

Tri-County Rural Water and Sewer District
Financial Statements
December 31, 2005 and 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Tri-County Rural Water and Sewer District
20 Anderson Lane
Waterford, OH 45786

We have reviewed the *Independent Auditor's Report* of the Tri-County Rural Water and Sewer District, Washington County, prepared by Perry and Associates, Certified Public Accountants, A.C., for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

July 18, 2006

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Tri-County Rural Water and Sewer District
List of Board Members
December 31, 2005 and 2004

Name	Title
	<u>Board Members</u>
Jon Morgenstern	President
Tom Doak	Vice-President
Jack Cunningham	Secretary/Treasurer
Jim Pugh	Board Member
Arnold Huck	Board Member
Bob Huck	Board Member
Connie White	Board Member
	<u>General Manager</u>
	Rosemary Armstrong

May 11, 2006

Board of Trustees
Tri-County Rural Water and Sewer District
20 Anderson Lane
Waterford, Ohio 45786-5327

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Tri-County Rural Water and Sewer District (the District) as of and for the years ended December 31, 2005 and 2004, which collectively comprise the District's basic financial statements 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-County Rural Water and Sewer District as of December 31, 2005 and 2004, and the results of operations 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 a report dated May 11, 2006 on our consideration of the Tri-County Rural Water and Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, Tri-County Rural Water and Sewer District has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Board of Trustees
Tri-County Rural Water and Sewer District
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The Management's Discussion and Analysis on page three is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Perry and Associates
Certified Public Accountants, A.C.

Tri-County Rural Water and Sewer District Management's Discussion and Analysis

The following discussion provides a summary overview of the financial activities of the Tri-County Rural Water and Sewer District (District) for the year ended December 31, 2005 and 2004. The information should be read in conjunction with the basic financial statements included in this report.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Assets exceeded liabilities by \$795,530 and \$922,403 as of December 31, 2005 and 2004 respectively.

Net assets decreased by \$126,873 in 2005.

Operating revenues decreased by \$281,426 (23.28%) and operating expenses increased by \$72,132 (7.35%) in 2005.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statement of Net Assets, the Statements of Revenues, Expense and Changes in Net Assets, Statement of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is an enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Assets presents the District's financial position and reports the resources owned by the District's (assets), obligations owed by the District's (liabilities) and the District's Net Assets (the difference between assets and liabilities). It provides a way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses and Changes in Net Assets presents a summary of how the District's Net Assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. This statement measures the success of the District's operations over the past year and can be used to determine whether the District's has successfully recovered all its costs through user fees.

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

The tables below provide a summary of the District's financial position and operations for 2005 and 2004, respectively.

Table 1
Condensed Statement of Net Assets
December 31,

	<u>2005</u>	<u>2004</u>	<u>Change Amount</u>	<u>%</u>
Assets				
Current & Other Assets	\$ 429,793	\$ 394,072	\$ 35,721	9.06%
Restricted Cash	64,929	22,233	42,696	192.04%
Fixed Assets, Net	6,960,372	7,257,164	(296,792)	-4.09%
Other Assets	52,802	53,456	(654)	-1.22%
Total Assets	<u>7,507,896</u>	<u>7,726,925</u>	<u>(219,029)</u>	<u>-2.83%</u>
Liabilities				
Current Liabilities	492,655	477,047	15,608	3.27%
Long Term Liabilities	6,219,711	6,327,475	(107,764)	-1.70%
Total Liabilities	<u>6,712,366</u>	<u>6,804,522</u>	<u>(92,156)</u>	<u>-1.35%</u>
Net Assets				
Contribution in Aid of Construction	482,307	693,904	(211,597)	-30.49%
Restricted Net Assets	64,929	22,233	42,696	192.04%
Retained Earnings, Unrestricted	248,294	206,266	42,028	20.38%
Total Net Assets	<u>\$ 795,530</u>	<u>\$ 922,403</u>	<u>\$ (126,873)</u>	<u>-13.75%</u>

As Noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$795,530 and \$922,403 respectively, for December 31, 2005 and 2004.

The largest portion of the District's net assets is reflected in its cash and its capital assets, less accumulated depreciation. The District strives to keep adequate cash reserves on hand in order to maintain or expand its facilities to meet the needs of its customers and to comply with regulatory requirements.

For the year ended December 31, 2005, total assets of the District decreased by \$375,863 due to increase in accumulated depreciation, which was from the systematic expense of the cost of fixed assets. The Liabilities of the District decreased by \$92,156 due mainly to decrease in notes payable.

The following table summarizes the changes in revenues and expenses for the District for 2005 and 2004:

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31,

	<u>2005</u>	<u>2004</u>	<u>Change Amount</u>	<u>%</u>
<u>Revenues</u>				
Operating Revenues	\$ 777,010	\$ 738,246	\$ 38,764	5.25%
Nonoperating Revenues	150,187	470,377	(320,190)	-68.07%
Total Revenues	<u>927,197</u>	<u>1,208,623</u>	<u>(281,426)</u>	<u>-23.28%</u>
<u>Expenses</u>				
Operating Expenses	724,122	645,049	79,073	12.26%
Nonoperating Expenses	329,948	336,889	(6,941)	-2.06%
Total Expenses	<u>1,054,070</u>	<u>981,938</u>	<u>72,132</u>	<u>7.35%</u>
Income/(Loss)	<u>(126,873)</u>	<u>226,685</u>	<u>(353,558)</u>	<u>-155.97%</u>
Change in Net Assets	<u>\$ (126,873)</u>	<u>\$ 226,685</u>	<u>\$ (353,558)</u>	<u>-155.97%</u>

Capital Assets

As of December 31, 2005, the District had \$6,960,372 invested in net capital assets.
This amount represents a net decrease of \$296,792 (4.09%) over 2004

Table 3
Capital Assets
For the Years Ended December 31,

	<u>2005</u>	<u>2004</u>	<u>Change Amount</u>	<u>%</u>
Land	258,508	258,508	-	0.00%
Buildings	23,617	23,617	-	0.00%
Machinery and Equipment	52,122	50,318	1,804	3.59%
Office Furniture and Fixtures	19,044	19,062	(18)	-0.09%
Autos and Trucks	24,823	13,968	10,855	77.71%
Construction in Progress	343,374	266,222	77,152	28.98%
Water System	9,544,948	9,544,376	572	0.01%
Less: Accumulated Depreciation	(3,306,064)	(2,918,907)	(387,157)	13.26%
Totals	<u>6,960,372</u>	<u>7,257,164</u>	<u>(296,792)</u>	<u>-4.09%</u>

Major additions were to construction in progress and Autos.

Additional information on the District's capital assets can be found in Notes to the financial statements

Tri-County Rural Water and Sewer District
Management's Discussion and Analysis (Continued)

The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

Economic Factors and 2005 Budget

The operating budget for 2005 is \$53,184 more than the 2005 actual due to expected moderate decrease costs for District's expenses. One of the construction projects, which has been in progress was completed as of 2004.

Contacting the District's Financial Management

This report is designed to provide the District's patrons and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact Jon Morgenstern, President, at 20 Anderson Lane, Waterford, OH 45786-5327

Tri-County Rural Water and Sewer District
Statement of Net Assets
December 31, 2005 and 2004

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash	\$ 356,221	\$ 305,220
Accounts Receivable (Net of Allowance for Uncollectibles)	72,100	88,241
Accrued Interest Receivable	651	611
Prepaid Expenses	821	
Total Current Assets	<u>429,793</u>	<u>394,072</u>
Restricted Cash & Investments:		
Savings-Taps & Hydrants	7,298	6,395
Rentor's Deposits	837	949
Noble County Rural Water	56,794	14,889
Total Restricted Cash & Investments	<u>64,929</u>	<u>22,233</u>
Fixed Assets:		
Land	258,508	258,508
Buildings	23,617	23,617
Machinery and Equipment	52,122	50,318
Office Furniture and Fixtures	19,044	19,062
Autos and Trucks	24,823	13,968
Construction in Progress	343,374	266,222
Water System - Wells	199,576	199,576
Water System - Meter/Tapx/Hydrants	377,086	377,086
Water System - Water Lines	6,739,976	6,739,404
Water System - Stations	920,258	920,258
Water System - Tanks/Towers	1,308,052	1,308,052
Less: Accumulated Depreciation	<u>(3,306,064)</u>	<u>(2,918,907)</u>
Net Fixed Assets	<u>6,960,372</u>	<u>7,257,164</u>
Other Assets:		
Loan Closing Fees	15,660	16,490
Right of Ways	36,842	36,666
Advance Deposits	300	300
Total Other Assets	<u>52,802</u>	<u>53,456</u>
Total Assets	<u>\$ 7,507,896</u>	<u>\$ 7,726,925</u>

The accompanying notes are an intergral part of these financial statements

**Tri County Rural Water and Sewer District
Statement of Net Assets
December 31, 2005 and 2004**

	2005	2004
<u>Liabilities and Fund Equity</u>		
Liabilities:		
Current Liabilities:		
Accounts Payable	3,874	47,293
Accrued Payroll	1,397	1,075
Accrued Payroll Taxes and Withholdings	2,733	5,768
Accrued Interest Payable	166,307	168,155
Accrued vacation and Sick Leave	2,633	3,395
Noble Co. Rural Water Advance	56,794	14,889
Customer Security Deposits	563	687
Current Portion of Long-Term Debt Citizens	1,486	-
Current Portion of Long-Term Debt	256,868	235,785
Total Current Liabilities	492,655	477,047
Long Term Liabilities:		
Notes Payable OWDA	5,159,347	5,174,641
Notes Payable OPWC	1,311,475	1,388,619
Note Payable Citizens Bank	7,243	-
Less: Current Portion of Long-Term Debt	(258,354)	(235,785)
Total Long-Term Liabilities	6,219,711	6,327,475
Total Liabilities	6,712,366	6,804,522
NET ASSETS:		
Invested in Capital Assets, Net of Debt	482,307	693,904
Net Assets - Restricted	64,929	22,233
Net Assets - Unrestricted	248,294	206,266
Total Net Assets	795,530	922,403
Total Liabilities & Net Assets	\$ 7,507,896	\$ 7,726,925

The accompanying notes are an intergral part of these financial statements

Tri-County Rural Water and Sewer District
Statement of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Charge for Services	\$ 725,554	\$ 686,382
Tap Fees	20,200	31,683
Finance Charges	12,366	13,301
Reconnect Fees	3,800	3,450
Miscellaneous Income	15,090	3,430
Total Operating Revenues	<u>777,010</u>	<u>738,246</u>
Operating Expenses:		
Advertising	316	694
Amortization Expense	830	830
Auto-Truck Travel	916	2,465
Bad Debts	40,620	30,611
Chemicals	5,945	3,160
Contract Labor	16,790	28,926
Depreciation Expense	389,937	368,545
Fuel, Oil and Grease	2,506	1,733
Dues and Subscriptions	1,508	378
Insurance	7,808	7,469
Hospital Insurance	14,145	13,348
Legal and Accounting	65,554	7,071
Repairs and Maintenance	12,344	1,671
Office	5,414	5,968
Pension - PERS	10,382	9,712
Postage	3,305	3,421
Recording/Filing Fees	1,630	8,964
Rent	1,800	1,800
Salaries	79,576	74,988
Supplies	13,225	24,915
Payroll Taxes	3,173	4,629
Telephone	3,136	3,088
Travel and Entertainment	2,414	2,084
Training	805	128
System Electric	30,549	30,422
Other Utilities	2,642	2,021
Sewer/Beverly Hills	1,921	1,636
Water Testing	2,394	3,911
Misc. Expense	2,537	461
Total Operating Expenses	<u>724,122</u>	<u>645,049</u>
Operating Income	<u>52,888</u>	<u>93,197</u>

The accompanying notes are an intergral part of these financial statements

Tri-County Rural Water and Sewer District
Statement of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2005 and 2004

	<u>2,005</u>	<u>2,004</u>
Nonoperating Revenues		
Expenses)		
Interest Earned	2,951	2,533
Interest Expense	(329,948)	(336,889)
Other Non-Operating Revenues	<u>147,236</u>	<u>467,844</u>
Total Nonoperating		
Revenues (Expenses)	<u>(179,761)</u>	<u>133,488</u>
Net Income (Loss)	(126,873)	226,685
Net Assets, Beginning		
of Year	<u>922,403</u>	<u>695,718</u>
Net Assets, Ending		
of Year	<u><u>\$ 795,530</u></u>	<u><u>\$ 922,403</u></u>

The accompanying notes are an integral part of these financial statements

**Tri-County Rural Water and Sewer District
Statement of Cash Flows
For the Years Ended December 31, 2005 and 2004**

	2005	2004
<u>Cash Flows From Operating</u>		
<u>Activities:</u>		
Cash received from customer	\$ 792,987	\$ 720,179
Cash paid to suppliers	(303,556)	(155,548)
Cash paid to employees	(80,016)	(74,722)
Net Cash Provided (Used) by Operating Activities	409,415	489,909
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Retirement of Long-Term Debt	(244,294)	(229,769)
Proceeds from Long-Term Debt	158,436	553,951
Interest Paid	(333,594)	(333,738)
Net Cash Provided (Used) by Capital and Related Financing Activities	(419,452)	(9,556)
<u>Cash Flows from Investing</u>		
<u>Activities:</u>		
Decrease (Increase) in Restricted Assets	42,696	20,748
Acquisition of Property, Plant and Equipment	(90,365)	(938,502)
Miscellaneous Non-Operating Income	148,452	459,952
Interest Income	2,951	2,533
Net Cash Provided (Used) by Investing Activities	103,734	(455,269)

The accompanying notes are an intergral part of these financial statements

**Tri-County Rural Water and Sewer District
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2005**

	2005	2004
Net Increase (Decrease) in Cash and Cash Equivalents	93,697	25,084
Cash and Cash Equivalents at Beginning of Year	327,453	302,369
Cash and Cash Equivalents at End of Year	\$ 421,150	\$ 327,453
Supplemental Disclosures of Cash Flows Information:		
Cash paid to interest expense	\$ 163,641	\$ 168,733

Disclosure of Accounting Policy:

For the Purpose of the statement of cash flows, the district considers all highly liquid unrestricted instruments purchased with maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements

Tri-County Rural Water and Sewer District
Statement of Cash Flows (Continued)
For the Years Ended December 31, 2005 and 2004

**Reconciliation of Net Income (Loss) to Net Cash
Provided by Operating Activities**

	2005	2004
<u>Cash Flows From Operating</u>		
<u>Activities:</u>		
Net Operating Income (Loss)	\$ 52,888	\$ 93,197
Adjustments to Reconcile Net Income to Net Cash by Operating Activities:		
Depreciation	389,937	368,545
Change in Current Assets & Current Liabilities		
Decrease/(Increase) in Accounts Receivable	16,141	(18,083)
Decrease/(Increase) in Accrued Interest Receivable	(40)	(108)
Decrease/(Increase) Prepaid Expenses	(821)	-
Increase/(Decrease) Customer Deposits	(124)	124
Increase/(Decrease) Right-of-Ways	176	(210)
Increase/(Decrease) Accounts Payable	(43,419)	40,785
Increase/(Decrease) Accrued Interest	(1,848)	5,393
Increase/(Decrease) Accrued Payroll	322	331
Increase/(Decrease) Accrued vacation and Sick Leave	(762)	29
Increase/(Decrease) Accrued Payroll Liabilities	(3,035)	(94)
Total Adjustments	356,527	396,712
 Net Cash Provided (Used) by Operating Activities	 \$ 409,415	 \$ 489,909

The accompanying notes are an intergral part of these financial statements

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Tri-County Rural Water and Sewer District Washington County (the District), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Water District was established as a separate political subdivision of the State of Ohio under provision of Chapter 6119 of the Ohio Revised Code. The Water District is directed by an elected seven-member Board of Trustees. These board members are elected by the membership (any consumer who has paid for a tap). An appointed staff consisting of a general manager, distribution operator, and one office clerk are responsible for fiscal control of the resources of the District. The District provides water and sewer services to residents of the District.

B. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the business-type activities financial statements. Basis of accounting relates to the timing of measurements made. The accounting policies of the District conform to generally accepted accounting principles.

The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the statement of net assets. Equity (i.e., net total assets) is segregated into contributed capital and restricted and unrestricted net assets components. The operating statements present increases (i.e. revenues) and decreases (i.e., expenses) in net total assets.

Pursuant to GASB Statement No. 20: *Accounting Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the District follows GASB guidance as applicable to proprietary funds and *Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins* issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Enterprise activity is accounted for in the manner similar to private business enterprises where the intent of management is that the costs and expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges and where management has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control and accountability.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

The District's policy on defining operation revenues is all revenue generated from water and sewer operation. Non-operating revenues are those not connected to operation.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. One of the significant changes in the Statement includes a Management's Discussion and Analysis (MD&A) section providing an analysis of the District's financial position and results of operations. The District has elected to implement the general provisions of the Statement in 2004. As a result, an entirely new financial presentation format has been implemented.

C. Budgetary Process

Note: Under HB 262, effective for fiscal years ending December 2000 and subsequent, Water and Sewer Systems not levying property taxes must follow most of the Ohio Revised Code Chapter 5705 budget requirements, but need not seek approval of a county budget commission for any budgetary actions.

The Ohio Revised Code requires the District adopt an annual budget.

Appropriations

Budgetary expenditures (that is, disbursements) may not exceed appropriations at the function or object level of control, and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

D. Property, Plant and Equipment

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included or capitalized. Property, plant and equipment of the District are recorded at cost. Property, plant, and equipment donated are recorded at their estimated fair value at the date of donation. Major outlays for Capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property, Plant and Equipment (Continued)

Property, plant and equipment reflected are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water Systems	25
Buildings	15
Furniture / Equipment	5-7
Vehicles	5

E. Contributed Capital

Contributed capital consists of grants restricted to capital acquisitions, fixed assets received from developers and tap fees in excess of related costs. These assets are recorded at their fair market value on the date contributed. Capital contributions received in 2005 and 2004 have been recorded as revenues and we reported as increases in net assets based on new guidelines established by GASB Statement 33, Accounting and Reporting for Non-Exchange Transactions.

F. Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. CASH AND CASH EQUIVALENTS

State statutes classify monies held by the 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 Treasury, in commercial accounts payable or withdrawable on demand including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board 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 monies 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.

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

2. CASH AND CASH EQUIVALENTS (Continued)

Interim monies may be deposited or invested in the following securities.

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United State treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home bank loan, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. 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), this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurers Investment pool (STAROHIO).
Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investment 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.

The following information classifies deposits by categories of risk as defined in GASB Statement 40, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At December 31 the carrying amount of the District's deposits was as follows:

	<u>2005</u>	<u>2004</u>
Demand Deposits	\$421,150	\$327,453

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

2. CASH AND CASH EQUIVALENTS (Continued)

At December 31, the bank balance of the District's deposits was as follows:

	<u>2005</u>	<u>2004</u>
Demand Deposits	\$429,845	\$328,683

At December 31, 2005 and 2004, \$100,000 of the bank balance each year was insured by the Federal Deposit Insurance Corporation and \$329,845 and \$228,683, respectively, was insured by a repurchasing agreement through Citizens Bank.

Investments: The District did not have any investments during 2005 and 2004.

The classification of cash and cash equivalents on the financial statements is based on criteria set forth in GASB Statement No.9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting." For the purposes of Statement of Cash Flows and for presentation on the Balance Sheet, investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments within initial maturity of more than three months are reported as investments.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2005 and 2004 follows:

Budgeted vs. Actual Receipts

	<u>2005</u>	<u>2004</u>
Budgeted Receipts	\$1,046,371	\$1,689,450
Actual Receipts	<u>1,041,306</u>	<u>1,720,640</u>
Variance	\$ 5,065	\$ 31,190

Budgeted vs. Actual Expenditures

	<u>2005</u>	<u>2004</u>
Budgeted Expenditures	\$995,479	\$1,686,276
Actual Expenditures	<u>942,295</u>	<u>1,569,828</u>
Variance	\$ 53,184	\$ 116,448

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

4. LONG TERM LIABILITIES

Debt outstanding at December 31, 2005 and 2004 consisted of the following:
Ohio Water Development Authority

2005					Amount
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
Note dated July 1 1005, due 2021, with interest at 6.72%	\$ 4,137,088	\$ -0-	\$ 137,546	\$ 3,999,542	\$ 146,788
Note dated July 1 1995, due 2022 with interest at 6.51%	223,848	-0-	7,583	216,265	8,077
Noted dated January 30, 1997, due 2022, with interest at 6.12%	72,449	-0-	2,318	70,131	2,414
Note dated July 24, 1997, due 2023, with interest at 6.11%	26,008	-0-	797	25,211	820
Note dated February 26, 1998, due 2023, with interest at 5.73%	9,719	-0-	296	9,423	313
Note dated March 25, 1999, due 2026, with interest at 2.0%	74,297	-0-	2,800	71,497	2,856
Note dated June 24, 1999, due 2024, with interest at 5.56%	200,524	-0-	5,668	194,856	5,987
Note dated December 14, 2000, due 2021, with interest at 2.0%	188,154	112,259	-0-	300,413	-0-
Note dated January 1, 2003 due 2035, with interest at 1.5%	51,713	38,982	-0-	90,695	2,460
Noted dated July 1, 2001, due 2021, with interest at 2.0%	190,842	-0-	9,528	181,314	9,720
Total	\$ 5,174,642	\$ 151,241	\$ 166,536	\$ 5,159,347	\$ 179,435

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

4. LONG TERM LIABILITIES (Continued)

Ohio Water Development Authority (Continued)

2004					Amount
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
Note dated July 1 1005, due 2021, with interest at 6.72%	\$ 4,265,972	\$ -0-	\$ 128,884	\$ 4,137,088	\$ 137,545
Note dated July 1 1995, due 2022 with interest at 6.51%	230,967	-0-	7120	223,847	7,583
Noted dated January 30, 1997, due 2022, with interest at 6.12%	74,633	-0-	2,184	72,449	2,318
Note dated July 24, 1997, due 2023, with interest at 6.11%	26,759	-0-	751	26,008	797
Note dated February 26, 1998, due 2023, with interest at 5.73%	9,999	-0-	280	9,719	296
Note dated March 25, 1999, due 2026, with interest at 2.0%	77,042	-0-	2,745	74,297	2,800
Note dated June 24, 1999, due 2024, with interest at 5.56%	205,889	-0-	5,365	200,524	5,668
Note dated December 14, 2000, due 2021, with interest at 2.0%	200,183	-0-	12,029	188,154	-0-
Noted dated July 1, 2001, due 2021, with interest at 2.0%	-0-	51,713	-0-	51,713	-0-
Noted dated July 1, 2001, due 2021, with interest at 2.0%	-0-	200,183	9,341	190,842	9,528
Total	\$ 5,091,444	\$251,896	\$ 168,699	\$ 5,174,641	\$ 166,535

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

4. LONG TERM LIABILITIES (Continued)

Ohio Water Development Authority (Continued)

Y e a r s	P r i n c i p a l	I n t e r e s t
2 0 0 6	\$ 1 7 9 , 4 3 5	\$ 3 0 6 , 3 5 7
2 0 0 7	1 9 0 , 6 7 0	2 9 5 , 1 2 2
2 0 0 8	2 0 2 , 6 4 0	2 8 3 , 1 5 2
2 0 0 9	5 1 5 , 8 0 7	2 7 0 , 3 9 8
2 0 1 0	2 2 8 , 9 8 3	2 5 6 , 8 0 9
2 0 1 1 - 2 0 1 5	1 , 3 8 2 , 1 1 0	1 , 0 4 6 , 8 4 7
2 0 1 6 - 2 0 2 0	1 , 8 8 3 , 9 1 3	5 4 5 , 0 4 4
2 0 2 1 - 2 0 2 5	5 4 0 , 9 4 6	4 2 , 2 7 6
2 0 2 6 - 2 0 3 0	1 6 , 7 7 2	2 , 0 5 5
2 0 3 1 - 2 0 3 5	1 8 , 0 7 3	7 5 4
T o t a l	\$ 5 , 1 5 9 , 3 4 9	\$ 3 , 0 4 8 , 8 1 4

The notes listed above are for the various fixed assets constructed to provide service from the wells to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these debts.

Ohio Public Works Commission

2005				Amount	
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
Loan No. CR14C with interest rate at 2%	\$ 296,462	\$ -0-	\$ 14,303	282,159	\$ 14,591
Loan No. CR530 R5 with interest rate at 0%	168,300	-0-	10,200	158,100	10,200
Loan No. CR935 R9 with interest rate at 0%	294,558	-0-	17,852	276,706	17,852
Loan No. CR729 R7 with interest rate at 0%	221,595	-0-	13,430	208,165	13,430
Loan No. CR314 R3 with interest rate at 0%	91,884	-0-	5,569	86,316	5,569
Loan No. CR20G with interest rate at 0%	315,820	-0-	15,791	300,029	15,791
Total	\$1,388,619	\$ -0-	\$ 77,145	\$ 1,311,475	\$ 77,433

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

4. LONG TERM LIABILITIES (Continued)

Ohio Public Works Commission (Continued)

2004					Amount
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
Loan No. CR14C with interest rate at 2%	\$ 310,484	\$ -0-	\$ 14,022	\$ 296,462	\$ 14,304
Loan No. CR530 R5 with interest rate at 0 %	178,500	-0-	10,200	168,300	10,200
Loan No. CR935 R9 with interest rate at 0%	312,409	-0-	17,851	294,558	17,851
Loan No. CR729 R7 with interest rate at 0%	235,025	-0-	13,430	221,595	13,430
Loan No. CR314 R3 with interest rate at 0%	97,453	-0-	5,569	91,884	5,569
Loan No. CR20G with interest rate at 0%	13,765	302,055	-0-	315,820	7,896
Total	\$ 1,147,636	\$ 302,055	\$ 61,072	1,388,619	\$ 69,250

Ohio Public Works Commission amortization schedule is as follows:

The notes listed above between the district and Ohio Public Works Commission are pursuant to Ohio Rev. Code 104.05 and Ohio Admin. Code 164.4-21. The Project Agreement entered into between Ohio Public Works Commission and the District states that the above sums are to be used for the purpose of financing or reimbursing the costs of the projects.

Y e a r s	P r i n c i p a l	I n t e r e s t
2 0 0 6	\$ 7 7 , 4 3 3	\$ 5 , 5 7 1
2 0 0 7	7 7 , 7 2 6	5 , 2 7 7
2 0 0 8	7 8 , 0 2 5	4 , 9 7 8
2 0 0 9	7 8 , 3 3 0	4 , 6 7 3
2 0 1 0	7 8 , 6 4 2	4 , 3 6 2
2 0 1 1 - 2 0 1 5	3 9 8 , 1 0 2	1 6 , 9 1 5
2 0 1 6 - 2 0 2 0	4 0 9 , 6 6 3	8 , 1 3 8
2 0 2 1 - 2 0 2 5	1 0 3 , 5 7 1	4 9 5
2 0 2 6 - 2 0 3 0	9 , 9 8 3	9 9
2 0 3 1 - 2 0 3 5	-	-
T o t a l	\$ 1 , 3 1 1 , 4 7 5	\$ 5 0 , 5 0 8

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

4. LONG TERM LIABILITIES (Continued)

Citizens Bank Loan

2005					Amount
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
Citizens Bank Loan with interest rate at 4.350%	\$ -0-	\$ 7,856	\$ 613	\$ 7,243	\$ 1,486

Proprietary Fund						
Long-Term Debt	2006	2007	2008	2009	2010	Total
Citizens Bank Loan	\$ 1,486	\$ 1,552	\$ 1,620	\$ 1,692	\$ 893	\$ 7,243
Citizens Bank Interest	\$ 286	\$ 220	\$ 151	\$ 79	\$ 11	\$ 747

5. CAPITAL ASSETS

A summary of the enterprise funds' fixed assets at December 31, 2005

	Beginning			Ending
Proprietary Fund	Balance	Additions	Dispositions	Balance
Land	\$ 258,508	\$ -	\$ -	\$ 258,508
Buildings	23,617	-	-	23,617
Machinery & Equipment	50,318	1,804	-	52,122
Office Furniture & Fixtures	19,062	-	18	19,044
Autos & Trucks	13,968	10,855	-	24,823
Construction in Progress	266,222	77,152	-	343,374
Water System-Wells	199,576	-	-	199,576
Water System-Meter/Tap/Hydrants	377,086	-	-	377,086
Water Systems-Water Lines	6,739,404	572	-	6,739,976
Water System-Stations	920,258	-	-	920,258
Water Systems-Tanks/Towers	1,308,052	-	-	1,308,052
Total	10,176,071	90,383	18	10,266,436
Accumulated Depreciation				
Buildings	(13,039)	(1,459)		(14,498)
Machinery & Equipment	(21,608)	(3,546)	(1,201)	(23,953)
Office Furniture & Fixtures	(16,353)	(1,219)	(1,579)	(15,993)
Autos & Trucks	(13,968)	(905)		(14,873)
Water Systems	(2,853,939)	(382,808)		(3,236,747)
Total Accumulated Depreciation	(2,918,907)	(389,937)	(2,780)	(3,306,064)
Total Capital Assets	\$ 7,257,164	\$ (299,554)	\$ (2,762)	\$ 6,960,372
Depreciation Expense		<u>\$ 389,937</u>		

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

5. CAPITAL ASSETS (Continued)

A summary of the enterprise funds' fixed assets at December 31, 2004

Proprietary Fund	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 258,508	\$ -	\$ -	\$ 258,508
Buildings	23,617	-	-	23,617
Machinery & Equipment	50,318	-	-	50,318
Office Furniture & Fixtures	19,062	-	-	19,062
Autos & Trucks	13,968	-	-	13,968
Construction in Progress	43,573	222,649	-	266,222
Water System-Wells	199,576	-	-	199,576
Water System-Meter/Tap/Hydrants	377,086	-	-	377,086
Water Systems-Water Lines	6,023,551	715,853	-	6,739,404
Water System-Stations	920,258	-	-	920,258
Water Systems-Tanks/Towers	1,308,052	-	-	1,308,052
Total	9,237,569	938,502	-	10,176,071
Accumulated Depreciation				
Buildings	(11,580)	(1,459)	-	(13,039)
Machinery & Equipment	(18,333)	(3,275)	-	(21,608)
Office Furniture & Fixtures	(15,595)	(758)	-	(16,353)
Autos & Trucks	(13,968)	-	-	(13,968)
Water Systems	(2,490,886)	(363,053)	-	(2,853,939)
Total Accumulated Depreciation	(2,550,362)	(368,545)	-	(2,918,907)
Total Capital Assets	\$ 6,687,207	\$ 569,957	\$ -	\$ 7,257,164
Depreciation Expense		<u>\$ 368,545</u>		

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

6. RISK MANAGEMENT

Risk Pool Membership

The Government belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides proprietary and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-occurrence limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$100,000.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability, for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

General liability insurance is covered with a \$1,000,000 per occurrence. Automobile liability has a \$1,000,000 limit with a \$250 deductible for comprehensive and collision coverage.

Officials' liability coverage is \$1,000,000 per occurrence and in the aggregate, including a \$500 deductible. Property insurance coverage is subject to a \$250 deductible for buildings, contents, and miscellaneous property. Settled claims have not exceeded insurance coverage in any of the past four years.

7. DEFINED BENEFIT RETIREMENT SYSTEM

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

7. DEFINED BENEFIT RETIREMENT SYSTEM (Continued)

Plan members are required to contribute 8.5 percent of their annual covered salary to pension obligation. For plan members the District was required to contribute 13.55 percent of covered salary for 2005 2004. Contributions are authorized by State statute. The contributions rates are determined actuarially. The District's contributions to PERS for the years ended December 31, 2005, 2004 and 2003 were \$10,382, \$9,712 and 9,144, respectively. These contributions were equal to the required contributions for each year.

8. POSTEMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service audit and to primary survivor recipients of such retiree's health care coverage for disability recipients is available. The health care coverage provided by the retirement service is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer contribution rate for local government employer units was 13.55% of covered payroll; 4.3% was the portion that was used to fund health care for 2005.

Benefits are advance-funded using the entry age cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2005 include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional annual pay increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1 and 6 percent annually for the next eight years and 4 percent annually after eight 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.

The number of active contribution participants was 369,885. PERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion respectively.

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

9. CONTINGENCY

The District is the plaintiff in a lawsuit with the defendant Pure Water. Pure Water is alleging that the District does not have a legal and binding contract with Pure Water. The potential loss for the District is that the District would have to repay a note payable on their books, which the district incurred in Agreement with Pure Water to extended their water line to Pure Water connections. The contract stated that Pure Water would reimburse the District for cost of the note payable through the collection of raised rates from their customers.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

10. CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, GASB Statement No 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments* has been adopted by the District as of January 1, 2004. The District has now included management’s Discussion and Analysis as supplemental information.

Tri-County Rural Water and Sewer District
For the Years Ended December 31, 2005 and 2004

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

May 11, 2006

Board of Trustees
Tri-County Rural Water
and Sewer District
20 Anderson Lane
Waterford, OH 45786-5327

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

We have audited the accompanying financial statements of the business-type activities of Tri-County Rural Water and Sewer District as of and for the year ending December 31, 2005 and 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 11, 2006, wherein we noted the District adopted Governmental Accounting Standards Board Statement number 34, 37, 38 and Interpretation 6. 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 as issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

Board of Trustees
Tri-County Rural Water
and Sewer District
May 11, 2006
Page Two

Independent Auditor's Report on Compliance and Internal Control

Compliance

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

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

Respectfully submitted,

Perry and Associates
Certified Public Accountants, A.C.

TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2005-001

Segregation of Accounting Duties

A lack of segregation of accounting duties exists within the District. This situation provides for a less than desirable internal control since virtually two people have control of all of the accounting functions.

Recommendation

However, due to the limited size and resources of the District, the current situation is acceptable with continued involvement of the Board of Trustees.

Response

The Board will continue to be involved with the operation of the district.

**Tri-County
Rural Water and
Sewer District**

**SCHEDULE OF
PRIOR FINDINGS
December 31, 2005
and 2004**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding no Longer Valid; Explain
2003-002	Segregation of Accounting Duties	No	Not Corrected-Repeated as 2005-001



**Auditor of State
Betty Montgomery**

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800-282-0370

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TRI COUNTY RURAL WATER AND SEWER DISTRICT

WASHINGTON 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
AUGUST 1, 2006**