

SOUTHWEST REGIONAL WATER DISTRICT

Butler County, Ohio

Regular Audit

January 1, 2005 through December 31, 2005

Fiscal Year Audited Under GAGAS: 2005

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**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, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The 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 25, 2006

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SOUTHWEST REGIONAL WATER DISTRICT
Basic Financial Statements
For the Years Ended December 31, 2005 and 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 years ended December 31, 2005 and December 31, 2004. 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 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, 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, 2005 and December 31, 2004, 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 10, 2006, 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 10, 2006



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, 2005 by \$29.2 million.
- The District’s net assets increased \$1.33 million in 2005.
- The District’s Operating Revenues increased by \$303 thousand (4.2%) with Operating and Maintenance Expenses increasing \$652 thousand (16.1%) in 2005.

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 **Balance Sheet** 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.

TABLE 1

	2005	2004	Change Amount	%
Current and Other Assets	\$11,641,658	\$12,714,313	\$(1,072,655)	-8%
Capital Assets	<u>\$41,564,886</u>	<u>\$40,535,386</u>	<u>\$ 1,029,500</u>	3%
Total Assets	<u><u>\$53,206,544</u></u>	<u><u>\$53,249,699</u></u>	<u><u>\$ (43,155)</u></u>	0%
Long Term Liabilities	\$22,232,598	\$23,588,704	\$(1,356,106)	-6%
Other Liabilities	<u>\$ 1,765,110</u>	<u>\$ 1,784,399</u>	<u>\$ (19,289)</u>	-1%
Total Liabilities	<u><u>\$23,997,708</u></u>	<u><u>\$25,373,103</u></u>	<u><u>\$(1,375,395)</u></u>	-5%
Net Assets:				
Invested in Capital, Net of Debt	\$18,033,883	\$15,718,519	\$ 2,315,364	15%
Restricted	\$ 2,457,995	\$ 2,569,228	\$ (111,233)	-4%
Unrestricted	<u>\$ 8,716,958</u>	<u>\$ 9,588,849</u>	<u>\$ (871,891)</u>	-9%
Total Net Assets	<u><u>\$29,208,836</u></u>	<u><u>\$27,876,596</u></u>	<u><u>\$ 1,332,240</u></u>	5%

- The District's Net Assets increased 1.33 million dollars in 2005. These increases are a result of excess revenues over expenses and capital contributions.
- Long Term Liabilities decreased by \$1,356,106. 1.33 million of this decrease was debt principal payments made during the period.

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

	2005	2004	Change Amount	%
Operating Revenues	\$ 7,438,497	\$ 7,135,400	\$ 303,097	4.2%
Non-Operating Revenues	\$ 508,957	\$ 677,461	\$(168,504)	-24.9%
Total Revenues	\$ 7,947,454	\$ 7,812,861	\$ 134,593	1.7%
Operation Expenses	\$ 3,836,146	\$ 3,299,867	\$ 536,279	16.3%
Maintenance Expenses	\$ 852,665	\$ 736,962	\$ 115,703	15.7%
Depreciation Expenses	\$ 1,469,926	\$ 1,388,675	\$ 81,251	5.9%
Total Expenses	\$ 6,158,737	\$ 5,425,504	\$ 733,233	13.5%
Operating Income	\$ 1,279,760	\$ 1,709,896	\$(430,136)	-25.2%
Non-Operating Expenses	\$ (1,193,127)	\$ (1,301,663)	\$(108,536)	-8.3%
Capital Contributions	\$ 736,650	\$ 934,694	\$(198,044)	-21.2%
Change in Net Assets	<u>\$ 1,332,240</u>	<u>\$ 2,020,388</u>	<u>\$(688,148)</u>	-34.1%

- Total Operating Revenues increased 303 thousand dollars (4.2%) in 2005. Non-operating revenues decreased \$168,504 primarily due to grant monies for capital improvement projects decreased 191 thousand dollars. Non-exchange revenues (primarily watermains and appurtenances contributed by developers) decreased 198 thousand dollars, resulting in a decrease of 198 thousand dollars (-21.2%) in total capital contributions in 2005. Capital Contributions are vulnerable to yearly fluctuations depending on development activity, new projects subject to assessments.
- Operations and Maintenance Expenses, excluding depreciation, increased 651 thousand dollars (16.1%) in 2005. Contributing to these increases were chemical costs (+\$108,000), the cleaning of two north plant production wells (+\$45,000), repairs to north plant treatment equipment (+\$44,000), purchased electrical power (+\$70,000), water meter replacements for new Automated Meter Reading (AMR) (+\$40,000), painting, repairs and replacement of obsolete or unworkable hydrants (+\$81,000), gate valve exercising/repair program (+\$40,000) and creek crossing improvements (+\$20,000). Increases in employee health care costs, fuel cost for transportation equipment and the addition of personnel are also included in these increases.

CAPITAL ASSETS

The District had 57.18 million dollars invested in Capital Assets (before depreciation) at the end of 2005, as shown in Table 3. This amount is an increase of 2.4 million (4.4%) from the previous year.

TABLE 3

			Change	
	2005	2004	Amount	%
Land	\$ 234,806	\$ 195,878	\$ 38,928	19.9%
Structures	\$ 2,277,567	\$ 2,268,067	\$ 9,500	0.4%
Distribution System	\$ 51,552,502	\$ 49,487,768	\$ 2,064,734	4.2%
Tank Monitoring Equipment	\$ 282,640	\$ 282,640	\$ -	0.0%
Vehicles	\$ 853,734	\$ 860,302	\$ (6,568)	-0.8%
Laboratory Equipment	\$ 23,238	\$ 23,238	\$ -	0.0%
Office Furniture and Equipment	\$ 456,427	\$ 382,401	\$ 74,026	19.4%
Misc. Plant & Repair Equipment	\$ 145,623	\$ 146,696	\$ (1,073)	-0.7%
Construction in Progress	\$ 1,352,264	\$ 1,138,396	\$ 213,868	18.8%
Totals before Depreciation	\$ 57,178,801	\$ 54,785,386	\$ 2,393,415	
Accumulated Depreciation	\$ (15,613,915)	\$ (14,250,000)	\$ (1,363,915)	
Total Capital Assets	\$ 41,564,886	\$ 40,535,386	\$ 1,029,500	

The majority increase in capital assets for 2005 was the District's Distribution System. The increase was the result of acceptance of the Queen of Peace and Laurel Estates Subdivisions water distribution system from the Butler County Commissioners, water lines installed by developers, installation of AMR devices on existing meters and the installation of new meter facilities installed by developers and the District. 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 computers, and new meter reading equipment. Projects in progress include the development of a GIS system, construction of two new water storage tanks, North Treatment Plant Improvements and Master Pressure Reducing Station Improvements accounting 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

	2005	2004	Change	
			Amount	%
REVENUE BONDS				
1995 Revenue Bonds	\$ -	\$ 470,000	\$ (470,000)	100%
2003 Revenue Bonds	\$ 15,937,984	\$ 16,486,285	\$ (548,301)	-3%
Rural Development Bonds	\$ 2,712,897	\$ 2,760,118	\$ (47,221)	-2%
Total Revenue Bonds	\$ 18,650,881	\$ 19,716,403	\$ (1,065,522)	-5%
Special Assessment Bonds	\$ 5,991,000	\$ 6,290,000	\$ (299,000)	-5%
Ohio Water & Sewer Rotary Commission	\$ 62,441	\$ 62,441	\$ -	0%
Long Term Debt	\$ 24,704,322	\$ 26,068,844	\$ (1,364,522)	-5%
Less				
Reacquisition Costs 1995 Revenue Bonds -				
Advance Refunding	\$ (1,173,319)	\$ (1,251,977)	\$ (78,658)	-6%
Current Maturities	\$ (1,394,761)	\$ (1,346,719)	\$ 48,042	4%
Net Total Long Term Debt	\$ 22,136,242	\$ 23,470,148	\$ (1,333,906)	-6%

- The District issued no new debt in 2005
- In 2003, the District advance refunded its 1995 Revenue Bonds, with the issuance of the 2003 Revenue Bonds. An irrevocable trust account was established for defeasing the 1995 bonds at the 10 year call date, with the exception of all bonds maturing in December 2003, 2004, and 2005. The final December 1, 2005 bonds were paid off by the District's funds and the remaining maturities were paid off from the trust account.
- 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.

Table 5

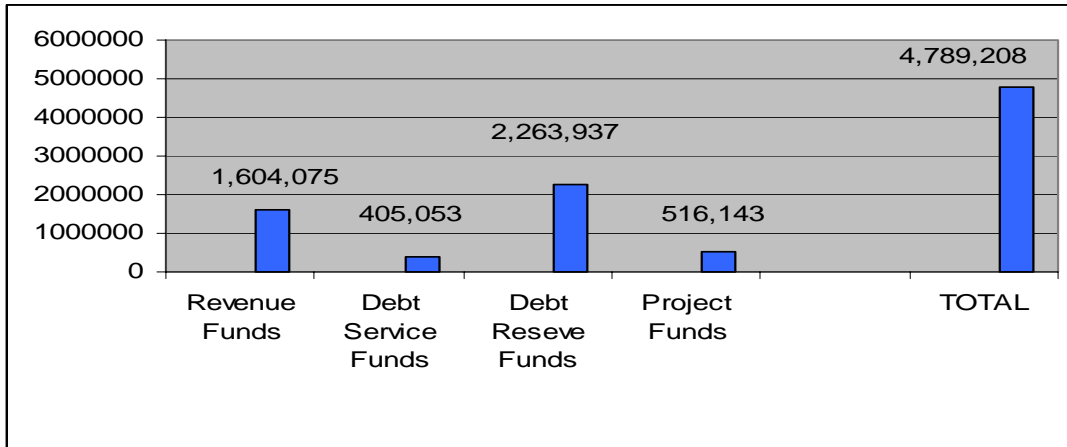
	2005	2004
Operating Revenues	\$ 7,438,497	\$ 7,092,121
Non-Operating Revenue	\$ 367,741	\$ 350,056
Total Revenues	\$ 7,806,238	\$ 7,442,177
Less Operations & Maintenance Expenses	\$ (4,688,313)	\$ (4,036,829)
Total Revenues Available for Debt	\$ 3,117,925	\$ 3,405,348
Revenue Bond Debt Service - 1995 & 2003	\$ 1,627,118	\$ 1,622,835
Revenue Bond Debt Service - Rural Development	\$ 223,708	\$ 223,708
Special Assessment - Agricultural Deferments	\$ 46,307	\$ 46,395
Total Debt Service Requirements	\$ 1,897,133	\$ 1,892,938
 Combined Coverage Ratio - All Debt	 1.64	 1.80
 Required Coverage Ratio		
Revenue Bonds - 1995 & 2003	1.20	1.20
Rural Development	1.00	1.00

Does not include grants and non-exchange revenues

- 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.

CASH

Cash and cash equivalents on December 31, 2005 were \$4.79 million. \$2.46 million of these funds are restricted for specific use. These accounts are for Debt Reserves, Bond Payments and Escrowed Construction Funds. The bond payment accounts are funded monthly to be used for semi annual interest payments and maturing bonds. The chart below shows the total cash and cash equivalents balances by funds.



ECONOMIC FACTORS

The District has projected an increase of \$.55 million in net assets for year ending December 31, 2006. Approval has been received from the Ohio Public Works Commission for \$250 thousand in Issue II grants for water tank improvements to begin in 2006. Additional customers are expected to be added as subdivisions are completed over the next couple of years. \$275,000 in donated capital has been estimated for this year.

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, 2005 and 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$2,331,213	\$3,092,915
Accounts receivable (net of allowance for doubtful accounts of \$30,475 for 2005 and \$30,475 for 2004)	732,036	742,652
Special assessments receivable - current portion	314,000	299,000
Accrued interest receivable	30,769	27,645
Inventory	559,872	386,652
Prepaid expenses	34,030	35,856
TOTAL CURRENT ASSETS	4,001,920	4,584,720
NONCURRENT ASSETS		
Restricted Assets:		
Equity in pooled cash with fiscal agents	12,781	25,561
Equity in pooled cash and cash equivalents	2,445,214	2,543,667
TOTAL RESTRICTED ASSETS	2,457,995	2,569,228
Capital Assets:		
Water, production, treatment, and distribution systems	51,552,503	49,487,768
Buildings, office furniture and equipment	4,039,229	3,963,344
Total depreciable capital assets	55,591,732	53,451,112
Less: Accumulated depreciation	(15,613,916)	(14,250,000)
Net depreciable capital assets	39,977,816	39,201,112
Land	234,806	195,878
Construction in progress	1,352,264	1,138,396
NET CAPITAL ASSETS	41,564,886	40,535,386
Other Assets:		
Special assessments receivable - noncurrent	4,873,871	5,187,871
Bond issuance cost	0	0
Deferred Charges	307,872	372,494
TOTAL OTHER ASSETS	5,181,743	5,560,365
TOTAL ASSETS	\$53,206,544	\$53,249,699

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, 2005 and 2004

	2005	2004
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 1,394,761	\$ 1,346,719
Accounts payable	112,016	140,262
Accrued liabilities	70,657	82,445
Tenants' deposits	41,903	39,788
Accrued interest	145,773	175,185
TOTAL CURRENT LIABILITIES	1,765,110	1,784,399
LONG-TERM LIABILITIES		
Deferred revenue	96,356	118,556
Long term obligations	22,136,242	23,470,148
TOTAL LONG-TERM LIABILITIES	22,232,598	23,588,704
TOTAL LIABILITIES	23,997,708	25,373,103
NET ASSETS		
Invested in capital assets, net of related debt	18,033,883	15,718,519
Restricted for debt service	2,457,995	2,569,228
Unrestricted	8,716,958	9,588,849
TOTAL NET ASSETS	\$29,208,836	\$27,876,596

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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Metered water sales to customers	\$5,912,738	\$5,730,532
Sales of new taps	1,265,868	1,206,310
Penalties	259,891	198,558
Miscellaneous	0	0
TOTAL OPERATING REVENUES	7,438,497	7,135,400
OPERATING EXPENSES		
Operations	3,836,146	3,299,867
Maintenance	852,665	736,962
Depreciation	1,469,926	1,388,675
TOTAL OPERATING EXPENSES	6,158,737	5,425,504
OPERATING INCOME	1,279,760	1,709,896
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	135,928	327,410
Interest income	373,029	350,051
Interest expense	(1,187,839)	(1,258,384)
Other non-operating expense	(5,288)	(43,279)
Net other income (expense)	(684,170)	(624,202)
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	595,590	1,085,694
Capital contributions - owner/developer	736,650	934,694
Total Capital Contributions	736,650	934,694
CHANGES IN NET ASSETS	1,332,240	2,020,388
NET ASSETS, BEGINNING OF YEAR	27,876,596	25,856,208
NET ASSETS, END OF YEAR	\$29,208,836	\$27,876,596

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, 2005 and 2004

	2005	2004
Cash flows from operations:		
Cash received from customers	\$ 7,515,850	\$ 7,106,423
Cash payments to suppliers for goods and services	(2,355,539)	(1,680,595)
Cash payments to employees for services	(2,544,700)	(2,338,431)
Net cash provided by operations	2,615,611	3,087,397
Cash flows from capital and related financing activities:		
Proceeds from capital grant	135,928	327,410
Acquisition and construction of capital assets	(1,790,264)	(1,365,241)
Payment on borrowings	(1,285,864)	(1,312,159)
Collections on special assessments	299,000	306,851
Interest paid	(1,217,251)	(1,263,317)
Net cash provided (used) by capital and related financing activities	(3,858,451)	(3,306,456)
Cash flows from investing activities:		
Interest received	369,905	335,216
Net cash provided (used) by investing activities	369,905	335,216
Increase in cash and cash equivalents	(872,935)	116,157
Cash and cash equivalents - beginning of year	5,662,143	5,545,986
Cash and cash equivalents - end of year	\$ 4,789,208	\$ 5,662,143
Restricted cash	\$ 2,457,995	\$ 2,569,228
Unrestricted cash	2,331,213	3,092,915
	\$ 4,789,208	\$ 5,662,143

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

Developers dedicated water lines with total costs of \$736,650 and \$934,694 in 2005 and 2004, 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, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Operating Income	1,279,760	1,709,896
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,469,926	1,388,675
Amortizatoin deferred charge		
Changes in operating assets and liabilities:		
Accounts receivable	10,616	(16,178)
Deferred Charges	64,622	-
Inventories	(173,220)	(30,757)
Prepaid expenses	1,826	17,958
Accounts payable	(28,246)	26,793
Accrued liabilities	(11,788)	(933)
Tenants' deposits	2,115	893
Customer advances	-	(8,950)
Net cash provided by operating activities	\$ 2,615,611	\$ 3,087,397

The accompanying notes are an integral part of these financial statements

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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, 2005

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 2005. 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 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 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 2005 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, 2005

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, 2005

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, 2005 was \$4,789,208 and the bank balance was \$4,787,668. Of the bank balance:

1. \$600,000 was covered by federal depository insurance; and
2. \$4,189,208 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 12/31/2004	Additions	Retirements Disposals	Balance at 12/31/2005
Non-Depreciable:				
Land	195,878	38,928	-	234,806
Construction in Progress	1,138,396	213,868	-	1,352,264
Total Non-Depreciable	1,334,274	252,796	-	1,587,070
Depreciable:				
Structures	2,268,067	9,500	-	2,277,567
Distribution System	49,487,768	2,068,744	4,010	51,552,502
Tank Monitoring Equipment	282,640	-	-	282,640
Vehicles	860,301	111,666	118,233	853,734
Laboratory Equipment	23,238	-	-	23,238
Office Furniture & Equipment	382,402	74,026	-	456,428
Misc. Plant & Repair Equipment	146,696	900	1,973	145,623
Total Depreciable	53,451,112	2,264,836	124,216	55,591,732
Totals at Historical Cost	54,785,386	2,517,632	124,216	57,178,801
Accumulated Depreciation:				
Structures	1,364,043	99,404	-	1,463,447
Distribution System	11,976,228	1,192,934	-	13,169,162

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

Tank Monitoring Equipment	143,818	3,619	-	147,437
Vehicles	436,781	15,917	-	452,698
Laboratory Equipment	11,246	-	-	11,246
Office Furniture & Equipment	230,424	44,237	-	274,661
Misc. Plant & Repair Equipment	<u>87,460</u>	<u>7,806</u>	<u>-</u>	<u>95,266</u>
	<u>14,250,000</u>	<u>1,363,916</u>	<u>-</u>	<u>15,613,916</u>
Capital Assets, Net	<u><u>40,535,386</u></u>	<u><u>1,153,716</u></u>	<u><u>124,216</u></u>	<u><u>41,564,885</u></u>

5. LONG TERM OBLIGATIONS

Long-term obligations consist of:

USDA, Rural Development Bonds

	<u>2005</u>	<u>2004</u>
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>2,712,897</u>	<u>2,760,118</u>
Total USDA	<u>2,712,897</u>	<u>2,760,118</u>

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Special Assessment Water Line Extension Bond-Series 1994	90,000	100,000
Revenue Bonds - Series 1995	0	470,000
Special Assessment Water Line Extension Bond-Series 1996	675,000	720,000
Special Assessment Water Line Extension Bond -Series 1997	71,000	75,000
Special Assessment Water Line Extension Bond -Series 1999	3,965,000	4,155,000
Special Assessment Water System Improvement Bond -Series 2000	510,000	530,000

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

5. LONG TERM OBLIGATIONS (Continued)

Special Assessment Water	680,000	710,000
Line Extension Bond -Series 2002		
Revenue Bonds - Series 2003 (including unamortized issuance premium)	15,937,984	16,486,285
Series 2003 - 1995 Bond refunding defeased interest and recall premium	(1,173,319)	(1,251,977)
Advance note payable to State of Ohio	<u>62,441</u>	<u>62,441</u>
	23,531,003	24,816,867
Less current maturities	<u>(1,394,761)</u>	<u>(1,346,719)</u>
Total long-term obligations	<u>\$ 22,136,242</u>	<u>23,470,148</u>

As of December 31, 2005, the maturities of the principal amount of long-term debt for the five years ending December 31, were as follows:

2006	1,394,761
2007	1,438,997
2008	1,467,440
2009	1,496,101
2010	1,339,997
Thereafter	<u>16,393,707</u>
Total	<u>\$ 23,531,003</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, 2005

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 were paid in 2005.

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, 2005

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, 2005, 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, 2005 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		\$ 60,000	26.34%
1996 Assessments	889,478	-	320,000	35.98%
1997 Assessments	94,579	-	27,000	28.55%
1999 Assessments	4,322,014	13,892	1,035,000	24.27%
2000 Assessments	579,383	\$ 12,144	100,000	19.36%
2002 Assessments	736,635	8,960	85,000	12.76%
Total	\$ 6,849,867	\$ 34,996	\$ 1,627,000	

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 2005 for all three plans (TP, MD, and CO) and for 2004. The 2005 (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, 2005, 2004, and 2003, were \$248,529, \$261,263, and \$109,192, respectively.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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 2005 and 5.0% was the portion used to fund health care for the year 2005, 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, 2004.

Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and 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 2004 was 8.00%.

Active Employee Total Payroll – An annual increase of 4.0% for 2003 and 2002 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:

1. The number of active contributing participants was 355,287.
2. The employer contributions that were used to fund postemployment benefits were \$91,707 for 2005, \$96,406 for 2004 and \$40,292 for 2003.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

8. POSTEMPLOYMENT BENEFITS – Continued

3. \$10.8 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 \$29.5 billion and \$18.7 billion, respectively.

E. OPERS Retirement Board Adopts Healthcare Preservation Plan:

The Healthcare Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will become effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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 2005 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, 2005

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, 2005 was as follows:

2005 Budgeted VS. Actual Budgetary Basis Expenditures

Appropriation Authority	Budgetary Expenditures	Variance Favorable/ (Unfavorable)
\$7,597,822	\$ 7,346,079	\$ 251,743

2005 Budgeted VS. Actual Receipts

Budgeted Receipts	Actual Receipts	Variance Favorable/ (Unfavorable)
\$ 8,516,672	\$ 8,678,816	\$ 162,144

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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 business-type activities of the Southwest Regional Water District, Butler County, Ohio (the District), as of and for the years ended December 31, 2005 and December 31, 2004 and have issued our report thereon dated March 10, 2006. 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 dark ink on a light-colored, slightly textured background.

Balestra, Harr & Scherer, CPAs, Inc.

March 10, 2006



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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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
SEPTEMBER 7, 2006**