CLERMONT COUNTY SEWER DISTRICT
SEWER SYSTEM

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2006 and 2005

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Reports* of the Clermont County Sewer District, Water and Sewer System, prepared by Bastin & Company, LLC, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 31, 2007

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

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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, an enterprise fund of Clermont County, Ohio, as of and for the years ended December 31, 2006 and 2005 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, 2006 and 2005 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Sewer System, as of December 31, 2006 and 2005 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 5, 2007 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 5, 2007

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 years ended December 31, 2006 and 2005.

FINANCIAL HIGHLIGHTS

- The Sewer System's net assets increased by $9.1 million or 5.9% in 2006.
- During the year, the System lost $0.5 million from operations and generated $0.4 million in other financing activities, primarily for interest income and expense.
- The operating income was down $0.7 million from 2005, primarily due to lower operating revenues and increased personnel and contractual expenses.
- Debt decreased $0.2 million. The net decrease was due to the scheduled retirement of revenue bonds and other debt of $2.0 million offset by the issuing of $1.8 million in additional OPWC debt during the year.

USING THIS ANNUAL REPORT

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

SYSTEM SUMMARY

The Sewer System's total net assets increased from $153.7 million to $162.8 million during 2006. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System comparing 2006 to 2005 and comparing 2005 to 2004.

Table 1

NET ASSETS (in Millions)	2006	2005	2004
Current and Other Assets	$ 57.4	$ 65.1	$ 64.9
Capital Assets	153.2	133.9	125.9
Total Assets	210.6	199.0	190.8
Long Term Debt Outstanding	40.5	40.9	43.4
Other Liabilities	7.3	4.4	4.1
Total Liabilities	47.8	45.3	47.5
Net Assets:			
Invested in capital assets, net of debt	112.1	92.9	82.7
Restricted for debt service	5.1	5.0	4.7
Unrestricted	45.6	55.8	55.9
Total Net Assets	$162.8	$153.7	$143.3

For 2006, net assets of the System increased by 5.9%. 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 $10.2 million in 2006. Restricted assets increased in 2006 by $0.1 million. The investment in capital assets, net of debt, increased $19.2 million. This increase reflects capital assets financed from the System's net assets, of which a part ($9.2 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.

For 2005, net assets of the System increased by 7.2%. Unrestricted net assets remained relatively constant in 2005. Restricted assets increased in 2005 by $0.3 million. The investment in capital assets, net of debt, increased by $10.2 million. This increase reflects capital assets financed from the System's net assets, which a part ($9.0 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)		2006	2005	2004
Operating Revenues	Charges for Services	$13.4	$13.5	$13.6
	New services and reviews	0.2	0.2	0.1
	Other Operating Revenues	0.0	0.2	0.2
	Total Operating Revenues	13.6	13.9	13.9
Operating Expenses	Operating Expenses	7.6	7.3	6.7
	Depreciation Expense	6.5	6.4	6.4
	Total Operating Expense	14.1	13.7	13.1
	Operating Income (Loss)	(0.5)	0.2	0.8
Non-Operating Revenues	Interest Income	1.9	1.5	0.7
	Net Change in Market Value of Investments	0.2	(0.1)	(0.3)
	Interest and Fiscal Charges	(1.7)	(1.8)	(2.1)
	Income (Loss) before Contributions	(0.1)	(0.2)	(0.9)
Contributions/Transfers	Capital Contributions and Transfers	9.2	10.6	4.7
Change in Net Assets	**Total Change in Net Assets**	$9.1	$10.4	$ 3.8

As seen in table 2 the Sewer System's capital contributions/transfers of $9.2 million was the main source of the increase in net assets of $9.1 million. Net non-operating revenues increased $0.8 million due to increases in interest income and values of investments held. Operating expenses increased by $0.4 million, or 3.0%, from 2005 to 2006 primarily as a result of higher personnel costs, contractual services and depreciation. Contributions/transfers decreased by $1.4 million primarily due to a lower level of donated assets, system capacity fees and assessment bond issues.

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

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

FINANCIAL RATIOS ($ in thousands)

	2000	2001	2002	2003	2004	2005	2006
Working Capital	$47,266	$45,054	$45,060	$49,642	$51,275	$53,117	$39,629
Current Ratio	35.1	27.0	40.8	42.3	40.6	35.9	13.2
Days Cash & Investments	2,436	2,442	2,352	2,638	2,369	2,389	1,888
Liabilities to Net Assets	42%	40%	37%	34%	33%	30%	29%
Return on Assets	3%	2%	1%	1%	1%	1%	1%
Days in Receivables	67	83	72	73	70	79	67

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 2006, the Sewer System had $268.1 million invested in capital assets including sewer lines, pump stations, treatment plants in operation or under construction. This amount represents a net increase in 2006 of $25.8 million.

During 2006, major additions/completions included:

$1.5 Million for the Sewer SCADA System
$1.4 Million for the SR131/Dry Run/Melody Sewer Line
$0.8 Million for the Oversizing of the North Afton donated sewer line
$4.7 Million of developer donated sewer lines
$0.7 Million for lift stations

At the end of 2005, the Sewer System had $242.3 million invested in capital. This amount represents a net increase of $14.3 million.

During 2005, 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

Capital Assets at Year-End (Net of Depreciation, in millions)	2006	2005	2004
Land	$ 3.1	$ 3.0	$ 2.9
Structures	91.6	90.9	90.0
Machinery	12.6	10.6	10.5
Collection Systems	126.0	119.0	111.9
Autos/Trucks	1.3	1.3	1.2
Construction in Progress	33.5	17.5	11.5
Subtotal Capital Assets	268.1	242.3	228.0
Accumulated Depreciation	(115.0)	(108.4)	(102.1)
Total Capital Assets	$153.1	$133.9	$125.9

The Sewer System's 2007 capital plan anticipates a spending level of $27.7 million for capital projects. The District anticipates that grants, loans and assessment bond proceeds (approx $13.7 million) to help fund some of these expenditures.

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

Debt

At December 31, 2006 the System had $42.8 million in bonds and loans outstanding, a reduction of $0.2 million from 2005. The net decrease was due to the scheduled retirement of revenue bonds and other debt of $2.0 million offset by the issuing of $1.8 million in additional OPWC debt during the year. At December 31, 2005 the System had $43.0 million in bonds and loans outstanding, a reduction of $2.4 million, or 5.6%, from 2004. The reductions are a result of scheduled debt service payments. The outstanding 2003 Revenue Bonds carry interest rates varying from 3.0%-4.9%.

Outstanding Debt, at Year-End (in millions)	2006	2005	2004
2003 Revenue Bonds	$34.3	$35.9	$37.6
OWDA Loans	1.1	1.3	1.4
OPWC Loans	7.4	5.8	6.4
Total Debt	$42.8	$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 329 percent for 2006 and 348 percent for 2005. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	2006	2005
Loss before contributions and transfers	($0.1)	($0.2)
Add items to convert income to pledged revenues:		
Interest Paid on Bonds	1.5	1.6
Deferred Debt Amortization	0.2	0.2
Depreciation Expense	6.5	6.4
System Capacity Charges	2.1	2.9
Net Pledged Revenues	$10.2	$10.9
Debt Service Requirements during 2006	$3.1	$3.1
Coverage Ratio	329%	348 %
Required Coverage Ratio	110 %	110 %

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

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the 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, 2006 and 2005

ASSETS

	2006	2005
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	$ 3,332,904	$ 3,233,961
Cash and cash equivalents in segregated accounts	1,655,589	892,709
Investments in segregated accounts	35,362,175	47,491,070
Accounts receivable (net of allowance for doubtful accounts of $41,929 for 2006 and $45,747 for 2005)	2,448,726	2,920,608
Inventory of supplies at cost	82,293	102,622
Total current assets	42,881,687	54,640,970
NONCURRENT ASSETS:		
Restricted assets:		
Cash and cash equivalents in segregated accounts	1,505,491	736,560
Investments in segregated accounts	3,766,175	4,606,389
Contractor retainage accounts	1,070,598	152,820
Accrued interest	420,228	293,075
Total restricted assets	6,762,492	5,788,844
Capital assets not being depreciated	36,667,195	20,560,543
Capital assets being depreciated	116,487,682	113,360,672
Grants Receivable	1,873,531	355,513
Loans receivable	4,120,300	2,286,600
Unamortized financing costs	1,740,989	1,949,621
Interfund receivable	86,353	115,663
Total noncurrent assets	167,738,542	144,417,456
TOTAL ASSETS	210,620,229	199,058,426

LIABILITIES

	2006	2005
CURRENT LIABILITIES:		
Accounts payable	2,924,684	1,227,755
Accrued wages and benefits	327,856	295,827
Contractor maintenance bonds payable	74,205	50,540
Current portion of OWDA notes payable	165,011	156,499
Current portion of OPWC loans payable	442,322	285,161
Total current liabilities	3,934,078	2,015,782
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Current portion of revenue bonds payable	1,700,000	1,665,000
Accrued interest payable	590,279	604,154
Contractor retainages payable	1,070,598	152,820
Total noncurrent liabilities payable from restricted assets	3,360,877	2,421,974
NONCURRENT LIABILITIES:		
Long term portion of OWDA notes payable	982,892	1,147,903
Long term portion of OPWC loans payable	6,943,379	5,502,001
Long term portion of revenue bonds payable	32,560,000	34,260,000
Total other noncurrent liabilities	40,486,271	40,909,904
TOTAL LIABILITIES	47,781,226	45,347,660

NET ASSETS

	2006	2005
Invested in capital assets, net of related debt	112,102,262	92,854,272
Restricted for debt service	5,101,615	5,031,870
Unrestricted	45,635,126	55,824,624
TOTAL NET ASSETS	$162,839,003	$153,710,766

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, 2006 and 2005

	2006	2005
OPERATING REVENUES:		
Charges for services	$ 13,405,796	$ 13,548,303
New services and reviews	154,578	177,576
Other revenues	50,311	162,905
Total operating revenues	13,610,685	13,888,784
OPERATING EXPENSES:		
Personnel services	2,870,915	2,738,232
Contractual services	1,532,651	1,257,927
Maintenance and repair	292,539	334,506
Materials and supplies	1,140,093	1,236,226
Utilities	1,732,258	1,705,680
Depreciation	6,535,506	6,402,848
Other	-	18,417
Total operating expenses	14,103,962	13,693,836
OPERATING INCOME (LOSS)	(493,277)	194,948
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,877,058	1,502,321
Net increase (decrease) in fair value of investments	227,890	(158,532)
Interest and fiscal charges	(1,724,251)	(1,771,300)
Total nonoperating revenues (expenses)	380,697	(427,511)
LOSS BEFORE CONTRIBUTIONS AND TRANSFERS	(112,580)	(232,563)
CAPITAL CONTRIBUTIONS:		
Transfers-in from County	36,976	1,638,416
Transfers-out to County	(664)	-
Capital contributions	9,204,505	8,966,156
CHANGE IN NET ASSETS	9,128,237	10,372,009
NET ASSETS BEGINNING OF YEAR	153,710,766	143,338,757
NET ASSETS END OF YEAR	$162,839,003	$153,710,766

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, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$14,032,256	$13,424,932
Payments to suppliers	(4,701,034)	(4,601,017)
Payments to employees	(2,838,886)	(2,703,944)
Other receipts	50,311	162,905
Net cash provided by operating activities	6,542,647	6,282,876
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(3,586,154)	(3,576,013)
Proceeds from capital related loans	-	1,392,988
Construction and acquisition of capital assets	(18,833,224)	(8,583,008)
Contractor maintenance bond receipts	36,025	20,400
Contractor maintenance bond payments	(12,360)	(8,400)
Proceeds from assessments	27,176	203,336
Cash received from developers	83,524	105,002
Contractor retainage receipts	988,038	142,050
Contractor retainage payments	(70,260)	(70,172)
Proceeds from capital related interfund receivable	71,573	71,573
Proceeds from capital related grants	278,364	245,572
Advances to other funds	(42,263)	(44,090)
Proceeds from transfers to/from County	36,312	1,638,416
System capacity charges	2,082,230	2,897,416
Net cash used by capital and related financing activities	(18,941,019)	(5,564,930)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(27,080,119)	(54,398,745)
Investment sales	40,277,118	51,082,572
Interest received on investments	1,749,905	1,281,067
Net cash provided (used) by investing activities	14,946,904	(2,035,106)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,548,532	(1,317,160)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,016,050	6,333,210
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,564,582	$ 5,016,050
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	($ 493,277)	$ 194,948
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,535,506	6,402,848
Change in assets and liabilities:		
Net change in customer accounts receivable	471,882	(311,703)
Net change in inventory	20,329	(46,297)
Net change in operating accounts payable	(23,822)	8,792
Net change in accrued payroll and related expenses	32,029	34,288
Net cash provided by operating activities	$ 6,542,647	$ 6,282,876
NON-CASH TRANSACTIONS:		
Contributions from developers	$ 5,215,193	$ 5,616,163
OPWC loans receivable	1,833,700	-
Net change in the fair value of investments	227,890	(158,532)
Total non-cash transactions	$ 7,276,783	$ 5,457,631

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 2006 investments were limited to treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 2 provides additional information regarding the 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 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	15-50
Machinery	3-50
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. The interfund receivable balance of $71,573 at December 31, 2005 was paid in total as of December 31, 2006.

During 2006 and 2005, the District advanced $42,263 and $44,090, respectively, 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 total advance of $86,353 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 $208,632 and $213,535 for 2006 and 2005, 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 an enterprise fund of the County, participates in the self insurance program for employee care benefits. During 2006, the programs were administered by Humana, Inc., Dental Care Plus and Vision Service Plan, which provide claims review and processing services. The District is charged its proportionate share for covered employees.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions 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 2006 and 2005, the following capital contributions were received:

	2006	2005
Grants earned	$1,796,382	$ 144,239
Donated assets	5,215,193	5,616,163
System capacity charges	2,082,230	2,897,416
Assessment proceeds	27,176	203,336
Cash contributions from developers	83,524	105,002
Total	$9,204,505	$8,966,156

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 2006 and 2005, no funds were required to be contributed by the District.

During 2006, the County transferred $36,976 of proceeds from the issuance of special assessment bonds to the District to reimburse applicable assessment project construction costs. During 2006, the District transferred $664 of those proceeds back to other County funds as a result of overfunding of related project costs. During 2005, the County transferred $1,638,416 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 2006 and 2005 were $213,330 and $168,801 respectively and are classified as contractual services.

Estimates

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

2. Cash, Cash Equivalents and Investments

State statutes classify monies held by the Sewer 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, 2006 and 2005, the carrying amount of the District's portion of the pool totaled $3,332,904 and $3,233,961, respectively. The District's portion of the pool can not be separately classified by risk. The County's financial statements provide risk disclosures pertaining to the entire cash and investment pool.

The District maintains funds in contractor retainage accounts that represent cash retained from construction contractor payments until satisfactory completion of projects. As of December 31, 2006 the bank and carrying amount of retainage accounts totaled $1,070,598. Based on criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures" $506,955 of the Districts bank balances of $1,070,598 was exposed to custodial risk as discussed above, while $563,643 was covered by FDIC Insurance. As of December 31, 2005 the bank and carrying amount of retainage accounts totaled $152,820 of which $34,929 was exposed to custodial risk and $117,891 was covered by FDIC Insurance.

Investments
The District's investments at December 31, 2006 were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$ 4,027,876	.47
Treasury Notes	35,100,474	2.09
Money Market Accounts	3,161,080	.00
Total Fair Value	$42,289,430	
Portfolio Weighted Average Maturity		1.78

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

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$13,792,355	.54
Treasury Notes	38,305,104	2.18
Money Market Accounts	1,629,269	.00
Total Fair Value	$53,726,728	
Portfolio Weighted Average Maturity		1.69

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, 2006 follows:

	Fair Value Cash and Investments	Fair Value Investments
Per Balance Sheet	$ 7,564,582	$39,128,350
Money market funds	(3,161,080)	3,161,080
Per GASB Statement No. 3	$ 4,403,502	$42,289,430

A reconciliation of cash, cash equivalents and investments 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

3. Capital Assets

The following summarizes the changes to capital assets during 2006.

Class	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets not being depreciated:				
Land	$ 3,013,285	$ 84,130	$ -	$ 3,097,415
Construction in progress	17,547,258	20,769,751	(4,747,229)	33,569,780
Capital assets being depreciated:				
Structure	90,906,373	678,903	-	91,585,276
Machinery	10,642,453	1,990,765	-	12,633,218
Collection systems	119,019,046	6,978,194	-	125,997,240
Autos and trucks	1,235,819	14,655	-	1,250,474
Total cost	$242,364,234	$30,516,398	($4,747,229)	$268,133,403
Accumulated depreciation:				
Structure	($53,532,527)	($3,375,880)	$ -	($56,908,407)
Machinery	(8,505,640)	(366,274)	-	(8,871,914)
Collection systems	(45,436,947)	(2,754,688)	-	(48,191,635)
Autos and trucks	(967,906)	(38,664)	-	(1,006,570)
Accumulated depreciation	($108,443,020)	($6,535,506)	$ -	($114,978,526)
Net value	$ 133,921,214			$ 153,154,877

Assets contributed by developers and others in 2006 amounted to $5,215,193.

4. Long-Term Debt

For the year ended December 31, 2006, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006	Amount Due Within One Year
Ohio Water Development Authority Notes - $2,900,437	2013 5.2-6.5%	$ 1,304,402	$ -	$ 156,499	$ 1,147,903	$ 165,011
OPWC Loans - $9,269,910	2026 0-2%	5,787,162	1,833,700	235,161	7,385,701	442,322
2003 Sewer System Refunding Revenue Bonds - $39,345,000	2024 3.0-4.9%	35,925,000	-	1,665,000	34,260,000	1,700,000
Total		$43,016,564	$1,833,700	$2,056,660	$42,793,604	$2,307,333

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
2007	$ 165,011	$ 60,161	$ 442,322	$ 9,705	$ 1,700,000	$ 1,416,670	$ 3,793,869
2008	173,988	51,184	443,492	8,535	1,750,000	1,365,670	3,792,869
2009	183,456	41,715	444,686	7,342	1,805,000	1,313,170	3,795,369
2010	193,443	31,728	445,903	6,124	1,875,000	1,240,970	3,793,168
2011	204,134	21,037	447,145	4,882	1,950,000	1,165,970	3,793,168
2012-2016	227,871	11,361	2,117,379	-	10,995,000	4,594,450	17,946,061
2017-2021	-	-	1,676,646	-	13,505,000	2,073,737	17,255,383
2022-2026	-	-	1,368,128	-	680,000	67,865	2,115,993
	$1,147,903	$217,186	$7,385,701	$36,588	$34,260,000	$13,238,502	$56,285,880

Notes payable at December 31, 2006 consist of $1,147,903 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, 2006, consist of various individual loans totaling $9,269,910 due to the Ohio Public Works Commission for specified sewer system construction costs. During 2006, the District received one additional non-interest bearing loan totaling $1,833,700. 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 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 $1,700,000 in 2007 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:

Loss before contributions and transfers	($112,580)
Add items to convert income to pledged revenues:	
Interest paid on debt	1,529,494
Deferred debt amortization	208,632
Depreciation expense	6,535,506
System capacity charges	2,082,230
Net pledged revenues	$10,243,282
Debt service requirement on bonds during 2006	$ 3,114,970
Coverage ratio	329%
Required coverage ratio	110%

5. Defeased Debt

The District defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 2006, and 2005 the amount of defeased debt outstanding amounted to $0 and $235,000, respectively.

6. Other Contingent Liabilities

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

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

7. Defined Benefit Pension Plans

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans were required to contribute 9.0 percent of their annual covered salaries. The District's contribution rate for pension benefits for 2006 was 9.2 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were $203,868, $200,555, and $183,298 respectively; all of which have been contributed.

8. Post-Employment Benefits Other than Pension Benefits

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.5 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent and an annual increase in active employee total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase .5 to 6.0 percent annually for the next nine years and 4.0 percent annually after nine years. All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2006 which were used to fund post-employment benefits were \$99,718. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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's health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

9. 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.

10. 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 an $11,000,000 per occurrence limit Liability Package for General Liability, Automobile Liability, Law Enforcement Liability, Public Entity Management Liability and a $2,000,000 limit for Employment Practices Liability. Traveler's Indemnity Company provides a $100,000,000 per occurrence limit for real and personal property coverage. Coverage in the protected self-insurance program is subject to the following per occurrence retentions/deductibles: Property - $50,000 deductible, Automobile - $25,000 retention, All other Liability - $100,000 retention, Combined Maximum (Liability) - $100,000 retention and Maximum per Year (Liability) - $500,000 retention.

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

The County 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 District pays into the County's Workers Compensation Fund an allocated potion of the County premium based on the Districts' salaries and accident history. 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 coverage of $150,000 per employee and an aggregate limit of $2,000,000. In 2006, the District paid into the self-insurance fund $745.54 for family coverage and $334.44 for individual coverage per employee per month, which represented 73-99% of the required premium based on the individual employee benefit selections. 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.

11. Reclassifications

Amounts previously reported for net assets invested in capital assets, net of related debt as of December 31, 2005 has been restated by $1,949,621 as a result of including unamortized financing costs as a part of net assets invested in capital assets, net of related debt. In addition, net assets restricted for debt service as of December 31, 2005 has been restated by $815,803 as a result of reclassifying certain assets and liabilities from restricted to unrestricted. As a result, unrestricted net assets have also been restated by $2,765,424. Total net assets as of December 31, 2005 remain unchanged from amounts previously reported.

12. Construction Commitments

As of December 31, 2006, the District had contractual commitments as follows:

Original Contract Amounts	Paid to Date	Remaining Commitments
$23,869,347	$15,829,014	$8,040,333

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

for the years ended December 31, 2006 and 2005

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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, an enterprise fund of Clermont County, Ohio, as of and for the years ended December 31, 2006 and 2005 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, 2006 and 2005 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clermont County Sewer District, Water System, as of December 31, 2006 and 2005 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 5, 2007 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 5, 2007

4286 Mt. Carmel – Tobasco Road, Suite A, Cincinnati, Ohio 45244-2372, Telephone/Fax (513) 753-3999

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 years ended December 31, 2006 and 2005.

FINANCIAL HIGHLIGHTS

- The Water System's net assets increased by $4.4 million or 4.5% in 2006.
- During the year, the System generated $1.2 million from operations and used $.6 million for other financing activities, principally for interest expense.
- The operating income was down $0.78 million from 2005, primarily due to lower operating revenues.
- 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 of its costs through its user fees and other charges. These statements report assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid. The final financial statement is the Statement of Cash Flows (Page 11). The primary purpose of this statement is to provide information about the System's cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

SYSTEM SUMMARY

The Water System's total net assets increased from $96.9 million to $101.3 million during 2006. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the System comparing 2006 to 2005 and comparing 2005 to 2004.

Table 1

NET ASSETS (in Millions)	2006	2005	2004
Current and Other Assets	$ 27.6	$ 27.7	$ 32.6
Capital Assets	108.2	105.4	97.2
Total Assets	135.8	133.1	129.8
Long Term Debt Outstanding	29.4	31.5	33.5
Other Liabilities	5.1	4.7	4.7
Total Liabilities	34.5	36.2	38.2
Net Assets:			
Invested in capital assets, net of debt	77.4	72.6	62.6
Restricted for debt service	4.3	4.2	4.1
Unrestricted	19.6	20.1	24.9
Total Net Assets	$101.3	$ 96.9	$ 91.6

For 2006, net assets of the System increased by 4.5%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, decreased by $.5 million in 2006. Restricted assets increased in 2006 by $0.1 million. The investment in capital assets, net of debt, increased $4.8 million. This increase reflects capital assets financed from the System's net assets, of which a part ($3.8 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.

For 2005, net assets of the System increased by 5.8%. Unrestricted net assets decreased by $4.8 million in 2005. Restricted assets increased in 2005 by $0.1 million. The investment in capital assets, net of debt, increased $10.0 million. This increase reflects capital assets financed from the System's net assets, of which a part ($4.4 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)		2006	2005	2004
Operating Revenues	Charges for Services	$10.6	$11.0	$10.5
	New Meters, Services & Reviews	0.5	0.8	0.7
	Other Operating Revenues	0.3	0.3	0.3
	Total Operating Revenues	11.4	12.1	11.5
Operating Expenses	Operating Expenses	6.6	6.7	5.4
	Depreciation Expense	3.5	3.4	3.3
	Total Operating Expense	10.1	10.1	8.7
	Operating Income	1.3	2.0	2.8
Non-Operating Revenues	Interest Income	0.8	0.5	0.5
	Net Change in Market Value of Investments	0.1	0.0	(0.2)
	Interest and Fiscal Charges	(1.5)	(1.6)	(2.0)
	Income before Contributions	0.7	0.9	1.1
Contributions/Transfers	Capital Contributions and Transfers	3.7	4.4	2.9
Change in Net Assets	**Total Change in Net Assets**	$ 4.4	$ 5.3	$ 4.0

As seen in table 2 the Water System's income before capital contributions of $0.7 million and capital contributions/transfers of $3.7 million were the two sources of the increase in net assets of $4.4 million. Net non-operating revenues increased $0.5 million due to increases in interest income and values of investments held. Operating expenses remained constant from 2005 to 2006. Contributions/transfers decreased by $0.7 million primarily due to a lower level of donated assets from developers.

For 2005 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. 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 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)

	2000	2001	2002	2003	2004	2005	2006
Working Capital	$30,648	$31,853	$32,443	$30,053	$23,306	$19,716	$19,239
Current Ratio	55.0	44.8	52.6	17.4	14.4	13.3	10.1
Days Cash & Investments	1,764	1,966	1,908	1,771	1,449	1,145	1,154
Liabilities to Net Assets	65%	59%	53%	46%	42%	37%	34%
Return on Assets	4%	3%	4%	3%	2%	2%	2%
Days in Receivables	62	70	61	85	63	56	60

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 2006, the Water System had $167.8 million invested in capital assets including water lines, booster stations, storage tanks, treatment plants in operation or under construction. This amount represents a net increase in 2006 of $6.3 million.

During 2006, major additions/completions included:

$2.8 Million for the Clough/GlenEste 2MG Storage tank
$2.6 Million for the Loveland-Miamiville 2MG Storage tank
$1.9 Million for the Tealtown/Schoolhouse/Elick Water Main
$1.5 Million of developer donated waterlines
$0.8 Million for the Klondke Road Water Line

At the end of 2005, the Water System had $161.5 million invested in capital assets. This amount represents a net increase in 2005 of $11.7 million.

During 2005, 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

Capital Assets at Year-End (Net of Depreciation, in millions)	2006	2005	2004
Land	$ 2.2	$ 2.0	$ 1.8
Structures	61.5	56.2	55.7
Machinery	7.5	7.3	7.3
Distribution Systems	84.7	80.2	73.7
Autos/Trucks	1.1	1.0	0.9
Construction in Progress	10.8	14.8	10.4
Subtotal Capital Assets	167.8	161.5	149.8
Accumulated Depreciation	(59.6)	(56.1)	(52.6)
Total Capital Assets	$108.2	$105.4	$ 97.2

The Water System's 2007 capital plan anticipates a spending level of $8.2 million for capital projects. The District anticipates that grants, loans and assessment bond proceeds (approx $0.5 million) to help fund some of these expenditures.

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

Debt

At December 31, 2006 the System had $31.5 million in bonds and loans outstanding, a reduction of $2.0 million, or 6.0%, from 2005. At December 31, 2005 the System had $33.5 million in bonds and loans outstanding, a reduction of $2.0 million, or 5.6%, from 2004. The reductions are a result of scheduled debt service payments. The outstanding 2003 Revenue Bonds carry interest rates varying from 2.65%-5.25%.

Outstanding Debt, at Year-End (in millions)	2006	2005	2004
2003 Revenue Bonds	$31.0	$33.0	$35.0
OPWC Loans	0.5	0.5	0.5
Total Debt	$31.5	$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 207 percent for 2006 and 226 percent for 2005. The impact of this is that the System has the ability and the capacity to finance additional debt.

Debt Coverage Ratio (in millions)	2006	2005
Income before contributions and transfers	$0.6	$0.9
Add items to convert income to pledged revenues:		
Interest Paid on Bonds	1.5	1.5
Deferred Debt Amortization	0.1	0.1
Depreciation Expense	3.5	3.4
System Capacity Charges	1.5	1.9
Net Pledged Revenues	$7.2	$7.8
Debt Service Requirements during 2006	$3.5	$3.5
Coverage Ratio	207 %	226 %
Required Coverage Ratio	110 %	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 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, 2006 and 2005

ASSETS

	2006	2005
CURRENT ASSETS:		
Equity in pooled cash and cash equivalents	$ 3,408,907	$ 3,407,170
Cash and cash equivalents in segregated accounts	1,999,472	2,127,815
Investments in segregated accounts	13,953,925	13,883,335
Accounts receivable (net of allowance for doubtful accounts of $20,004 for 2006 and $19,710 for 2005)	1,735,761	1,688,622
Inventory of supplies at cost	265,182	214,122
Total current assets	21,363,247	21,321,064
NONCURRENT ASSETS:		
Restricted assets:		
Cash and cash equivalents in segregated accounts	1,604,659	671,789
Investments in segregated accounts	3,143,968	4,015,734
Contractor retainage accounts	298,711	459,542
Accrued interest	180,464	67,337
Total restricted assets	5,227,802	5,214,402
Capital assets not being depreciated	13,070,807	16,812,020
Capital assets being depreciated	95,121,797	88,568,319
Grant receivable	38,711	-
Unamortized financing costs	664,378	765,272
Interfund receivable	-	36,830
Non current receivables	313,626	368,626
Total noncurrent assets	114,437,121	111,765,469
TOTAL ASSETS	135,800,368	133,086,533

LIABILITIES

	2006	2005
CURRENT LIABILITIES:		
Accounts payable	1,791,539	1,319,546
Accrued wages and benefits	258,811	234,766
Contractor maintenance bonds payable	74,205	50,540
Total current liabilities	2,124,555	1,604,852
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Current portion of OPWC debt	26,435	26,435
Current portion of revenue bonds payable	2,070,000	2,005,000
Accrued interest payable	582,815	607,877
Contractor retainages payable	298,711	459,542
Total current liabilities payable from restricted assets	2,977,961	3,098,854
NONCURRENT LIABILITIES:		
Long term portion of OPWC debt	449,392	475,826
Long term portion of revenue bonds payable	28,940,000	31,010,000
Total noncurrent liabilities	29,389,392	31,485,826
TOTAL LIABILITIES	34,491,908	36,189,532

NET ASSETS

	2006	2005
Invested in capital assets, net of related debt	77,371,155	72,628,350
Restricted for debt service	4,346,276	4,146,983
Unrestricted	19,591,029	20,121,668
TOTAL NET ASSETS	$101,308,460	$ 96,897,001

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, 2006 and 2005

	2006	2005
OPERATING REVENUES:		
Charges for services	$10,592,620	$11,022,937
New meters, services & reviews	542,489	772,867
Other revenues	253,150	303,493
Total operating revenues	11,388,259	12,099,297
OPERATING EXPENSES:		
Personnel services	2,627,514	2,485,020
Contractual services	545,080	641,127
Maintenance and repair	643,240	993,605
Materials and supplies	1,613,267	1,311,768
Utilities	1,212,060	1,164,781
Depreciation	3,495,807	3,443,166
Other	2,027	26,337
Total operating expenses	10,138,995	10,065,804
OPERATING INCOME	1,249,264	2,033,493
NONOPERATING REVENUES (EXPENSES):		
Interest income	811,232	466,789
Net increase (decrease) in value of investments	104,107	12,330
Interest and fiscal charges	(1,534,736)	(1,598,262)
Total nonoperating revenues (expenses)	(619,397)	(1,119,143)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	629,867	914,350
Transfers-in from County	636,224	151,099
Transfers-out to County	(664)	-
Capital contributions	3,146,032	4,228,635
CHANGE IN NET ASSETS	4,411,459	5,294,084
NET ASSETS BEGINNING OF YEAR	96,897,001	91,602,917
NET ASSETS END OF YEAR	$101,308,460	$96,897,001

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, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$11,087,970	$11,952,933
Payments to suppliers	(4,102,225)	(4,178,013)
Payments to employees	(2,603,469)	(2,442,563)
Other receipts	253,150	303,493
Net cash provided by operating activities	4,635,426	5,635,850
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal and interest paid on long-term debt	(3,490,338)	(3,493,840)
Construction and acquisition of capital assets	(4,282,724)	(9,520,808)
Contractor maintenance bond receipts	36,025	20,400
Contractor maintenance bond payments	(12,360)	(8,400)
Proceeds from assessments	116,165	2,580
Proceeds from transfers to/from County	635,560	151,099
Cash received from developers	-	5,265
Contractor retainage receipts	123,764	376,100
Contractor retainage payments	(284,595)	(255,471)
Proceeds from capital related interfund receivable	36,830	36,831
Proceeds from capital related loans	-	528,696
Proceeds from capital related grants	-	641,490
System capacity charges, including those from non-current receivables	1,528,292	1,930,185
Net cash used by capital and related financing activities	(5,593,381)	(9,585,873)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(12,565,040)	(9,941,723)
Investment sales	13,470,323	13,743,621
Interest received on investments	698,105	496,717
Net cash provided by investing activities	1,603,388	4,298,615
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	645,433	348,592
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,666,316	6,317,724
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,311,749	$ 6,666,316
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	$1,249,264	$2,033,493
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,495,807	3,443,166
Change in assets and liabilities:		
Net change in inventory	(51,060)	(19,668)
Net change in operating accounts receivable	(47,139)	157,129
Net change in operating accounts payable	(35,491)	(20,727)
Net change in accrued payroll and related expenses	24,045	42,457
Net cash provide by operating activities	$ 4,635,426	$ 5,635,850
NON-CASH TRANSACTIONS:		
Contributions from developers	$1,517,864	$2,243,634
Net change in the fair value of investments	104,107	12,330
Total non-cash transactions	$ 1,621,971	$ 2,255,964

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

CLERMONT COUNTY SEWER DISTRICT
WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005

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 2006 investments were limited to treasury notes, treasury bills and money market accounts. Investments are reported at fair value which is based on quoted market prices. Note 2 provides additional information regarding the 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 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	15-50
Machinery	3-50
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. The interfund receivable balance of $36,830 at December 31, 2005 was paid in total as of December 31, 2006.

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 $100,894 and $105,232 for 2006 and 2005, 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 an enterprise fund of the County, participates in the self insurance program for employee care benefits. During 2006, the programs were administered by Humana, Inc., Dental Care Plus and Vision Service Plan, which provide claims review and processing services. The District is charged its proportionate share for covered employees.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions 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 2006 and 2005, the following capital contributions were received:

	2006	2005
Grants earned	$ 38,711	$ 109,971
Assessment proceeds	116,165	2,580
Donated assets	1,517,864	2,248,899
System capacity charges	1,473,292	1,867,185
Total	$3,146,032	$4,228,635

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 2006 and 2005, no funds were required to be contributed by the District.

During 2006, the County transferred $636,224 of proceeds from the issuance of special assessment bonds to the District to reimburse applicable assessment project construction costs. During 2006, the District transferred $664 of those proceeds back to other County funds as a result of overfunding of related project costs. 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 2006 and 2005 were $150,417 and $157,278 respectively and are classified as contractual services.

Estimates

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

2. Cash, Cash Equivalents and Investments

State statutes classify monies held by the 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, 2006 and 2005, the carrying amount of the District's portion of the pool totaled $3,408,907 and $3,407,170, respectively. The District's portion of the pool can not be separately classified by risk. The County's financial statements provide risk disclosures pertaining to the entire cash and investment pool.

The District maintains funds in contractor retainage accounts that represent cash retained from construction contractor payments until satisfactory completion of projects. As of December 31, 2006 the bank and carrying amount of retainage accounts totaled $298,711, all of which was covered by FDIC Insurance. 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 District's bank balances of $459,542 was exposed to custodial risk as discussed above, while $447,109 was covered by FDIC Insurance.

Investments

The District's investments at December 31, 2006 were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$ 2,094,436	.43
Treasury Notes	15,003,457	2.18
Money Market Accounts	3,604,131	.00
Total Fair Value	$20,702,024	
Portfolio Weighted Average Maturity		1.63

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

Investment Type	Fair Value	Weighted Average Maturity (Years)
Treasury Bills	$ 1,081,862	.28
Treasury Notes	16,817,207	2.14
Money Market Accounts	2,799,604	.00
Total Fair Value	$20,698,673	
Portfolio Weighted Average Maturity		1.76

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, 2006 follows:

	Fair Value Cash and Investments	Fair Value Investments
Per Balance Sheet	$ 7,311,749	$17,097,893
Money market funds	(3,604,131)	3,604,131
Per GASB Statement No. 3	$ 3,707,618	$20,702,024

A reconciliation of cash, cash equivalents and investments 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

3. Capital Assets

The following summarizes the changes to capital assets during 2006.

Class	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets not being depreciated:				
Land	$ 1,997,642	$ 258,367	$ -	$ 2,256,009
Construction in progress	14,814,378	4,692,968	(8,692,548)	10,814,798
Capital assets being depreciated:				
Structure	56,172,876	5,288,204	-	61,461,080
Machinery	7,321,238	130,879	-	7,452,117
Distribution systems	80,174,716	4,521,010	-	84,695,726
Autos and trucks	974,404	109,192	-	1,083,596
Total cost	$161,455,254	$15,000,620	($8,692,548)	$167,763,326
Accumulated depreciation				
Structure	($25,259,537)	($1,572,537)	$ -	($26,832,074)
Machinery	(5,486,381)	(233,696)	-	(5,720,077)
Distribution systems	(24,582,976)	(1,640,067)	-	(26,223,043)
Autos and trucks	(746,021)	(49,507)	-	(795,528)
Accumulated depreciation	($56,074,915)	($3,495,807)	$ -	($59,570,722)
Net value	$105,380,339			$108,192,604

Assets contributed by developers and others in 2006 amounted to $1,517,864.

4. 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 $368,626 and $431,626 at December 31, 2006 and 2005, 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.

5. Long-Term Debt

For the year ended December 31, 2006, changes in long-term debt consisted of the following:

	Maturity/ Interest Rate	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006	Amount Due Within One Year
Revenue bonds:						
2003 Series Waterworks Refunding Revenue Bonds - $37,020,000	2018 2.65-5.25%	$33,015,000	$ -	$2,005,000	$31,010,000	$2,070,000
OPWC loans	2025					
2003 Loans - $528,696	0.0%	502,261	-	26,434	475,827	26,435
Total		$33,517,261	$ -	$2,031,434	$31,485,827	$2,096,435

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

	Revenue Bonds		OPWC Loans		
Year	Principal	Interest	Principal	Interest	Total
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	2,375,000	1,092,450	26,435	-	3,493,885
2012-2016	13,535,000	3,808,538	132,174	-	17,475,712
2017-2021	6,425,000	510,300	132,174	-	7,067,474
2022-2025	-	-	79,304	-	79,304
	$31,010,000	$10,609,443	$475,827	$ -	$42,095,270

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 $2,070,000 in 2007 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	$ 629,867
Add items to convert income to pledged revenues:	
Interest paid on bonds	1,458,905
Deferred debt amortization	100,894
Depreciation expense	3,495,807
System capacity charges	1,473,292
Net pledged revenues	$7,158,765
Debt service requirement on bonds during 2006	$3,463,905
Coverage ratio	207%
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, 2006, and 2005 the amount of defeased debt outstanding amounted to $205,000 and $235,000, respectively.

7. Defined Benefit Pension Plans

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans were required to contribute 9.0 percent of their annual covered salaries. The District’s contribution rate for pension benefits for 2006 was 9.2 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District’s required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were $183,904, $182,464, and $143,797. respectively; all of which have been contributed.

8. Post-Employment Benefits Other than Pension Benefits

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.5 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent and an annual increase in active employee total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase .5 to 6.0 percent annually for the next nine years and 4.0 percent annually after nine years. All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2006 which were used to fund other post-employment benefits were $89,953. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $31.3 billion and $20.2 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's health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

9. 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.

10. 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 an $11,000,000 per occurrence limit Liability Package for General Liability, Automobile Liability, Law Enforcement Liability, Public Entity Management Liability and a $2,000,000 limit for Employment Practices Liability. Traveler's Indemnity Company provides a $100,000,000 per occurrence limit for real and personal property coverage. Coverage in the protected self-insurance program is subject to the following per occurrence retentions/deductibles: Property - $50,000 deductible, Automobile - $25,000 retention, All other Liability - $100,000 retention, Combined Maximum (Liability) - $100,000 retention and Maximum per Year (Liability) - $500,000 retention.

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

The County 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 District pays into the County's Workers Compensation Fund an allocated potion of the County premium based on the Districts' salaries and accident history. 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 coverage of $150,000 per employee and an aggregate limit of $2,000,000. In 2006, the District paid into the self-insurance fund $745.54 for family coverage and $334.44 for individual coverage per employee per month, which represented 73-99% of the required premium based on the individual employee benefit selections. 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.

11. Reclassifications

Amounts previously reported for net assets invested in capital assets, net of related debt as of December 31, 2005 has been restated by $765,272 as a result of including unamortized financing costs as a part of net assets invested in capital assets, net of related debt. In addition, net assets restricted for debt service as of December 31, 2005 has been restated by $1,043,152 as a result of reclassifying certain assets and liabilities from restricted to unrestricted. As a result, unrestricted net assets have also been restated by $1,808,424. Total net assets as of December 31, 2005 remain unchanged from amounts previously reported.

12. Construction Commitments

As of December 31, 2006, the District had contractual commitments as follows:

Original Contract Amounts	Paid to Date	Remaining Commitments
$9,559,027	$5,990,555	$3,568,472

Bastin & Company, LLC
Certified Public Accountants

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

The Honorable Board of County Commissioners
Clermont County, Ohio:

We have audited the financial statements of the Clermont County Sewer District, Water and Sewer Systems, (the District) as of and for the year ended December 31, 2006 and have issued our reports thereon dated April 5, 2007 wherein we noted the financial statements present only the Water and Sewer Systems of Clermont County, Ohio and are not intended to, and do not, present fairly the financial position of Clermont County, Ohio as of December 31, 2006 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's Water and Sewer System financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

4286 Mt. Carmel – Tobasco Road, Suite A, Cincinnati, Ohio 45244-2372, Telephone/Fax (513) 753-3999

Compliance and Other Matters

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

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

Bastin & Company, LLC

Cincinnati, Ohio
April 5, 2007

Mary Taylor, CPA
Auditor of State

CLERMONT COUNTY SEWER DISTRICT
WATER AND SEWER SYSTEM

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 12, 2007

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