



Dave Yost • Auditor of State

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Southwest Regional Water District
Butler County
3640 Old Oxford Road
Hamilton, Ohio 45013

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Southwest Regional Water District, Butler County, Ohio (the District), as of and for the year ended December 31, 2010, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 Southwest Regional Water District, as of December 31, 2010, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

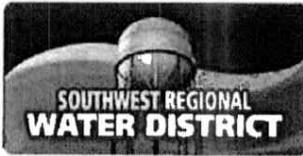
In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

November 8, 2011



MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

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 total liabilities on December 31, 2010 by \$31.74 million and \$30.93 million on December 31, 2009.
- The District's net assets increased \$803 thousand in 2010 and increased \$654 thousand in 2009.
- The District's Operating Revenues increased by \$236.8 thousand (3.0%) in 2010 and increased by \$560.5 thousand (7.7%) in 2009 with Operating and Maintenance Expenses increasing \$19.5 thousand (.38%) in 2010 and decreasing \$322 thousand (-5.9%) in 2009.

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 **Statement 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.

TABLE 1

	2010	2009	Change Amount	%
Current and Other Assets	\$ 10,943,371	\$ 9,809,305	\$ 1,134,066	12%
Capital Assets	\$ 41,461,730	\$ 42,401,683	\$ (939,953)	-2%
Total Assets	\$ 52,405,101	\$ 52,210,988	\$ 194,113	.4%
Long Term Liabilities	\$ 15,430,816	\$ 16,850,600	\$ (1,419,784)	-8%
Other Liabilities	\$ 5,238,125	\$ 4,426,892	\$ 811,233	18%
Total Liabilities	\$ 20,668,941	\$ 21,277,492	\$ (608,551)	-3%
Net Assets				
Invested in Capital, Net of Debt	\$ 24,650,233	\$ 24,306,547	\$ 343,686	1%
Restricted	\$ 2,244,390	\$ 2,354,421	\$ (110,031)	-5%
Unrestricted	\$ 4,841,538	\$ 4,272,528	\$ 569,010	13%
Total Net Assets	\$ 31,736,161	\$ 30,933,496	\$ 802,665	3%

	2009	2008	Change Amount	%
Current and Other Assets	\$ 9,809,305	\$ 9,500,258	\$ 309,046	3%
Capital Assets	\$ 42,401,683	\$ 42,850,863	\$ (449,180)	-1%
Total Assets	\$ 52,210,988	\$ 52,351,121	\$ (140,133)	0%
Long Term Liabilities	\$ 16,850,600	\$ 18,134,238	\$ (1,283,639)	-7%
Other Liabilities	\$ 4,426,892	\$ 3,937,361	\$ 489,531	12%
Total Liabilities	\$ 21,277,492	\$ 22,071,599	\$ (794,107)	-4%
Net Assets				
Invested in Capital, Net of Debt	\$ 24,306,547	\$ 21,448,985	\$ 2,857,562	13%
Restricted	\$ 2,354,421	\$ 2,426,781	\$ (72,360)	-3%
Unrestricted	\$ 4,272,528	\$ 6,403,756	\$ (2,131,228)	-33%
Total Net Assets	\$ 30,933,496	\$ 30,279,522	\$ 653,974	2%

- The District's Net Assets increased \$803 thousand dollars in 2010. This increase is primarily the result of increased water revenues and greater capital contributions.
- The District incurred no new long term debt in 2010, but did issue \$3.25 million in Bond Anticipation Notes (BAN) to renew the 2009 BAN and for construction projects during the year.

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				
	2010	2009	Change	
			Amount	%
Operating Revenues	\$ 8,061,734	\$ 7,824,913	\$ 236,821	3.0%
Total Revenues	\$ 8,061,734	\$ 7,824,913	\$ 236,821	3.0%
Operating Expenses	\$ 4,232,664	\$ 4,101,888	\$ 130,777	3.2%
Maintenance Expenses	\$ 885,067	\$ 996,299	\$ (111,231)	-11.2%
Depreciation Expenses	\$ 1,725,026	\$ 1,713,689	\$ 11,337	0.7%
Total Expenses	\$ 6,842,757	\$ 6,811,875	\$ 30,882	0.5%
Operating Income	\$ 1,218,977	\$ 1,013,038	\$ 205,938	20.3%
Non-Operating Revenues	\$ 322,983	\$ 781,934	\$ (458,951)	-58.7%
Non-Operating Expenses	\$ (1,046,503)	\$ (1,141,212)	\$ 94,709	-8.3%
Capital Contributions	\$ 307,208	\$ 214	\$ 306,994	>1000.0%
Change in Net Assets	\$ 802,665	\$ 653,974	\$ 148,691	22.7%
Net Assets at Beginning of Year	\$ 30,933,496	\$ 30,279,522	\$ 653,974	2.2%
Net Assets at End Of Year	\$ 31,736,161	\$ 30,933,496	\$ 802,665	2.6%

	2009	2008	Change	
			Amount	%
Operating Revenues	\$ 7,824,913	\$ 7,264,368	\$ 560,545	7.7%
Total Revenues	\$ 7,824,913	\$ 7,264,368	\$ 560,545	7.7%
Operating Expenses	\$ 4,101,888	\$ 4,473,958	\$ (372,070)	-8.3%
Maintenance Expenses	\$ 996,299	\$ 946,206	\$ 50,092	5.3%
Depreciation Expenses	\$ 1,713,689	\$ 1,599,841	\$ 113,848	7.1%
Total Expenses	\$ 6,811,875	\$ 7,020,005	\$ (208,130)	-3.0%
Operating Income	\$ 1,013,038	\$ 244,363	\$ 768,675	314.6%
Non-Operating Revenues	\$ 781,934	\$ 660,903	\$ 121,031	18.3%
Non-Operating Expenses	\$ (1,141,212)	\$ (1,065,865)	\$ (75,347)	7.1%
Capital Contributions	\$ 214	\$ 7,942	\$ (7,728)	-97.3%
Change in Net Assets	\$ 653,974	\$ (152,657)	\$ 806,631	528.4%
Net Assets at Beginning of Year	\$ 30,279,522	\$ 30,432,179	\$ (152,657)	-0.5%
Net Assets at End of Year	\$ 30,933,496	\$ 30,279,522	\$ 653,974	2.2%

- Total Operating Revenues increased \$236 thousand (3%) in 2010 and \$560.5 thousand (7.7%) in 2009. Metered water sales increased \$193.5 thousand in 2010 and \$500 thousand in 2009 with the sales of new taps increasing \$82 thousand in 2010 and decreasing by \$28 thousand in 2009. Grant monies received for capital improvement projects decreased \$410 thousand in 2010 and increased \$288 thousand in 2009.
- Total Operating Expenses (excluding depreciation) increased a modest \$19 thousand (.4%) and decreased \$322 thousand (-5.9%) in 2009.
- The total change in net assets (net retained earnings) in 2010 was an increase of \$802.7 compared to an increase of \$654 thousand in 2009

CAPITAL ASSETS

The District had \$65 million invested in Capital Assets (before depreciation) at the end of 2010, as shown in Table 3. This amount is an increase of \$785 thousand (1.2%) from the previous year. In 2009 the District had \$64.2 million invested in Capital Assets (before depreciation), an increase of \$1.19 million (1.19%) from 2008.

TABLE 3

	2010	2009	Change	
			Amount	%
Land	\$ 234,806	\$ 234,806		0.0%
Wells	\$ 978,346	\$ 978,346		0.0%
Booster Stations & Equip	\$ 3,586,427	\$ 3,586,427		0.0%
Treatment Plants	\$ 10,555,968	\$ 10,130,366	\$ 425,602	4.2%
Water Tanks & Standpipes	\$ 5,886,117	\$ 5,864,517	\$ 21,600	0.4%
Distribution System	\$ 26,879,182	\$ 26,045,977	\$ 833,205	3.2%
GIS System	\$ 274,245	\$ 274,245		0.0%
Metered Services	\$ 9,973,620	\$ 9,816,983	\$ 156,637	1.6%
Flush Hydrants	\$ 183,846	\$ 183,846		0.0%
6" Hydrants	\$ 1,410,443	\$ 1,363,763	\$ 46,680	3.4%
Structures & Improvements	\$ 2,354,767	\$ 2,354,767		0.0%
Office Furniture & Equipment	\$ 621,797	\$ 620,297	\$ 1,500	0.2%
Transportation/Constr. Equip	\$ 870,746	\$ 870,746		0.0%
SCADA System	\$ 522,147	\$ 522,147		0.0%
Misc. Plant & Repair Equipment	\$ 145,623	\$ 145,623		0.0%
Laboratory Equipment	\$ 23,238	\$ 23,238		0.0%
Construction in Progress	\$ 509,723	\$ 1,209,876	\$ (700,153)	-57.9%
Totals before Depreciation	\$ 65,011,043	\$ 64,225,970	\$ 785,073	1.2%
Accumulated Depreciation	\$ (23,549,312)	\$ (21,824,287)	\$ (1,725,026)	7.9%
Total Capital Assets	\$ 41,461,730	\$ 42,401,683	\$ (939,953)	-2.2%

	2009	2008	Change	
			Amount	%
Land	\$ 234,806	\$ 234,806		0.0%
Wells	\$ 978,346	\$ 978,346		0.0%
Booster Stations & Equip	\$ 3,586,427	\$ 3,586,427		0.0%
Treatment Plants	\$ 10,130,366	\$ 10,130,366		0.0%
Water Tanks & Standpipes	\$ 5,864,517	\$ 4,630,696	\$ 1,233,822	26.6%
Distribution System	\$ 26,045,977	\$ 25,277,844	\$ 768,133	3.0%
GIS System	\$ 274,245	\$ 274,245		0.0%
Metered Services	\$ 9,816,983	\$ 9,650,592	\$ 166,391	1.7%
Flush Hydrants	\$ 183,846	\$ 183,846		0.0%
6" Hydrants	\$ 1,363,763	\$ 1,363,763		0.0%
Structures & Improvements	\$ 2,354,767	\$ 2,354,767		0.0%
Office Furniture & Equipment	\$ 620,297	\$ 579,671	\$ 40,625	7.0%
Transportation/Constr. Equip	\$ 870,746	\$ 870,746		0.0%
SCADA System	\$ 522,147	\$ 522,147		0.0%
Misc. Plant & Repair Equipment	\$ 145,623	\$ 145,623		0.0%
Laboratory Equipment	\$ 23,238	\$ 23,238		0.0%
Construction in Progress	\$ 1,209,876	\$ 2,223,531	\$ (1,013,655)	-45.6%
Totals before Depreciation	\$ 64,225,970	\$ 63,030,654	\$ 1,195,316	1.9%
Accumulated Depreciation	\$ (21,824,287)	\$ (20,179,791)	\$ (1,644,497)	8.1%
Total Capital Assets	\$ 42,401,683	\$ 42,850,863	\$ (449,181)	-1.0%

- The increase in Capital Assets before depreciation, primarily are from Distribution System additions and improvements and filter improvements at the District's North Treatment Plant. In 2009 the increase was due primarily from the addition a new water storage tank. Construction in Progress decrease is a result of closing completed jobs in 2010 and 2009.

DEBT

Table 4 summarizes the District's long term debt. The District issues long term debt to finance many of its major construction projects. 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

	2010	2009	Change Amount	%
REVENUE BONDS				
2003 Revenue Bonds	\$ 10,716,482	\$ 11,629,782	\$ (913,301)	-8%
Rural Development Bonds	\$ 2,424,601	\$ 2,489,598	\$ (64,997)	-3%
Total Revenue Bonds	\$ 13,141,083	\$ 14,119,380	\$ (978,298)	-7%
Special Assessment Bonds	\$ 4,388,000	\$ 4,772,000	\$ (384,000)	-8%
Ohio Water & Sewer Rotary Commission	\$ 62,441	\$ 62,441	\$ (0)	0%
Long Term Debt	\$ 17,591,524	\$ 18,953,821	\$ (1,362,298)	-7%
Less:				
Reacquisition Costs 1995 Revenue Bonds - Advance Refunding	\$ (780,028)	\$ (858,684)	\$ (78,657)	-9%
Current Maturities	\$ (1,480,140)	\$ (1,343,997)	\$ 136,143	10%
Net Total Long Term Debt	\$ 15,331,356	\$ 16,751,140	\$ (1,419,784)	-8%
	2009	2008	Change Amount	%
REVENUE BONDS				
2003 Revenue Bonds	\$ 11,629,782	\$ 12,728,083	\$ (1,098,301)	-9%
Rural Development Bonds	\$ 2,489,598	\$ 2,550,699	\$ (61,101)	-2%
Total Revenue Bonds	\$ 14,119,380	\$ 15,278,782	\$ (1,159,402)	-8%
Special Assessment Bonds	\$ 4,772,000	\$ 5,131,000	\$ (359,000)	-7%
Ohio Water & Sewer Rotary Commission	\$ 62,441	\$ 62,441	\$ -	0%
Long Term Debt	\$ 18,953,821	\$ 20,472,223	\$ (1,518,402)	-7%
Less:				
Reacquisition Costs 1995 Revenue Bonds - Advance Refunding	\$ (858,684)	\$ (937,345)	\$ (78,661)	-8%
Current Maturities	\$ (1,343,997)	\$ (1,500,101)	\$ (156,104)	-10%
Net Total Long Term Debt	\$ 16,751,140	\$ 18,034,777	\$ (1,283,637)	-7%

- The District issued no new long term debt in 2010 or 2009
- The District issued a short term Bond Anticipation Note (BAN) in the amount of \$3,250,000 in 2010 to renew the 2009 BAN of \$2,617,000 while obtaining additional funds for watermain improvement projects.
- The payment of principal and interest of the 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. This table represents only revenues generated by the operations of the District.

Table 5

	2010	2009	2008
Operating Revenues	\$ 8,061,734	\$ 7,824,913	\$ 7,264,368
Non-Operating Revenue	\$ 184,634	\$ 194,521	\$ 400,482
Total Revenues	\$ 8,246,368	\$ 8,019,434	\$ 7,664,850
Less Operations & Maintenance Expenses	\$ (5,117,731)	\$ (5,098,186)	\$ (5,420,164)
Total Revenues Available for Debt	\$ 3,128,636	\$ 2,921,248	\$ 2,244,686
Revenue Bond Debt Service - 1995 & 2003	\$ 1,389,235	\$ 1,603,935	\$ 1,619,615
Revenue Bond Debt Service - Rural Development & Special Assessment - Deficit Collections	\$ 295,548	\$ 289,447	\$ 269,321
Total Debt Service Requirements	\$ 1,684,783	\$ 1,893,382	\$ 1,888,936
Coverage Ratio - Revenue Bonds Debts Service - 1995 & 2003	2.25	1.82	1.39
Combined Coverage Ratio - All Debt	1.86	1.54	1.19
Required Coverage Ratio			
Revenue Bonds - 1995 & 2003	1.20	1.20	1.20
Rural Development	1.00	1.00	1.00

Does not include grant revenues or capital contribution

- The majority of the District's debt is paid from revenues, excluding capital contributions. The District is required by Bond Trust Agreements to meet a revenue to debt ratio of 1.20 for its 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 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 deferrals are paid from the District Revenues.

CASH

Cash and cash equivalents on December 31, 2010 were \$5.4 million. \$2.24 million of these funds are restricted for specific use. Restricted cash is deposited in Debt Reserves, Bond Payments and Escrowed Construction Fund accounts. The revenue bond payment accounts are funded monthly to be used for semi annual interest payments and maturing bonds.

ECONOMIC FACTORS

The District has projected an increase of \$350 thousand in net assets for the year ending December 31, 2011. Additional customer revenues, connection fees, along with containment of operating and maintenance expenses will contribute to this increase. Approval has been received from the Ohio Public Works Commission for Issue II grants for improvements to two of the District's water tanks. Customer growth and capital contributions from developers are expected to only slightly increase during a continued sluggish housing market.

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
STATEMENT OF NET ASSETS
For the Year Ending December 31, 2010

ASSETS	<u>2010</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,185,416
Accounts receivable (net of allowance for doubtful accounts of \$54,994 for 2010 and \$26,917 for 2009)	\$ 982,490
Special Assessments receivable - current portion	\$ 401,000
Accrued interest receivable	\$ 139,781
Inventory	\$ 403,909
Prepaid expenses	\$ 145,653
TOTAL CURRENT ASSETS	<u>\$ 5,258,248</u>
NONCURRENT ASSETS	
Restricts Assets:	
Equity in pooled cash and cash equivalents	\$ 2,244,390
TOTAL RESTRICTED ASSETS	<u>\$ 2,244,390</u>
Capital Assets:	
Water, production, treatments and distribution systems	\$ 59,728,196
Building, office and equipment	\$ 4,538,317
Total depreciable capital assets	\$ 64,266,513
Less: Accumulated depreciation	\$ (23,549,312)
Net depreciable capital assets	\$ 40,717,201
Land	\$ 234,806
Construction in progress	\$ 509,723
NET CAPITAL ASSETS	<u>\$ 41,461,730</u>
Other Assets:	
Special Assessments receivable-non current	\$ 3,172,183
Deferred Charges	\$ 268,551
TOTAL OTHER ASSETS	<u>\$ 3,440,734</u>
 TOTAL ASSETS	 <u><u>52,405,101</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement

SOUTHWEST REGIONAL WATER DISTRICT
STATEMENT OF NET ASSETS
For the Year Ending December 31, 2010

LIABILITIES	<u>2010</u>
CURRENT LIABILITIES	
Current Maturities of long term obligations	\$ 1,480,140
Accounts payable	\$ 142,204
Notes payable	\$ 3,250,000
Accrued liabilities	\$ 119,985
Tenant deposits	\$ 62,248
Accrued interest	\$ 183,548
TOTAL CURRENT LIABILITIES	<u>\$ 5,238,125</u>
LONG TERM LIABILITES	
Deferred revenue	\$ 99,460
Long term obligations	\$ 15,331,356
TOTAL LONG TERM LIABILITES	<u>\$ 15,430,816</u>
TOTAL LIABILITIES	\$ 20,668,941
NET ASSETS	
Invested in capital assets, net of related debt	\$ 24,650,233
Restricted for debt service	\$ 2,244,390
Unrestricted	\$ 4,841,538
TOTAL NET ASSETS	<u><u>\$ 31,736,161</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement

SOUTHWEST REGIONAL WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ending December 31, 2010

	2010
OPERATING REVENUES	
Metered Water Sales to customers	\$ 7,296,739
Sale of New taps	\$ 417,441
Penalties	\$ 165,154
Miscellaneous	\$ 182,400
TOTAL OPERATING REVENUES	\$ 8,061,734
OPERATING EXPENSES	
Operations	\$ 4,232,664
Maintenance	\$ 885,067
Depreciation	\$ 1,725,026
TOTAL OPERATING EXPENSES	\$ 6,842,757
OPERATING INCOME	\$ 1,218,977
NON OPERATING REVENUE (EXPENSES)	
Intergovernmental	\$ 138,349
Interest Income	\$ 197,873
Interest Expense	\$ (1,046,503)
Other non-operating revenue (expense)	\$ (13,239)
Net Other Income (Expense)	\$ (723,520)
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTION	\$ 495,457
Capital Contribution-owner/developer	\$ 307,208
Total Capital Contributions	\$ 307,208
CHANGE IN NET ASSETS	\$ 802,665
NET ASSETS BEGINNING OF YEAR	\$ 30,933,496
NET ASSETS END OF YEAR	\$ 31,736,162

The accompanying notes to the basic financial statements are an integral part of this statement

SOUTHWEST REGIONAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Year Ending December 31, 2010

	2010
Cash Flows From Operating Activities:	
Receipts from Customers	\$ 7,867,439
Receipts from others	182,400
Payments to Suppliers and Vendors	(2,131,172)
Payments to Employees	(2,852,450)
Net Cash Provided by Operating Activities	3,066,218
Cash Flows From Capital and related financing Acqtivities:	
Proceeds from capital grants	138,349
Acquisition & Construction of capital assets	(477,862)
Payments on Borrowings	(3,900,641)
Proceeds from Debt Issuance	3,250,000
Collections on Special Assessments	385,733
Interest Paid	(1,059,730)
Net Cash Used By Capital Financing Activities	(1,664,150)
Cash Flows From Noncapital Financing Activities:	
Other nonoperating revenues	(13,239)
Net Cash Provided By Noncapital Financing Activities	(13,239)
Cash Flows From Investing Acqtivities:	
Interest Received	192,413
Net Cash Provided By Capital Financing Activities	192,413
Net increase/decrease in cash and cash equivalents	1,581,241
Cash and cash equivalents, January 1,	3,848,565
Cash and cash equivalents, December 31,	\$ 5,429,806
Restricted Cash	\$ 2,244,390
Unrestricted Cash	3,185,416
Total Cash	\$ 5,429,806
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:	
Operating Income	\$ 1,218,977
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation Expense	1,725,026
(Increase) Decrease in Accounts Receivable	(11,895)
(Increase) Decrease in Prepaid Items	(59,912)
(Increase) Decrease in Materials and Supplies Inventory	118,078
Deferred Charges	20,629
Increase in Accounts Payable	1,445
Increase in Accrued Liabilities	49,306
Increase in Tenant Deposits	4,564
Increase in Deferred Revenue	-
Total Adjustments	1,847,241
Net Cash Provided by Operating Activities	\$ 3,066,218

Developers dedicated water lines with total costs of \$307,208 with such contributions recorded as owner/developer capital contributions.

The accompanying notes to the basic financial statements are an integral part of this statement.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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 nine (9) 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.

3. Budgetary Process

Annually, the SWRWD adopts an operating budget. The annual budget is adopted and continues in effect until a new or amended 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 are the 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 2010. Amounts determined to potentially be uncollectible are set up as an allowance and

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the 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 up to 40 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 the capital asset balance. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, and capitalized interest.

Depreciation is computed using the straight-line method over the following useful lives:

Buildings, Structures, and Improvements	5 – 40 years
Furniture, Fixtures, and Equipment	3 – 12 years
Infrastructure	10 – 40 years

8. Provision for Income Tax

SWRWD operates as a public water 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.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2010.

10. Compensated Absences

The District does not have any significant compensated absences.

11. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when their use is limited either through legislation adopted by the District, or restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

12. Inventories and Prepaid Items

The inventories of the District are valued at the lower of cost or market. Cost, as applied to inventory valuation, represents a moving average method whereby the cost per unit is recomputed after every addition to the inventory. The cost is expensed or capitalized at the time individual inventory items are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items and decreased over the useful benefit.

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;

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

3. CASH AND INVESTMENTS (continued)

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.

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, 2010 was \$5,145,019 and the bank balance was \$5,139,684. Of the bank balance:

1. \$1,621,064 was covered by federal depository insurance; and
2. \$1,506,319 was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions.
3. \$2,012,302 was deposited in trust accounts in accordance with the District's Revenue and Special Assessment Bonds Trust Agreements.

Investments - As of December 31, 2010 the District had the following investments:

	<u>Carrying and Fair Value</u>	<u>Percentage of Total Investments</u>
Star Ohio	\$ 284,787	12%
Fifth Third US Treasury - Series 1999 Reserve	413,025	18%
Fifth Third US Treasury - Series 2003 Reserve	1,476,043	64%
Fifth Third US Treasury - 2003 Bond Fund-Interest	39,017	2%
Fifth Third US Treasury - 2003 Bond Fund - Principal	84,217	4%
Total Investments	\$ 2,297,089	

All Investments mature in less than one year

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

3. CASH AND INVESTMENTS (continued)

Interest Rate Risk: Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The District's policy requires that, to the extent possible, the General Manager will attempt to match investments with anticipated cash flow requirements to take best advantage of prevailing economic and market conditions.

The maximum maturity of any eligible instrument is five years from the settlement date, unless the investment is matched to a specific obligation or debt of the District. Any investment made must be purchased with reasonable expectation to be held to maturity.

Credit Risk: Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Star Ohio carries a rating of AAAM by Standard and Poor's. Ohio Law requires that STAROhio maintains the highest rating provided by at least one of the nationally recognized standard rating services. The District does not have an investment policy that addresses credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy does not address concentration of credit risk. The District has invested 12% of its investments in STAR Ohio.

4. CAPITAL ASSETS

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

	Balance at 12/31/2009	Additions	Retirements Disposals	Balance at 12/31/2010
Non-Depreciable:				
Land	\$ 234,806			\$ 234,806
Construction in Progress	\$ 1,209,876	\$ 785,073	\$ (1,485,226)	\$ 509,723
Total Non-Depreciable	\$ 1,444,682	\$ 785,073	\$ (1,485,226)	\$ 744,529
Wells	\$ 978,346			\$ 978,346
Booster Stations & Equip	\$ 3,586,427			\$ 3,586,427
Treatment Plants	\$ 10,130,366	\$ 425,602		\$ 10,555,968
Water Tanks & Standpipes	\$ 5,864,517	\$ 21,600		\$ 5,886,117
Distribution System	\$ 26,045,976	\$ 833,207		\$ 26,879,183
GIS System	\$ 274,245			\$ 274,245
Metered Services	\$ 9,816,983	\$ 156,637		\$ 9,973,620
Flush Hydrants	\$ 183,846			\$ 183,846
6" Hydrants	\$ 1,363,763	\$ 46,680		\$ 1,410,443
Structures & Improvements	\$ 2,354,767			\$ 2,354,767
Office Furniture & Equipment	\$ 620,296	\$ 1,500		\$ 621,796
Transportation/Constr. Equip	\$ 870,746			\$ 870,746
SCADA System	\$ 522,147			\$ 522,147
Misc. Plant & Repair Equipment	\$ 145,623			\$ 145,623
Laboratory Equipment	\$ 23,238			\$ 23,238

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

4. CAPITAL ASSETS (continued)

	\$ 62,781,288	\$ 1,485,226		\$ 64,266,513
Total Depreciable				
Total at Historical Costs	\$ 64,225,970	\$ 2,270,299	\$ (1,485,226)	\$ 65,011,042
 Accumulated Depreciation				
Wells	\$ (493,827)	\$ (26,631)		\$ (520,458)
Booster Stations & Equip	\$ (1,047,623)	\$ (89,906)		\$ (1,137,529)
Treatment Plants	\$ (3,537,465)	\$ (259,185)		\$ (3,796,650)
Water Tanks & Standpipes	\$ (1,661,687)	\$ (176,984)		\$ (1,838,671)
Distribution System	\$ (9,052,229)	\$ (661,536)		\$ (9,713,765)
GIS System	\$ (80,496)	\$ (27,678)		\$ (108,175)
Metered Services	\$ (2,937,866)	\$ (295,770)		\$ (3,233,635)
Flush Hydrants	\$ (72,719)	\$ (4,572)		\$ (77,292)
6" Hydrants	\$ (329,818)	\$ (34,096)		\$ (363,913)
Structures & Improvements	\$ (952,836)	\$ (71,607)		\$ (1,024,443)
Office Furniture & Equipment	\$ (452,591)	\$ (32,751)		\$ (485,343)
Transportation/Constr. Equip	\$ (781,121)	\$ (31,006)		\$ (812,127)
SCADA System	\$ (254,856)	\$ (13,104)		\$ (267,960)
Misc. Plant & Repair Equipment	\$ (145,913)	\$ (200)		\$ (146,113)
Laboratory Equipment	\$ (23,238)			\$ (23,238)
Total Accumulated Depreciation	\$ (21,824,287)	\$ (1,725,026)		\$ (23,549,312)
 Capital Assets, Net	 \$ 42,401,683	 \$ 545,273	 \$ (1,485,226)	 \$ 41,461,730

5. SHORT TERM OBLIGATIONS

During 2010, the District issued \$3,250,000 in Bond Anticipation Note(s) to temporarily finance construction of public water improvements. The note(s) has an interest rate of 1.75% and will mature on March 9, 2011.

Description	12/31/2009 Balance	Issued 2010	Payments in 2010	12/31/2010 Balance	Due Within One Year
Bond Anticipation Note	\$ 2,617,000	\$ 3,250,000	\$ 2,617,000	\$ 3,250,000	\$ 3,250,000

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

6. LONG TERM OBLIGATIONS

Long-term obligations consist of:

Description	12/31/2009 Balance	Issued in 2010	Payments 2010	12/31/2010 Balance	Due Within One Year
USDA, Rural Development Bonds	\$2,489,598		\$ 64,997	\$2,424,601	\$ 69,140
Special Assessment Water Line Extension Bonds - Series 1994	\$50,000		\$ 10,000	\$40,000	\$ 10,000
Special Assessment Water Line Extension Bonds - Series 1996	\$475,000		\$ 55,000	\$420,000	\$ 60,000
Special Assessment Water Line Extension Bonds - Series 1997	\$52,000		\$ 5,000	\$47,000	\$ 6,000
Special Assessment Water Line Extension Bonds - Series 1999	\$3,105,000		\$ 245,000	\$2,860,000	\$ 255,000
Special Assessment Water Line Extension Bonds - Series 2000	\$410,000		\$ 30,000	\$380,000	\$ 30,000
Special Assessment Water Line Extension Bonds - Series 2002	\$560,000		\$ 35,000	\$525,000	\$ 35,000
Special Assessment Water Line Extension Bonds - Series 2007	\$120,000		\$ 4,000	\$116,000	\$ 5,000
Revenue Bonds Series 2003	\$11,629,782		\$ 913,302	\$10,716,482	\$ 1,010,000
Advance note payable to State of Ohio	\$62,441			\$62,441	
Total before Premium and defeased interest	\$18,953,821		\$1,362,299	\$17,591,524	\$1,480,140
Series 2003 - 1995 Bond Refunding Premium and defeased interest	(\$858,686)		(\$78,658)	(\$780,028)	(\$78,658)
Totals	\$18,095,135		\$1,283,641	\$16,811,496	\$1,401,482

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

6. LONG TERM OBLIGATIONS (continued)

As of December 31, 2010, the maturities of the principal amount of long-term debt for the five years ending

Year	Principal	Interest
2011	\$ 1,480,140	\$ 860,982
2012	\$ 1,519,548	\$ 800,844
2013	\$ 1,534,237	\$ 732,396
2014	\$ 1,570,224	\$ 662,716
2015-2019	\$ 8,342,241	\$ 2,084,903
2020-2024	\$ 2,004,846	\$ 514,993
2025-2029	\$ 958,806	\$ 188,616
	<u>\$ 17,410,042</u>	<u>\$ 5,845,450</u>
1995 Bond Refunding Defeased interest	\$ (780,027)	
2003 Bond Issue Premium	<u>\$ 181,481</u>	
Total	<u>\$ 16,811,496</u>	<u>\$ 5,845,450</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 matured at varying amounts through December 1, 2020 and required interest payments at rates varying between 4.50% and 6.00%. The bonds required payments to a debt service account which was maintained by a trustee. The amounts in the debt service account were included with cash and cash equivalents. The District was also required to maintain a reserve account and continues to maintain a replacement and improvement account.

The District has pledged future water customer revenues, net of specific operating expenses, to repay \$16,960,000 in water revenue bonds issued in 2003. Proceeds from the bonds advance refunded certain USDA Rural Development Bonds and defeased certain maturities of the Series 1995 Revenue Bonds. The bonds are payable solely from water customer net revenues and are payable through 2020. Annual principal and interest payments remaining on the bonds are expected to require approximately 70 percent of net revenues. The total

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

6. LONG TERM OBLIGATIONS (continued)

principal and interest remaining to be paid on the bonds is \$14,611,410. Principal and interest paid for the current year and total customer net revenues were \$1,603,935 and \$2,921,248 respectively.

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 were paid in 2005.

The District has pledged future water customer revenues, net of specific operating expenses, to repay \$3,105,677 in water revenue bonds issued in 1994. Proceeds from the bonds refinanced Rural Development mortgage notes. The bonds are payable solely from water customer net revenues and are payable through 2029. Annual principal and interest payments remaining on the bonds are expected to require approximately 10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,474,169. Principal and interest paid for the current year and total customer net revenues were \$233,708 and \$2,921,248 respectively.

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.

During 2007, \$126,000 of Water line Extension, Special Assessment Series 2007, dated September 1, 2007 were issued. Payment on the bonds will be through property tax assessments of property owners benefiting from the water service provided. Payment of the bonds will be through the year 2027. The bonds mature at varying amounts and require interest payments at a rate of 6%.

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 deferrals 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, 2010

7. 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 collected through property tax billing. Included in the balances at December 31, 2010, 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, 2010 are as follows:

	<u>Total Assessed</u>	<u>Prepaid Assessments</u>	<u>County Auditor and Deferred Assessments Paid</u>	<u>% Collected</u>
1994 Assessments	\$ 227,778		\$ 110,000	48%
1996 Assessments	\$ 889,478		\$ 575,000	65%
1997 Assessments	\$ 94,579		\$ 51,000	54%
1999 Assessments	\$ 4,322,014	\$ 15,625	\$ 2,140,000	50%
2000 Assessments	\$ 579,383	\$ 12,144	\$ 230,000	40%
2002 Assessments	\$ 736,635	\$ 8,960	\$ 240,000	33%
2007 Assessments	\$ 116,045		\$ 10,000	9%
Total Receivable (\$3,573,183)	<u>\$ 6,965,912</u>	<u>\$ 36,729</u>	<u>\$ 3,356,000</u>	48%

8. DEFINED BENEFIT RETIREMENT PLAN

A. Ohio Public Employees Retirement Systems of Ohio (PERS) administers three separate pension plans as described below:

- 1) The Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan.
- 2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% 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.
- 3) The Combined Plan – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contribution 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. OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

C. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

8. DEFINED BENEFIT RETIREMENT PLAN (continued)

D. OPERS issues a stand-alone financial report. Interest parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan.

The 2010 member contribution rates were 10.0% for members in state and local classifications.

The 2010 employer contribution rate for state employers and local employers was 14.00% of covered payroll.

F. The District's contributions to OPERS for the years ended December 31, 2010, 2009, and 2008, were \$287,477, \$287,333, and \$306,567 respectively.

9. POST EMPLOYMENT BENEFITS

A. Plan Description

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

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

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

B. Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.00% of covered payroll, and public safety and law enforcement

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

9. POSTEMPLOYMENT BENEFITS (continued)

employers contributed a 17.87%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

C. Information from employer's records

The rates stated in Section B, above, are the contractually required contribution rates for OPERS. The District's contributions that were used to fund post-employment benefits were \$104,440 for 2010, \$120,742 for 2009, and \$153,284 for 2008.

D. OPERS Retirement Board Implements it Health Care Preservation Plan

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees September 9, 2004, was effective January 1 2007. Member and employer contribution rates for state and local employers increased January 1, of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

10. 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 the year 2010 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 Worker's Compensation.

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, 2010

11. SUBSEQUENT EVENTS

In March 2011, Southwest Regional Water District issued Waterworks System Revenue Improvement Bonds Series 2011 in the amount of \$4,075,000. The purpose of the Series 2011 bonds was to refund the existing Bond Anticipation Notes (BAN's), make certain improvements to the Waterworks System water tanks, fund a reserve, and pay costs of issuance. Payment of the bonds will be through the year 2030. The bonds mature at varying amounts and require interest payments at rates varying between 2.00% for 2011 and 4.80% for 2030.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Southwest Regional Water District
Butler County
3640 Old Oxford Road
Hamilton, Ohio 45013

To the Board of Trustees:

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, 2010, and have issued our report thereon dated November 8, 2011. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-003.

Southwest Regional Water District
Butler County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated November 8, 2011.

We intend this report solely for the information and use of management, the Board of Trustees, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

November 8, 2011

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010**

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

<i>Finding Number</i>	2010-001
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Noncompliance - Finding for Recovery Repaid Under Audit

The Board of Trustee's Travel Policy states in part "The District may advance funds to purchase items such as airline tickets and banquet tickets, for a Trustee's spouse, or other family member who attends the meeting with the Trustee; however the cost of such items will be deducted from other amounts due to the Trustee under this policy."

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

Contrary to the District's policy the District reimbursed Mr. Donald Eberwine's \$60 for the expense of Mr. Eberwine's spouse to attend a banquet at the Ohio Rural Water Association Conference in 2010. In addition, the District reimbursed Mr. Eberwine for an unallowable \$100 donation made while at the Ohio Rural Water Association PAC in 2010.

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Mr. Eberwine in the amount of \$160 and in favor of the Southwest Regional Water District.

On September 27, 2011 and October 25, 2011 \$100 and \$60, respectively, was repaid to the Southwest Regional Water District General Fund.

<i>Finding Number</i>	2010-002
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Noncompliance - Finding for Recovery Repaid Under Audit

The Board of Trustee's Travel Policy states in part "The District may advance funds to purchase items such as airline tickets and banquet tickets, for a Trustee's spouse, or other family member who attends the meeting with the Trustee; however the cost of such items will be deducted from other amounts due to the Trustee under this policy."

Contrary to the District's policy the District reimbursed Mr. Mike Egbert \$60 for the expense of Mr. Egbert's spouse to attend a banquet at the Ohio Rural Water Association Conference in 2010.

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Mr. Egbert in the amount of \$60 and in favor of the Southwest Regional Water District.

On September 27, 2011 \$60.00 was repaid to the Southwest Regional Water District General Fund.

<i>Finding Number</i>	2010-003
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Noncompliance - Finding for Recovery Repaid Under Audit

The Board of Trustee's Travel Policy states in part "The District may advance funds to purchase items such as airline tickets and banquet tickets, for a Trustee's spouse, or other family member who attends the meeting with the Trustee; however the cost of such items will be deducted from other amounts due to the Trustee under this policy."

Contrary to the District's policy the District reimbursed Mr. Emerson Adkins \$60 for the expense of Mr. Adkin's spouse to attend a banquet at the Ohio Rural Water Association Conference in 2010.

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Mr. Adkins in the amount of \$60 and in favor of the Southwest Regional Water District.

On September 27, 2011 \$60.00 was repaid to the Southwest Regional Water District General Fund.

We did not receive a response from officials to the findings reported above.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-01	Inaccurate Cash Reconciliations	Yes	

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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
NOVEMBER 29, 2011**