,688,637
Money market funds	(3,009,775)	3,009,775
Per GASB Statement No. 3	$ 3,307,949	$24,698,412

4. Capital Assets

The following summarizes the changes to capital assets during 2005.

Class	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	$ 1,823,032	$ 174,610	$ -	$ 1,997,642
Construction in progress	10,423,892	9,307,671	(4,917,185)	14,814,378
Capital assets being depreciated:				
Structure	55,756,591	416,285	-	56,172,876
Machinery	7,317,280	3,958	-	7,321,238
Distribution systems	73,675,449	6,499,267	-	80,174,716
Autos and trucks	877,474	106,062	(9,132)	974,404
Total cost	$149,873,718	$16,507,853	($4,926,317)	$161,455,254
Accumulated depreciation				
Structure	($23,771,513)	($1,488,024)	$ -	($25,259,537)
Machinery	(5,165,541)	(320,840)	-	(5,486,381)
Distribution systems	(22,989,370)	(1,593,606)	-	(24,582,976)
Autos and trucks	(714,457)	(40,696)	9,132	(746,021)
Accumulated depreciation	($52,640,881)	($3,443,166)	$ 9,132	($56,074,915)
Net value	$ 97,232,837			$105,380,339

Assets contributed by developers and others in 2005 amounted to $2,243,634.

5. Noncurrent Receivables

The District entered into agreements with the Villages of Batavia and Williamsburg, Ohio for payment of system capacity charges. Total balances due to the District were $431,626 and $494,626 at December 31, 2005 and 2004, respectively. The current portion of the receivable balances are reflected as current accounts receivables. The Village of Batavia makes quarterly payments of $8,000 through July 2011 with a final payment of $7,626 due October 1, 2011. The Village of Williamsburg makes annual payments of $31,000 through January 2013. The system capacity charges are recorded as a capital contribution.

6. Long-Term Debt

For the year ended December 31, 2005, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005	Amount Due Within One Year
Revenue bonds:						
2003 Series Waterworks Refunding Revenue Bonds - $37,020,000	2018 1.2-5.25%	$34,965,000	-	$1,950,000	$33,015,000	$2,005,000
OPWC loans	2025					
2003 Loans - $528,696	0.0%	528,696	-	26,435	502,261	26,435
Total		$35,493,696	$ -	$ 1,976,435	$33,517,261	$2,031,435

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

	Revenue Bonds		OPWC Loans		
Year	Principal	Interest	Principal	Interest	Total
2006	$ 2,005,000	$ 1,458,905	$ 26,435	$ -	$ 3,490,340
2007	2,070,000	1,398,755	26,435	-	3,495,190
2008	2,125,000	1,343,900	26,435	-	3,495,335
2009	2,195,000	1,271,650	26,435	-	3,493,085
2010	2,285,000	1,183,850	26,435	-	3,495,285
2011-2015	12,935,000	4,407,487	132,174	-	17,474,661
2016-2020	9,400,000	1,003,800	132,174	-	10,535,974
2021-2025	-	-	105,738	-	105,738
	$33,015,000	$12,068,347	$502,261	$ -	$45,585,608

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

The Series 2003 bonds will mature on August 1 in various amounts ranging from $2,005,000 in 2005 to $3,295,000 in 2018, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 1.2 percent to 5.25 percent per annum, is payable semi-annually on February 1 and August 1.

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

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

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

Income before contributions and transfers	$ 914,350
Add items to convert income from operations to pledged revenues:	
Interest paid on bonds	1,517,405
Deferred debt amortization	105,232
Depreciation expense	3,443,166
System capacity charges	1,867,185
Net pledged revenues	$7,847,338
Debt service requirement on bonds during 2005	$3,467,405
Coverage ratio	226%
Required coverage ratio	110%

7. Defeased Debt

The District defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 2005, and 2004 the amount of defeased debt outstanding amounted to $235,000 and $260,000, respectively.

8. Defined Benefit Pension Plans

All full-time employees of the District participate in the Ohio Public Employees Retirement System (OPERS) which administers three separate pension plans as described below:

- The Traditional Pension Plan - a cost sharing multiple-employer defined benefit pension plan;

- The Member-Directed Plan - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings..

- The Combined Plan - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS, provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits. The authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS, issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6701 or 800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Member and employer contribution rates were consistent across all three plans.

The 2005 member contribution rate was 8.5 percent. The 2005 employer rate was13.55 percent. The District's required contributions to OPERS for the years ended December 31, 2005, 2004 and 2003 were $258,889, $204,026, and $189,617. All of the required contributions were paid within the respective years.

9. Other Post-Employment Benefits

OPERS provides retirement, disability and survivor benefits as well as post-retirement health care coverage to 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.

In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and the Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor 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 No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2005, employers contributed at a rate of 13.55 percent of covered payroll. The portion of employer contributions for all employers allocated to health care was 4.0 percent. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

Summary of Assumptions:

- **Actuarial Review -** The assumptions and calculations below were based on OPERS' latest actuarial review, performed as of December 31, 2004.

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

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

- **Investment Return.** The investment assumption rate for 2004 was 8 percent.

- **Active Employee Total Payroll.** An annual increase of 4 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4 percent base increase, were assumed to range from 0.5 to 6.3 percent.

- **Health Care.** Health care costs were assumed to increase 4 at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined plans totaled 376,109. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was 355,287. The portion of the District's contributions that were used to fund post-employment benefits for 2005 was $76,425. At December 31, 2004, the actuarial value of OPERS' net assets available for OPEB was $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $29.5 billion and $18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into the Retiree Medical Account that can be used to fund future health care expenses.

10. Other Employee Benefits

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

11. Contracted Operations

On February 10, 2000, the Board of County Commissioners approved a contract with a vendor for the operation of the water system. The vendor is responsible for the daily operations of the distribution system as well as customer billing.

Effective May 17, 2004 the contract was terminated and operations of the water system reverted back to the District.

12. Risk Management

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

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

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

Traveler's Indemnity Company of Illinois provides the County's Boiler & Machinery coverage with limits up to $50,000,000 subject to a $10,000 deductible. Traveler's Casualty and Surety Company of America provides the County's crime insurance with limits up to $250,000 for dishonest acts of employees and limits up to $75,000 for theft, disappearance or destruction of money and securities, subject to a $1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past 5 years.

The County pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs. The County has elected to provide employees major medical, dental, vision and hospitalization through a self-insured program. The County maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. Third party administrators, Humana Inc., Dental Care Plus and Vision Service Plan Insurance Companies, review and pay all claims utilizing County funds. The County purchases stop-loss coverages of $150,000 per employee and an aggregate limit of $2,000,000. In 2005, the District paid into the self-insurance fund $669.75 for family coverages and $309.91 for individual coverages per employee per month which represented 75-100% of the required premium based on the individual employee benefit selections. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information.

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

13. Reclassifications

Net assets restricted for debt service and unrestricted net assets as of December 31, 2004 have been restated by $38,540 as a result of classifying contractor maintenance bonds payable as a liability payable from restricted assets.

Bastin & Company, LLC
Certified Public Accountants

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

The Honorable Board of County Commissioners
Clermont County, Ohio

We have audited the financial statements of Clermont County Sewer District, Water and Sewer Systems, (the District) as of and for the year ended December 31, 2005, and have issued our reports thereon dated April 4, 2006, in which we indicated that the financial statements present only the Water and Sewer Systems of Clermont County, Ohio and are not intended to, and do not, present fairly the financial position of Clermont County, Ohio and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 and the Board of County Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

Bastin & Company, LLC

Cincinnati, Ohio
April 4, 2006

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CLERMONT COUNTY WATER AND SEWER DISTRICT

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 8, 2006