



SOUTHWEST REGIONAL WATER DISTRICT

Butler County, Ohio

Regular Audit

January 1, 2004 through December 31, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAS, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com



**Auditor of State
Betty Montgomery**

Board of Directors
Southwest Regional Water District
3640 Old Oxford Road
Hamilton, Ohio 45013

We have reviewed the *Independent Auditor's Report* of the Southwest Regional Water District, Butler County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2004 through December 31, 2004. 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 Southwest Regional Water 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

August 16, 2005

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SOUTHWEST REGIONAL WATER DISTRICT

Basic Financial Statements
For the Year Ended December 31, 2004

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Regional Water District
3640 Old Oxford Road
Hamilton, Ohio 45013

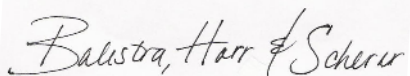
We have audited the accompanying financial statements of the business-type activities of the Southwest Regional Water District (the District), Butler County, as of and for the year ended December 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements for the year ended December 31, 2003. These financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for the year ended December 31, 2003 is solely based on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District and its cash flows, as of December 31, 2004 and December 31, 2003, and the respective changes in financial position thereof 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 March 11, 2005, on our consideration of the District's internal control over financial reporting and on 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 7 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Balestra, Harr & Scherer, CPAs, Inc.

March 11, 2005



MANAGEMENT DISCUSSION AND ANALYSIS

Southwest Regional Water District (SWRWD or "the District") is providing this discussion and analysis for our customers, creditors and others of interest, as a general overview of the district and its financial activities.

FINANCIAL HIGHLIGHTS

- The total assets of SWRWD exceeded liabilities on December 31, 2004 by \$27.9 million.
- The District's net assets increased \$2.02 million (8%) in 2004.
- The District's Operating Revenues increased by \$356 thousand (5.3%) with Operating and Maintenance Expenses increasing \$168 thousand (4.3%) in 2004.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statement of Net Assets** includes all of the District's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities). The District's net assets (equity) are the difference between assets and liabilities.

The **Statement of Revenues, Expenses, and Changes in Net Assets** provides information on the District's operations over the past year and the success of recovering all its costs through user fees, charges and assessments, and other income.

The **Statements of Cash Flows** presents information about the District's cash receipts and disbursements from operations, investing and financing activities. The statement summarizes where the cash was provided, cash uses, and changes in the balances during the year.

NET ASSETS

Table 1 summarizes the Net Assets of the District. Capital Assets are reported less accumulated depreciation. Invested in Capital, Net of Debt, are Capital Assets less outstanding debt that was used to acquire those assets.

	2004	2003	Change Amount	%
Current and Other Assets	\$12,714,313	\$12,999,354	\$ (285,041)	-2%
Capital Assets	\$40,535,386	\$39,455,526	\$ 1,079,860	3%
Total Assets	<u>\$53,249,699</u>	<u>\$52,454,880</u>	<u>\$ 794,819</u>	2%
Liabilities				
Long Term Liabilities	\$23,588,704	\$24,888,953	\$(1,300,249)	-5%
Other Liabilities	\$ 1,784,399	\$ 1,709,719	\$ 60,788	4%
Total Liabilities	<u>\$25,373,103</u>	<u>\$26,598,672</u>	<u>\$(1,225,569)</u>	-5%
Net Assets				
Invested in Capital, Net of Debt	\$15,718,519	\$13,405,158	\$ 2,313,361	17%
Restricted	\$ 2,569,228	\$ 2,569,670	\$ (442)	0%
Unrestricted	\$ 9,588,849	\$ 9,881,380	\$ (292,531)	-3%
Total Net Assets	<u>\$27,876,596</u>	<u>\$25,856,208</u>	<u>\$ 2,020,388</u>	8%

- The District's Net Assets increased \$2.02 million (8%) in 2004. These increases are a result of excess revenues over expenses and capital contributions.
- The District incurred no new debt in 2004 resulting in long term liabilities reducing \$1.3 million from debt service payments.

STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET ASSETS)

Table 2 summarizes the changes in Revenues and Expenses and the resulting change in Net Assets.

Table 2

	2004	2003	Change Amount	%
Operating Revenues	\$ 7,135,400	\$ 6,779,668	\$ 355,732	5.3%
Non-Operating Revenues	\$ 677,461	\$ 470,933	\$ 206,528	43.9%
Total Revenues	\$ 7,812,861	\$ 7,250,601	\$ 562,260	7.8%
Operating Expenses	\$ 3,299,867	\$ 3,192,882	\$ 106,985	3.4%
Maintenance Expenses	\$ 736,962	\$ 676,295	\$ 60,667	9.0%
Depreciation Expenses	\$ 1,388,675	\$ 1,353,444	\$ 35,231	2.6%
Total Expenses	\$ 5,425,504	\$ 5,222,621	\$ 202,883	3.9%
Operating Income	\$ 1,709,896	\$ 1,557,047	\$ 152,849	9.9%
Non-Operating Expenses	\$ (1,301,663)	\$ (1,212,562)	\$ (89,101)	7.4%
Capital Contributions	\$ 934,694	\$ 1,428,036	\$(493,342)	-34.6%
Change in Net Assets	<u>\$ 2,020,388</u>	<u>\$ 2,243,454</u>	<u>\$(223,066)</u>	-10.0%

- Total Operating Revenues increased \$356 thousand (4.6%) in 2004. Grant monies for capital improvement projects increased \$187 thousand and interest income increased by \$19 thousand resulting in an increase of 207 thousand (43.9%) increase in non-operating revenues. Non-exchange revenues (primarily watermain and appurtenances contributed by developers) decreased \$493 thousand, resulting in a decrease of \$493 thousand (-34.6%) in capital contributions in 2004. Capital Contributions are vulnerable to yearly fluctuations depending on development activity and new projects subject to assessments.
- Operations and Maintenance Expenses, excluding depreciation, increased \$167 thousand (4.3%) in 2004. Increases in Operating Revenues from the sales of water (excluding any increase in user rates) will typically be accompanied by larger consumption of chemicals and electric, increasing operating costs. A major creek crossing repair in early 2004, contributed to much of the increase in maintenance costs.

CAPITAL ASSETS

The District had \$54.79 million invested in Capital Assets (before depreciation) at the end of 2004, as shown in Table 3. This amount is an increase of \$2.4 million (9.4%) from the previous year.

TABLE 3

	2004	2003	Change Amount	%
Land	\$ 195,878	\$ 116,879	\$ 78,999	67.6%
Structures	\$ 2,268,067	\$ 2,268,764	\$ (697)	0.0%
Distribution System	\$ 49,487,768	\$ 47,401,330	\$ 2,086,438	4.4%
Tank Monitoring Equipment	\$ 282,640	\$ 282,640	\$ (0)	0.0%
Vehicles	\$ 860,301	\$ 860,301	\$ -	0.0%
Laboratory Equipment	\$ 23,238	\$ 23,238	\$ (0)	0.0%
Office Furniture and Equipment	\$ 382,401	\$ 295,973	\$ 86,428	29.2%
Misc. Plant & Repair Equipment	\$ 146,696	\$ 144,722	\$ 1,974	1.4%
Construction in Progress	\$ 1,138,395	\$ 963,502	\$ 174,893	18.2%
Totals before Depreciation	\$ 54,785,384	\$ 52,357,349	\$ 2,428,035	
Accumulated Depreciation	\$ (14,250,000)	\$ (12,901,823)	\$ (1,348,177)	
Total Capital Assets	\$ 40,535,384	\$ 39,455,526	\$ 1,079,858	

The majority increase in capital assets for 2004 was the District's Distribution System. The increase was the result of acceptance of non-exchange capital contributions from developers and installation of new meter facilities. Land value increased with the purchase of vacant ground next to the District's Administration building to be used for future growth. Office furniture and equipment increased from the purchase of new desktop computers, a telephone notification system and new meter reading equipment. Projects in progress for the development of a GIS system, booster station improvements and a new water storage tank accounts for much of the increase in Construction in Progress.

DEBT

Table 4 summarizes the District's long term debt. The District issues long term debt to finance much of its construction. Revenue bonds are used to finance most general improvement projects. If special assessments are used to finance a project to extend water service into new areas, special assessment bonds are issued.

Table 4

	2004	2003	Change Amount	%
REVENUE BONDS				
1995 Revenue Bonds	\$ 470,000	\$ 915,000	\$ (445,000)	-49%
2003 Revenue Bonds	\$ 16,486,285	\$ 17,024,586	\$ (538,301)	-3%
Rural Development Bonds	\$ 2,760,118	\$ 2,804,976	\$ (44,858)	-2%
Total Revenue Bonds	\$ 19,716,403	\$ 20,744,562	\$ 1,028,159	-5%
Special Assessment Bonds	\$ 6,290,000	\$ 6,574,000	\$ (284,000)	-4%
Ohio Water & Sewer Rotary Commission	\$ 62,441	\$ 62,441	\$ -	0%
Long Term Debt	\$ 26,068,844	\$ 27,381,003	\$ (1,312,159)	-5%
Less: Re-acquisition Costs				
1995 Revenue Bonds	\$ (1,251,977)	\$ (1,330,635)	\$ 78,658	6%
Current Maturities	\$ (1,346,719)	\$ (1,293,859)	\$ (52,860)	-4%
Net Total Long Term Debt	\$ 23,470,148	\$ 24,756,509	\$ (1,286,361)	-5%

- The District issued no new debt in 2004
- In 2003, the District advance refunded its 1995 Revenue Bonds, with the issuance of the 2003 Revenue Bonds. The irrevocable trust account established for defeasing the 1995 bonds had a balance of \$11,834,789 on 12/31/04. With the exception of the bonds maturing on December 1, 2005, this balance will be used to make interest payments on the 1995 series bonds on June 1, 2005 and then call these bonds on December 1, 2005. The interest and principal on the 1995 bonds maturing on December 1, 2005 will be paid from the District's funds.
- The payment of principal and interest of the 1995 and 2003 Revenue Bonds when due is guaranteed by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

DEBT COVERAGE

Table 5 reflects the ability of the District to pay both interest and the current principal installments on its outstanding debt.

Table 5

	2004	2003
Operating Revenues	\$ 7,135,400	\$ 6,779,668
Non-Operating Revenue - Interest	\$ 350,051	\$ 330,826
Total Revenues	\$ 7,485,451	\$ 7,110,494
Less Operations & Maintenance Expenses	\$ (4,036,829)	\$ (3,869,177)
Total Revenues Available for Debt	\$ 3,448,622	\$ 3,241,317
Revenue Bond Debt Service - 1995 & 2003	\$ 965,000	\$ 1,174,667
Revenue Bond Debt Service - Rural Development	\$ 223,708	\$ 439,575
Special Assessment - Agricultural Deferments	\$ 46,395	\$ 46,395
Total Debt Service Requirements	\$ 1,235,103	\$ 1,660,637
Combined Coverage Ratio - All Debt	2.79	1.95
Required Coverage Ratio		
Revenue Bonds - 1995 & 2003	1.20	1.20
Rural Development	1.00	1.00

- The majority of the District's debt is paid from revenues, excluding capital contributions. The District is required to meet a revenue-to-debt ratio of 1.20 for its 1995 and 2003 Revenue Bonds and a 1.0 ratio for Rural Development Bonds.
- Special Assessment debt is paid with the collection of certified assessments by the local county auditor's office, which is forwarded to the District for debt service. Properties meeting certain agricultural usage requirements may defer payment of the assessments until such time as the usage changes. Agricultural deferments are paid from the District Revenues.

CONTACT INFORMATION

Questions regarding this report and requests for additional information, should be forwarded to the General Manager, Southwest Regional Water District, 3640 Old Oxford Road, Hamilton, Ohio 45013.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

STATEMENTS OF NET ASSETS

As of December 31, 2004 and 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$3,092,915	\$2,976,316
Accounts receivable (net of allowance for doubtful accounts of \$30,475 for 2004 and \$30,475 for 2003)	742,652	726,474
Special assessments receivable - current portion	299,000	284,000
Accrued interest receivable	27,645	12,810
Inventory	386,652	355,895
Prepaid expenses	35,856	53,814
TOTAL CURRENT ASSETS	4,584,720	4,409,309
NONCURRENT ASSETS		
Restricted Assets:		
Equity in pooled cash with fiscal agents	25,561	23,666
Equity in pooled cash and cash equivalents	2,543,667	2,546,004
TOTAL RESTRICTED ASSETS	2,569,228	2,569,670
Capital Assets:		
Water, production, treatment, and distribution systems	49,487,768	47,401,330
Buildings, office furniture and equipment	3,963,344	3,875,638
Total depreciable capital assets	53,451,112	51,276,968
Less: Accumulated depreciation	(14,250,000)	(12,901,823)
Net depreciable capital assets	39,201,112	38,375,145
Land	195,878	116,879
Construction in progress	1,138,396	963,502
NET CAPITAL ASSETS	40,535,386	39,455,526
Other Assets:		
Special assessments receivable - noncurrent	5,187,871	5,509,722
Bond issuance cost	0	366,398
Deferred Charges	372,494	144,255
TOTAL OTHER ASSETS	5,560,365	6,020,375
TOTAL ASSETS	\$53,249,699	\$52,454,880

The accompanying notes are an integral part of these financial statements.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

STATEMENTS OF NET ASSETS, CONTINUED

As of December 31, 2004 and 2003

	2004	2003
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$1,346,719	\$1,293,859
Accounts payable	140,262	113,469
Accrued liabilities	82,445	83,378
Tenants' deposits	39,788	38,895
Accrued interest	175,185	180,118
TOTAL CURRENT LIABILITIES	1,784,399	1,709,719
 LONG-TERM LIABILITIES		
Deferred revenue	118,556	132,444
Long term obligations	23,470,148	24,756,509
TOTAL LONG-TERM LIABILITIES	23,588,704	24,888,953
 TOTAL LIABILITIES	25,373,103	26,598,672
 NET ASSETS		
Invested in capital assets, net of related debt	15,718,519	13,405,158
Restricted for debt service	2,569,228	2,569,670
Unrestricted	9,588,849	9,881,380
TOTAL NET ASSETS	\$27,876,596	\$25,856,208

The accompanying notes are an integral part of these financial statements.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Metered water sales to customers	\$5,730,532	\$5,411,050
Sales of new taps	1,206,310	1,137,633
Penalties	198,558	164,900
Miscellaneous	0	66,085
TOTAL OPERATING REVENUES	<u>7,135,400</u>	<u>6,779,668</u>
OPERATING EXPENSES		
Operations	3,299,867	3,192,882
Maintenance	736,962	676,295
Depreciation	1,388,675	1,353,444
TOTAL OPERATING EXPENSES	<u>5,425,504</u>	<u>5,222,621</u>
OPERATING INCOME	<u>1,709,896</u>	<u>1,557,047</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	327,410	140,107
Interest income	350,051	330,826
Interest expense	(1,258,384)	(1,212,562)
Other non-operating expense	(43,279)	0
Net other income (expense)	<u>(624,202)</u>	<u>(741,629)</u>
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	1,085,694	815,418
Capital contributions - owner/developer	934,694	1,428,036
Total Capital Contributions	<u>934,694</u>	<u>1,428,036</u>
CHANGES IN NET ASSETS	2,020,388	2,243,454
NET ASSETS, BEGINNING OF YEAR	<u>25,856,208</u>	<u>23,612,754</u>
NET ASSETS, END OF YEAR	<u><u>\$27,876,596</u></u>	<u><u>\$25,856,208</u></u>

The accompanying notes are an integral part of these financial statements.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

Statement of Cash Flows

For the years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operations:		
Cash received from customers	\$ 7,106,423	6,682,328
Cash payments to suppliers for goods and services	(1,680,595)	(1,559,028)
Cash payments to employees for services	(2,338,431)	(2,109,279)
Net cash provided by operations	3,087,397	3,014,021
 Cash flows from capital and related financing activities:		
Proceeds from capital grant	327,410	140,107
Acquisition and construction of capital assets	(1,365,241)	(1,193,465)
Proceeds from issuance of long-term debt	-	17,274,160
Payment on borrowings	(1,312,159)	(935,022)
Advance refunding - 1994 and 1995 series bonds	-	(16,299,245)
Bond issuance costs	-	(371,558)
Collections on special assessments	306,851	296,144
Interest paid	(1,263,317)	(1,281,761)
Net cash provided (used) by capital and related financing activities	(3,306,456)	(2,370,640)
 Cash flows from investing activities:		
Interest received	335,216	318,819
Net cash provided (used) by investing activities	335,216	318,819
 Increase in cash and cash equivalents	116,157	962,200
Cash and cash equivalents - beginning of year	5,545,986	4,583,786
Cash and cash equivalents - end of year	\$ 5,662,143	5,545,986
 Restricted cash	\$ 2,569,228	2,569,670
Unrestricted cash	3,092,915	2,976,316
	\$ 5,662,143	5,545,986

The accompanying notes are an integral part of the these financial statements.

Developers dedicated water lines with total costs of \$934,694 and \$1,428,036 in 2004 and 2003, respectively, with such contributions recorded as owner/developer capital contributions.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

Statements of Cash Flows (Continued)

For the years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Operating Income	1,709,896	1,557,047
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,388,675	1,353,444
Amortization of deferred charge		137,233
Changes in operating assets and liabilities:		
Accounts receivable	(16,178)	(108,092)
Inventories	(30,757)	39,111
Prepaid expenses	17,958	(18,557)
Accounts payable	26,793	37,919
Accrued liabilities	(933)	5,164
Tenants' deposits	893	1,802
Customer advances	(8,950)	8,950
Net cash provided by operating activities	\$ 3,087,397	\$ 3,014,021

The accompanying notes are an integral part of these financial statements

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

1. NATURE OF ORGANIZATION

Southwest Regional Water District (hereafter referred to as SWRWD) was created, September 1, 1992, by the Court of Common Pleas of Butler County, Ohio to provide water services to the residents of Butler County in accordance with the provisions of Section 6119.01 of the Revised Code. SWRWD is managed by a Board consisting of three (3) appointed trustees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

1. **Basis of Presentation - Fund Accounting**

The accounts of SWRWD are organized on the basis of funds, to report on its financial position and the results of its operations, each of which is considered a separate accounting entity. SWRWD has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, retained earnings/fund balance, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which SWRWD uses, is described below:

Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the SWRWD is the Enterprise Fund.

Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is those costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. **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.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Budgetary Process

Annually, the SWRWD adopts an operating budget. The annual budget is adopted and continue in effect until a new budget is adopted.

4. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from charges for metered water sales and other services. Operating expenses are necessary costs incurred to provide the good or service that is primary activity of the District.

5. Accounts Receivable

Accounts receivable are shown at their net realizable value. SWRWD has set up an allowance for doubtful accounts for fiscal year 2004. Amounts determined to potentially be uncollectible are set up as an allowance and a corresponding entry to an expense account is recorded during the year that the accounts are determined to be potentially uncollectible.

6. Restricted Assets

Certain resources are set aside for the repayment of loans and as such are classified as restricted assets on the balance sheet because their use is limited by applicable security interests. The restricted assets are used for assuring payment of future principal and interest.

7. Capital Assets

Capital asset costs are stated at their historical cost and are depreciated over the estimated useful lives of the assets from 7 years to 25 years depending upon the type of asset. In addition, beginning in 1978, the District adopted the policy of including payroll cost, overhead expenses and interest costs incurred during the construction of the water system are capitalized and included in capital asset balance. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, and capitalized interest.

8. Provision for Income Tax

SWRWD operates as a public water-sewer system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

9. Cash and Cash Equivalents

For purposes of the statement of cash flows, SWRWD considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposits are reported at cost. In 2004 SWRWD did not have any investments.

10. Compensated Absences

The District does not have any significant compensated absences.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

3. CASH AND INVESTMENTS

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 of Trustees has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must be evidenced either 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.

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

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 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 States 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 loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations for the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote 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 one time.

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.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

3. CASH AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits - The carrying amount of the SWRWD deposits as of December 31, 2004 was \$5,662,143, and the bank balance was \$5,683,037. Of the bank balance:

1. \$600,000 was covered by federal depository insurance; and
2. \$5,083,037, respectively was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions.

Investments – None of the district’s monies were held in investments at year end.

4. CAPITAL ASSETS

The following is a schedule of capital assets at December 31:

	Balance at 12/31/2003	Additions	Retirements	Balance at 12/31/2004
Non-depreciable:				
Land	\$ 116,879	\$ 78,999	\$ -	\$ 195,878
Construction in Progress	963,502	174,894	-	1,138,396
Total non-depreciable	1,080,381	253,893	-	1,334,274
Depreciable:				
Structures	2,268,764	-	(697)	2,268,067
Distribution system	47,401,330	2,126,936	(40,498)	49,487,768
Tank monitoring equipment	282,640	-	-	282,640
Vehicles	860,301	-	-	860,301
Laboratory equipment	23,238	-	-	23,238
Office furniture and equipment	295,972	86,430	-	382,402
Misc. plant & repair equipment	144,723	1,973	-	146,696
Total depreciable	51,276,968	2,215,339	(41,195)	53,451,112
Totals at historical cost	52,357,349	2,469,232	(41,195)	54,785,386
Accumulated depreciation:				
Structures	1,242,278	121,765	-	1,364,043
Distribution system	10,801,510	1,215,216	(40,498)	11,976,228
Tank monitoring equipment	138,152	5,666	-	143,818
Vehicles	419,572	17,209	-	436,781
Laboratory equipment	10,803	443	-	11,246
Office furniture and equipment	209,855	20,569	-	230,424
Misc. plant & repair equipment	79,653	7,807	-	87,460
	12,901,823	1,388,675	(40,498)	14,250,000
Capital assets, net	\$39,455,526	\$ 1,080,557	\$ (697)	\$40,535,386

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

5. LONG TERM OBLIGATIONS

Long-term obligations consist of:		
	<u>2004</u>	<u>2003</u>
USDA, Rural Development Bonds		
Bonds #91-09, dated November 9, 1994 (interest at 6.375%), payable in annual principal and interest installments of \$223,776 due July 15, 2029	<u>2,760,118</u>	<u>2,804,976</u>
Total USDA	<u>2,760,118</u>	<u>2,804,976</u>
December 31, 2004 and 2003		
	<u>2004</u>	<u>2003</u>
Special Assessment Water Line Extension Bond-Series 1994	100,000	105,000
Revenue Bonds - Series 1995	470,000	915,000
Special Assessment Water Line Extension Bond-Series 1996	720,000	760,000
Special Assessment Water Line Extension Bond -Series 1997	75,000	79,000
Special Assessment Water Line Extension Bond -Series 1999	4,155,000	4,340,000
Special Assessment Water System Improvement Bond -Series 2000	530,000	550,000
Special Assessment Water Line Extension Bond -Series 2002	710,000	740,000
Revenue Bonds - Series 2003 (including unamortized issuance premium)	16,486,285	17,024,586
Series 2003 - 1995 Bond refunding defeased interest and recall premium	(1, 251,977)	(1,330,635)
Advance note payable to State of Ohio	<u>62,441</u>	<u>62,441</u>
	24,816,867	26,050,368
Less current maturities	<u>(1,346,719)</u>	<u>(1,293,859)</u>
Total long-term obligations	<u>\$ 23,470,148</u>	<u>24,756,509</u>

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

5. LONG TERM OBLIGATIONS (Continued)

As of December 31, 2004, the maturities of the principal amount of long-term debt for the five years ending December 31, were as follows:

2004	\$ 1,346,719
2005	1,394,761
2006	1,438,997
2007	1,467,440
2008	1,398,196
Thereafter	17,770,754
Total	<u>\$ 24,816,867</u>

During 2003 the District advance refunded certain USDA Rural Development Bonds and defeased certain maturities of the Series 1995 Revenue Bonds and issued \$16,960,000 of Southwest Regional Water District (Ohio) Waterworks System Revenue Refunding and Improvement Bonds, Series 2003. The difference between the cash flow necessary to fund the previous debt over its life and the new debt is \$1,113,757 less for the new debt. The economic gain that arose because of the refunding was \$871,652 present value at an interest rate of 3.84%

The security agreements on the loans provide for annual payments to the USDA Rural Development with requirements for monthly amounts to a debt service account maintained by the District which is included in cash and cash equivalents. The agreements also provide for a reserve account by an annual appropriation of retained earnings for the estimated cost of the District's normal operations and maintenance expenses for the ensuing year.

During 1994, \$150,000 of Water Line Extension Bonds, Special Assessment, Series 1994, dated September 1, 1994 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. The bonds mature \$5,000 per year through 2014 and require interest payments at rates varying between 4.25% for 1995 and 6.35% for 2014.

The Revenue Bonds - Series 1995 were issued in 1995 and mature at varying amounts through December 1, 2020 and require interest payments at rates varying between 4.50% and 6.00%. The bonds require payments to a debt service account which is maintained by a trustee. The amounts in the debt service account is included with cash and cash equivalents. The District is also required to maintain a reserve account and a replacement and improvement account and the use of these funds is restricted.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

5. LONG TERM OBLIGATIONS (Continued)

Subsequent to the issuance of the 2003 bonds and the defeasance of certain maturities of the 1995 bonds the remaining maturities of the 1995 bonds are, 2005 - \$470,000.

During 1996, \$995,000 of Water Line Extension Bonds, Special Assessment Series 1996, dated September 6, 1996 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. The bonds mature at varying amounts through the year 2016 and require interest payments at rates varying between 4.25% for 1996 and 6.25% for 2016.

During 1997, \$98,000 of Water Line Extension Bonds, Special Assessment Series 1997, dated September 10, 1997 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2017. The bonds mature at varying amounts and require interest payments at a rate of 5.625%.

During 1999, \$5,000,000 of Water Line Extension Bonds, Special Assessment Series 1999, dated September 1, 1999 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2019. The bonds mature at varying amounts and require interest payments at rates varying between 3.80% for 2000 and 5.50% for 2019.

During 2000, \$610,000 of Water System Improvement Bonds, Special Assessment Series 2000, dated September 1, 2000 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2020. The bonds mature at varying amounts and require interest payments at rates varying between 4.50% for 2001 and 5.75% for 2020.

During 2002, \$765,000 of Water Line Extension Bonds, Special Assessment Series 2002, dated September 1, 2002 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2022. The bonds mature at varying amounts and require interest payments at rates varying between 1.75% for 2004 and 5.00% for 2022.

The Advance Note Payable to the State of Ohio represents an interest free advance from the Ohio Water and Sewer Rotary Commission. The purpose of the advance was to fund agricultural deferments for the Beissinger/West Elkton Roads Water Improvement Project. Payments are due annually if the property converts from agricultural usage. The unpaid balance is due not later than 2015.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

6. ASSESSMENTS RECEIVABLE

Assessment accounts receivable are from completed construction projects and the issuance of final assessments to residents to cover those costs. The receivables are guaranteed through property tax billing. Included in the balances at December 31, 2004, are deferred agricultural property assessments and the related accrued interest receivable. These amounts will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame of collection is undeterminable. The negative county auditor's collection amounts result primarily in part due to these deferred collections. The assessment accounts receivable balances at December 31, 2004 are as follows:

	Total Assessed	Prepaid Assessments	County Auditor and Deferred Assessments Paid	% Collected
1994 Assessments	\$ 227,778	\$ -	\$ 50,000	21.95%
1996 Assessments	889,478	-	275,000	30.92%
1997 Assessments	94,579	-	23,000	24.32%
1999 Assessments	4,322,014	13,892	845,000	19.87%
2000 Assessments	579,383	12,144	80,000	15.90%
2002 Assessments	736,635	8,960	55,000	8.68%
Total	\$ 6,849,867	\$ 34,996	\$ 1,328,000	

7. DEFINED BENEFIT RETIREMENT PLAN

- A. The Public Employees Retirement Systems of Ohio (PERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. PERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.
- D. The Public Employees Retirement System issues a stand-alone financial report. Interest parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates were 8.5% for employees for 2004 for all three plans (TP, MD, and CO) and for 2002. The 2004 (for all three plans) employer contribution rates for local government employer units were 13.55% of covered payroll for both years.

The District's contributions to PERS for the years ended December 31, 2004, 2003, and 2002, were \$261,263, \$109,192, and \$80,416, respectively.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

8. POSTEMPLOYMENT BENEFITS

- A. Public Employees Retirement of Ohio (PERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

PERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set-aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units the rate was 13.55% of covered payroll for fiscal year 2004 and 5.0% was the portion used to fund health care for the year 2004, respectively.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

- C. Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on the System's latest Actuarial Reviews performed as of December 31, 2003.

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

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

Investment Return – The investment assumption rate for 2003 was 8.00%.

Active Employee Total Payroll – An annual increase of 4.0% for 2002 and 2001 compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increases, were assumed to range from .50% to 6.30%.

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

- D. The rates stated in A are the actuarially determined contribution requirements for PERS. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

- E.

1. The number of active contributing participants was 369,885.
2. The employer contributions that were used to fund postemployment benefits were \$96,406 for 2004, \$40,292 for 2003 and \$29,674 for 2002.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

8. POSTEMPLOYMENT BENEFITS – Continued

3. \$10.5 billion represents the actuarial value of the Retirement System's net assets available for OPEB.
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

9. RISK MANAGEMENT

The SWRWD is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal years 2004 the SWRWD contracted for the following insurance coverage:

- General Liability
- Public Officials
- Inland Marine
- Automobile
- Faithful Performance and Employee Bond
- Health

Vehicle policies include liability coverage for bodily injury and property damage.

Worker's compensation benefits are provided through the State Bureau of Workers' Compensation. The SWRWD pays all elected officials' bonds.

The SWRWD has not incurred significant reductions to insurance coverage from coverage in the prior years by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

10. BUDGETARY PROCESS

The Ohio Revised Code requires that the District adopt an operating budget annually.

Appropriations

Budgetary expenditures (that is, cash disbursements) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments.

Estimated Resources

Estimated resources included estimates of cash to be received (budgeted receipts).

Budgetary Activity

Budgetary activity for the years ended December 31, 2004 was as follows:

Appropriation Authority	Budgetary Expenditures	Variance Favorable/ (Unfavorable)
\$ 6,651,389	\$ 6,650,721	\$ 668

2004 Budgeted VS. Actual Receipts

Budgeted Receipts	Actual Receipts	Variance Favorable/ (Unfavorable)
\$ 8,199,950	\$ 8,177,979	\$ (21,971)

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of 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***

To the Board of Directors
Southwest Regional Water District
3640 Old Oxford Road
Hamilton, Ohio 45013

We have audited the financial statements of the Southwest Regional Water District, Butler County, Ohio (the District), as of and for the year ended December 31, 2004 and have issued our report thereon dated March 11, 2005. 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

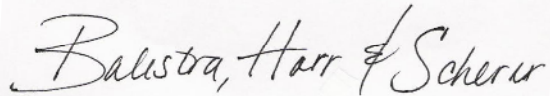
In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting.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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 that are required to be reported under *Government Auditing Standards*.

Southwest Regional Water District
Butler County
Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored, slightly textured background.

Balestra, Harr & Scherer, CPAs, Inc.

March 11, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SOUTHWEST REGIONAL WATER DISTRICT

BUTLER 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 30, 2005**