



Mary Taylor, CPA  
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 Southwest Regional Water District, Butler County, Ohio (the District), as of and for the year ended December 31, 2009 and 2008, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Regional Water District, as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

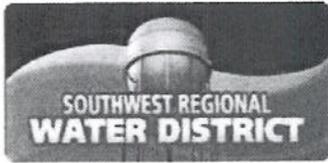
In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

July 6, 2010



## **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 liabilities on December 31, 2009 by \$30.93 million and \$30.28 million on December 31, 2008.
- The District's net assets increased \$654 thousand in 2009 and decreased \$152.7 thousand in 2008.
- The District's Operating Revenues increased by \$560.5 thousand (7.7%) in 2009 and decreased by \$381 thousand (-5%) in 2008 with Operating and Maintenance Expenses decreasing \$322 thousand (-5.9%) in 2009 and increasing \$107 thousand (2%) in 2008.

### **OVERVIEW OF BASIC FINANCIAL STATEMENTS**

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

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

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

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

## NET ASSETS

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

<b>TABLE 1</b>				
	<b>2009</b>	<b>2008</b>	<b>Change Amount</b>	<b>%</b>
Current and Other Assets	\$ 9,809,305	\$ 9,500,258	\$ 309,047	3%
Capital Assets	\$ 42,401,683	\$ 42,850,863	\$ (449,180)	-1%
<b>Total Assets</b>	<b>\$ 52,210,988</b>	<b>\$ 52,351,121</b>	<b>\$ (140,133)</b>	<b>0%</b>
Long Term Liabilities	\$ 16,850,600	\$ 18,134,238	\$ (1,283,638)	-7%
Other Liabilities	\$ 4,426,892	\$ 3,937,361	\$ 489,531	12%
<b>Total Liabilities</b>	<b>\$ 21,277,492</b>	<b>\$ 22,071,599</b>	<b>\$ (794,107)</b>	<b>-4%</b>
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	\$ (2,131,229)	-33%
<b>Total Net Assets</b>	<b>\$ 30,933,496</b>	<b>\$ 30,279,522</b>	<b>\$ 653,974</b>	<b>2%</b>
	<b>2008</b>	<b>2007</b>	<b>Change Amount</b>	<b>%</b>
Current and Other Assets	\$ 9,500,258	\$ 10,502,140	\$ (1,001,882)	-10%
Capital Assets	\$ 42,850,863	\$ 42,661,427	\$ 189,436	0%
<b>Total Assets</b>	<b>\$ 52,351,121</b>	<b>\$ 53,163,567</b>	<b>\$ (812,446)</b>	<b>-2%</b>
Long Term Liabilities	\$ 18,134,238	\$ 19,573,982	\$ (1,439,744)	-7%
Other Liabilities	\$ 3,937,361	\$ 3,157,406	\$ 779,955	25%
<b>Total Liabilities</b>	<b>\$ 22,071,599</b>	<b>\$ 22,731,388</b>	<b>\$ (659,789)</b>	<b>-3%</b>
Net Assets				
Invested in Capital, Net of Debt	\$ 21,448,985	\$ 21,717,467	\$ (268,482)	-1%
Restricted	\$ 2,426,781	\$ 2,463,738	\$ (36,957)	-2%
Unrestricted	\$ 6,403,756	\$ 6,250,974	\$ 152,782	2%
<b>Total Net Assets</b>	<b>\$ 30,279,522</b>	<b>\$ 30,432,179</b>	<b>\$ (152,657)</b>	<b>-1%</b>

- The District's Net Assets increased \$654 thousand dollars in 2009. This increase is primarily the result of additional water revenues, from increases in customer water rates, and decreased operating expenses.
- The District incurred no new long term debt in 2009, but did issue \$2.6 million in Bond Anticipation Notes (BAN) to renew the 2008 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

	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)	7.0%
Capital Contributions	\$ 214	\$ 7,942	\$ (7,728)	-97.3%
<b>Change in Net Assets</b>	<b>\$ 653,974</b>	<b>\$ (152,657)</b>	<b>\$ 806,631</b>	<b>528.4%</b>
Net Assets at Beginning of Year	\$ 30,279,522	\$ 30,432,179	\$ (152,657)	-.5%
Net Assets at End of Year	\$ 30,933,496	\$ 30,279,522	\$ 653,974	2.1%

	2008	2007	Change Amount	%
Operating Revenues	\$ 7,264,368	\$ 7,646,154	\$ (381,786)	-5.0%
Total Revenues	\$ 7,264,368	\$ 7,646,154	\$ (381,786)	-5.0%
Operating Expenses	\$ 4,473,958	\$ 4,260,040	\$ 213,918	5.0%
Maintenance Expenses	\$ 946,206	\$ 1,053,086	\$ (106,880)	-10.1%
Depreciation Expenses	\$ 1,599,841	\$ 1,583,763	\$ 16,078	1.0%
Total Expenses	\$ 7,020,005	\$ 6,896,889	\$ 123,116	1.8%
Operating Income	\$ 244,363	\$ 749,265	\$ (504,902)	-67.4%
Non-Operating Revenues	\$ 660,903	\$ 815,047	\$ (154,144)	-18.9%
Non-Operating Expenses	\$ (1,065,865)	\$ (1,165,400)	\$ (99,535)	-8.5%
Capital Contributions	\$ 7,942	\$ 165,844	\$ (157,902)	-95.2%
<b>Change in Net Assets</b>	<b>\$ (152,657)</b>	<b>\$ 564,756</b>	<b>\$ (717,413)</b>	<b>-127.0%</b>
Net Assets at Beginning of Year	\$ 30,432,179	\$ 29,867,423	\$ 564,756	1.9%
Net Assets at End of Year	\$ 30,279,522	\$ 30,432,179	\$ (152,657)	-.5%

- Total Operating Revenues increased \$560.5 thousand (7.7%) in 2009. Metered water sales increased \$500 thousand and the sales of new taps decreased by \$28 thousand. Grant monies received for capital improvement projects increased \$288 thousand and non-exchange revenues (primarily water mains and appurtenances contributed by

**STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET ASSETS) (continued)**

- developers) decreased \$7.7 thousand. Total Operating Revenues decreased \$381.8 thousand (-5%) in 2008, primarily from decreases in metered water sales.
- Total Operating Expenses (excluding depreciation) decreased \$322 thousand (-5.9%) in 2009. Operations Expenses decreased \$372 thousand (-8.3%) while Maintenance Expenses increased \$50.1 thousand (5.3%). Operations and Maintenance Expenses increased \$107 thousand (2%) in 2008.
- The total change in net assets (net retained earnings) in 2009 increased \$806 thousand from 2008, compared to a decrease of \$717 thousand in 2008 vs. 2007.

**CAPITAL ASSETS**

The District had \$64 million invested in Capital Assets (before depreciation) at the end of 2009, as shown in Table 3. This amount is an increase of \$1.2 million (1.9%) from the previous year. In 2008 the District had \$63 million invested in Capital Assets (before depreciation), an increase of \$1.68 million (2.7%) from 2007.

**TABLE 3**

	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	\$ 1,233,821	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	\$ 40,626	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)	\$ (1,644,496)	8.1%
<b>Total Capital Assets</b>	<b>\$ 42,401,683</b>	<b>\$ 42,850,863</b>	<b>\$ (449,180)</b>	<b>-1.0%</b>

	2008	2007	Change Amount	%
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Wells	\$ 978,346	\$ 978,346	\$ -	0.0%
Booster Stations & Equip	\$ 3,586,427	\$ 3,531,522	\$ 54,905	1.6%
Treatment Plants	\$ 10,130,366	\$ 10,130,366	\$ -	0.0%
Water Tanks & Standpipes	\$ 4,630,696	\$ 4,566,519	\$ 64,178	1.4%
Distribution System	\$ 25,277,844	\$ 25,220,455	\$ 57,388	0.2%
GIS System	\$ 274,245	\$ 274,245	\$ -	0.0%
Metered Services	\$ 9,650,592	\$ 8,377,984	\$ 1,272,608	15.2%

## CAPITAL ASSETS (continued)

Flush Hydrants	\$ 183,846	\$ 183,846	\$ -	0.0%
6" Hydrants	\$ 1,363,763	\$ 1,361,628	\$ 2,135	0.0%
Structures & Improvements	\$ 2,354,767	\$ 2,354,767	\$ -	0.0%
Office Furniture & Equipment	\$ 579,671	\$ 571,946	\$ 7,725	1.4%
Transportation/Constr. Equip	\$ 870,746	\$ 927,487	\$ (56,740)	-6.1%
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	\$ 2,223,531	\$ 1,946,312	\$ 277,219	14.2%
Totals before Depreciation	\$ 63,030,655	\$ 61,351,237	\$ 1,679,418	2.7%
Accumulated Depreciation	\$ (20,179,792)	\$ (18,689,810)	\$ (1,489,982)	8.0%
<b>Total Capital Assets</b>	<b>\$ 42,850,863</b>	<b>\$ 42,661,427</b>	<b>\$ 189,436</b>	<b>0.4%</b>

- The increase in Capital Assets, primarily from the completion of a new water storage tank and the completion of distribution system improvements, was offset by a reduction of construction in progress and depreciation expenses resulting in a total net decrease in total Capital Assets (after depreciation) of \$449 thousand in 2009. The District's Automated Meter Reading System, a new tank, and construction of new watermains contributed to a net increase of \$189.4 thousand in 2008.

## DEBT

Table 4 summarizes the District's long term debt. The District issues long term debt to finance much 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

	2009	2008	Change Amount	%
<b>REVENUE BONDS</b>				
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%
<b>Total Revenue Bonds</b>	<b>\$ 14,119,380</b>	<b>\$ 15,278,782</b>	<b>\$ (1,159,402)</b>	<b>-8%</b>
Special Assessment Bonds	\$ 4,772,000	\$ 5,131,000	\$ (359,000)	-7%
Ohio Water & Sewer Rotary Commission	\$ 62,441	\$ 62,441	\$ (0)	0%
<b>Long Term Debt</b>	<b>\$ 18,953,821</b>	<b>\$ 20,472,223</b>	<b>\$ (1,518,402)</b>	<b>-7%</b>
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%
<b>Net Total Long Term Debt</b>	<b>\$ 16,751,139</b>	<b>\$ 18,034,777</b>	<b>\$ (1,283,637)</b>	<b>-7%</b>
	2008	2007	Change Amount	%
<b>REVENUE BONDS</b>				
2003 Revenue Bonds	\$ 12,728,083	\$ 13,816,383	\$ (1,088,300)	-8%
Rural Development Bonds	\$ 2,550,699	\$ 2,608,139	\$ (57,440)	-2%
<b>Total Revenue Bonds</b>	<b>\$ 15,278,782</b>	<b>\$ 16,424,522</b>	<b>\$ (1,145,740)</b>	<b>-7%</b>
Special Assessment Bonds	\$ 5,131,000	\$ 5,473,000	\$ (342,000)	-6%
Ohio Water & Sewer Rotary Commission	\$ 62,441	\$ 62,441	\$ -	0%
<b>Long Term Debt</b>	<b>\$ 20,472,223</b>	<b>\$ 21,959,963</b>	<b>\$ (1,487,740)</b>	<b>-7%</b>

**DEBT (continued)**

Less Reacquisition Costs 1995 Revenue Bonds -

Advance Refunding	\$ (937,345)	\$ (1,016,002)	\$ (78,657)	-8%
Current Maturities	\$ (1,500,101)	\$ (1,469,440)	\$ 30,661	2%
<b>Net Total Long Term Debt</b>	<b>\$ 18,034,777</b>	<b>\$ 19,474,521</b>	<b>\$ (1,439,744)</b>	<b>-7%</b>

- The District issued no new long term debt in 2009 or 2008
- The District issued a short term Bond Anticipation Note (BAN) in the amount of \$2,617,000 to renew the BAN issued in 2008 of \$1,830,431 while obtaining additional funds of approximately \$700 thousand for improvements at the District's North Water Treatment Plant and three (3) watermain improvement projects.
- 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. This table represents only revenues generated by the operations of the District.

	2009	2008	2007
Operating Revenues	\$ 7,824,913	\$ 7,264,368	\$ 7,646,154
Non-Operating Revenue	\$ 194,521	\$ 400,482	\$ 427,334
<b>Total Revenues</b>	<b>\$ 8,019,435</b>	<b>\$ 7,664,850</b>	<b>\$ 8,073,488</b>
Less Operations & Maintenance Expenses	\$ (5,098,186)	\$ (5,420,164)	\$ (5,313,126)
<b>Total Revenues Available for Debt</b>	<b>\$ 2,921,248</b>	<b>\$ 2,244,686</b>	<b>\$ 2,760,362</b>
Revenue Bond Debt Service - 1995 & 2003	\$ 1,603,935	\$ 1,619,615	\$ 1,626,243
Revenue Bond Debt Service - Rural Development & Special Assessment - Deficit Collections	\$ 289,447	\$ 269,321	\$ 269,321
<b>Total Debt Service Requirements</b>	<b>\$ 1,893,382</b>	<b>\$ 1,888,936</b>	<b>\$ 1,895,564</b>
<b>Coverage Ratio - Revenue Bonds</b>			
Debts Service - 1995 & 2003	1.82	1.39	1.70
<b>Combined Coverage Ratio - All Debt</b>	<b>1.54</b>	<b>1.19</b>	<b>1.46</b>
<b>Required Coverage Ratio</b>			
Revenue Bonds - 1995 & 2003	1.20	1.20	1.20
Rural Development	1.00	1.00	1.00

## **DEBT COVERAGE (continued)**

Does not include grant revenues or capital contributions.

- 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 deferments are paid from the District Revenues.

## **CASH**

Cash and cash equivalents on December 31, 2009 were \$3.85 million. \$2.35 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 \$310 thousand in net assets for the year ending December 31, 2010. 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 \$250 thousand in Issue II grants for watermain improvements and improvements to one of the District's South Treatment Plant Clearwell Tanks. Customer growth and capital contributions from developers are expected to remain stable or slightly decline as a result of a continued slowing of the 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.

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**SOUTHWEST REGIONAL WATER DISTRICT**  
**STATEMENT OF NET ASSETS**  
As of December 31, 2009 and 2008

<b>ASSETS</b>	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,494,144	\$ 817,582
Accounts receivable (net of allowance for doubtful accounts of \$26,917 for 2009 and \$2,921 for 2008)	\$ 970,595	\$ 898,138
Special Assessments receivable - current portion	\$ 384,000	\$ 359,000
Accrued interest receivable	\$ 134,321	\$ 121,936
Inventory	\$ 521,987	\$ 551,645
Prepaid expenses	\$ 85,740	\$ 55,718
<b>TOTAL CURRENT ASSETS</b>	<u>\$ 3,590,788</u>	<u>\$ 2,804,019</u>
<b>NONCURRENT ASSETS</b>		
Restricted Assets:		
Equity in pooled cash and cash equivalents	\$ 2,354,421	\$ 2,426,781
<b>TOTAL RESTRICTED ASSETS</b>	<u>\$ 2,354,421</u>	<u>\$ 2,426,781</u>
Capital Assets:		
Water, production, treatments and distribution systems	\$ 58,244,470	\$ 56,076,125
Building, office and equipment	\$ 4,536,817	\$ 4,496,193
Total depreciable capital assets	\$ 62,781,287	\$ 60,572,318
Less: Accumulated depreciation	\$ (21,824,287)	\$ (20,179,792)
Net depreciable capital assets	\$ 40,957,000	\$ 40,392,526
Land	\$ 234,806	\$ 234,806
Construction in progress	\$ 1,209,876	\$ 2,223,531
<b>NET CAPITAL ASSETS</b>	<u>\$ 42,401,682</u>	<u>\$ 42,850,863</u>
Other Assets:		
Special Assessments receivable-non current	\$ 3,574,916	\$ 3,958,915
Deferred Charges	\$ 289,180	\$ 310,543
<b>TOTAL OTHER ASSETS</b>	<u>\$ 3,864,096</u>	<u>\$ 4,269,458</u>
<b>TOTAL ASSETS</b>	<u>52,210,988</u>	<u>52,351,121</u>

(Continued)

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

**SOUTHWEST REGIONAL WATER DISTRICT**  
**STATEMENT OF NET ASSETS**  
As of December 31, 2009 and 2008  
(Continued)

<b>LIABILITIES</b>	<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of long term obligations	\$ 1,343,997	\$ 1,500,101
Accounts payable	\$ 140,758	\$ 184,326
Notes payable	\$ 2,617,000	\$ 1,867,000
Accrued liabilities	\$ 70,679	\$ 127,155
Tenant deposits	\$ 57,684	\$ 57,837
Accrued interest	\$ 196,775	\$ 200,942
<b>TOTAL CURRENT LIABILITIES</b>	<u>\$ 4,426,893</u>	<u>\$ 3,937,361</u>
<b>LONG TERM LIABILITIES</b>		
Deferred revenue	\$ 99,461	\$ 99,461
Long term obligations	\$ 16,751,139	\$ 18,034,777
<b>TOTAL LONG TERM LIABILITES</b>	<u>\$ 16,850,600</u>	<u>\$ 18,134,238</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 21,277,492</u>	<u>\$ 22,071,599</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 24,306,547	\$ 21,448,985
Restricted for debt service	\$ 2,354,421	\$ 2,426,781
Unrestricted	\$ 4,272,528	\$ 6,403,756
<b>TOTAL NET ASSETS</b>	<u><u>\$ 30,933,496</u></u>	<u><u>\$ 30,279,522</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 Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Metered Water Sales to customers	\$ 7,103,212	\$ 6,600,524
Sale of New taps	\$ 335,096	\$ 363,269
Penalties	\$ 168,800	\$ 177,752
Miscellaneous	\$ 217,805	\$ 122,823
<b>TOTAL OPERATING REVENUES</b>	<u>\$ 7,824,913</u>	<u>\$ 7,264,368</u>
<b>OPERATING EXPENSES</b>		
Operations	\$ 4,101,888	\$ 4,473,958
Maintenance	\$ 996,299	\$ 946,206
Depreciation	\$ 1,713,689	\$ 1,599,841
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 6,811,875</u>	<u>\$ 7,020,005</u>
<b>OPERATING INCOME</b>	<u>\$ 1,013,038</u>	<u>\$ 244,363</u>
<b>NON OPERATING REVENUE (EXPENSES)</b>		
Intergovernmental	\$ 549,043	\$ 260,421
Interest Income	\$ 232,891	\$ 289,454
Interest Expense	\$ (1,102,842)	\$ (1,065,865)
Other non-operating revenue (expense)	\$ (38,370)	\$ 111,028
<b>Net Other Income (Expense)</b>	<u>\$ (359,278)</u>	<u>\$ (404,962)</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTION</b>	<u>\$ 653,760</u>	<u>\$ (160,599)</u>
Capital Contribution-owner/developer	\$ 214	\$ 7,942
<b>Total Capital Contributions</b>	<u>\$ 214</u>	<u>\$ 7,942</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 653,974</u>	<u>\$ (152,657)</u>
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>\$ 30,279,522</u>	<u>\$ 30,432,179</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$ 30,933,496</u>	<u>\$ 30,279,522</u>

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 Years Ending December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash Flows From Operating Activities:</b>		
Receipts from Customers	\$ 7,534,651	\$ 7,100,537
Receipts from others	217,805	122,823
Payments to Suppliers and Vendors	(2,358,037)	(1,936,227)
Payments to Employees	(2,819,347)	(3,104,579)
Net Cash Provided by Operating Activities	<u>2,575,072</u>	<u>2,182,554</u>
<b>Cash Flows From Capital and related financing Activities:</b>		
Proceeds from capital grants	549,043	260,421
Acquisition & Construction of capital assets	(1,264,294)	(1,781,335)
Payments on Borrowings	(3,306,744)	(2,394,083)
Proceeds from Debt Issuance	2,617,000	1,867,000
Collections on Special Assessments	358,999	342,001
Interest Paid	(1,107,009)	(1,238,508)
Net Cash Used By Capital Financing Activities	<u>(2,153,006)</u>	<u>(2,944,504)</u>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Other nonoperating revenues	(38,370)	111,029
Net Cash Provided By Noncapital Financing Activities	<u>(38,370)</u>	<u>111,029</u>
<b>Cash Flows From Investing Activities:</b>		
Interest Received	220,506	314,971
Net Cash Provided By Capital Financing Activities	<u>220,506</u>	<u>314,971</u>
Net increase (decrease) in cash and cash equivalents	604,202	(335,950)
Cash and cash equivalents, January 1,	3,244,363	3,580,313
Cash and cash equivalents, December 31,	<u>\$ 3,848,565</u>	<u>\$ 3,244,363</u>
Restricted Cash	\$ 2,354,421	\$ 2,426,781
Unrestricted Cash	1,494,144	817,582
Total Cash	<u>\$ 3,848,565</u>	<u>\$ 3,244,363</u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 1,013,038	\$ 244,362
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation Expense	1,713,689	1,599,841
(Increase) Decrease in Accounts Receivable	(72,457)	(41,008)
(Increase) Decrease in Prepaid Items	(30,022)	13,107
(Increase) Decrease in Materials and Supplies Inventory	29,658	303,573
Deferred Charges (Increase) Decrease	21,363	22,742
Decrease in Accounts Payable	(43,567)	18,735
Decrease in Accrued Liabilities	(56,476)	10,055
Decrease in Tenant Deposits	(153)	11,147
Total Adjustments	<u>1,562,034</u>	<u>1,938,192</u>
Net Cash Provided by Operating Activities	<u>\$ 2,575,072</u>	<u>\$ 2,182,554</u>

Developers dedicated water lines with total costs of \$214 and \$7,942 in 2009 and 2008, respectively, 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, 2009

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**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 2009. 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, 2009

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**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, 2009

**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, 2009

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**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, 2009

**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, 2009 was \$3,564,065 and the bank balance was \$3,502,176. Of the bank balance:

1. \$668,956 was covered by federal depository insurance; and
2. \$703,299 was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions.
3. \$2,129,921 was deposited in trust accounts in accordance with the District's Revenue and Special Assessment Bonds Trust Agreements.

Investments - As of December 31, 2009 the District had the following investments:

	<u>Carrying and Fair Value</u>	<u>Percentage of Total Investments</u>
Star Ohio	\$ 284,479	12%
Fifth Third US Treasury - Series 1999 Reserve	413,031	17%
Dreyfus Cash Management - 2009 Note	6,153	0%
Fifth Third US Treasury - Series 2003 Reserve	1,476,042	61%
Fifth Third US Treasury - 2003 Bond Fund-Interest	120,165	5%
Fifth Third US Treasury - 2003 Bond Fund - Principal	<u>114,530</u>	5%
 Total Investments	 <u>\$2,414,400</u>	

All Investments mature in less than one year

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

**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 100% of its investments in STAR Ohio.

**4. CAPITAL ASSETS**

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

	Balance at 12/31/2008	Additions	Retirements Disposals	Balance at 12/31/2009
<b>Non-Depreciable:</b>				
Land	\$ 234,806			\$ 234,806
Construction in Progress	\$ 2,223,531	\$ 1,339,994	\$ 2,353,649	\$ 1,209,876
<b>Total Non-Depreciable</b>	<b>\$ 2,458,337</b>	<b>\$ 1,339,994</b>	<b>\$ 2,353,649</b>	<b>\$ 1,444,682</b>
<b>Depreciable:</b>				
Wells	\$ 978,346			\$ 978,346
Booster Stations & Equip	\$ 3,586,427			\$ 3,586,427
Treatment Plants	\$ 10,130,366			\$ 10,130,366
Water Tanks & Standpipes	\$ 4,630,696	\$ 1,233,821		\$ 5,864,517
Distribution System	\$ 25,277,844	\$ 866,132	\$ 97,999	\$ 26,045,977
GIS System	\$ 274,245			\$ 274,245
Metered Services	\$ 9,650,592	\$ 166,391		\$ 9,816,983
Flush Hydrants	\$ 183,846			\$ 183,846
6" Hydrants	\$ 1,363,763			\$ 1,363,763
Structures & Improvements	\$ 2,354,767			\$ 2,354,767
Office Furniture & Equipment	\$ 579,671	\$ 40,626		\$ 620,297
Transportation/Constr. Equip	\$ 870,746			\$ 870,746
SCADA System	\$ 522,147			\$ 522,147

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

**4. CAPITAL ASSETS (continued)**

Misc. Plant & Repair Equipment	\$ 145,623			\$ 145,623
Laboratory Equipment	\$ 23,238			\$ 23,238
Total Depreciable	\$ 60,572,317	\$ 2,306,970	\$ 97,999	\$ 62,781,288
Total at Historical Costs	\$ 63,030,654	\$ 3,683,991	\$ 2,488,675	\$ 64,225,970

Accumulated Depreciation

Wells	\$ (462,366)	\$ (31,461)		\$ (493,827)
Booster Stations & Equip	\$ (957,832)	\$ (89,791)		\$ (1,047,623)
Treatment Plants	\$ (3,280,061)	\$ (257,404)		\$ (3,537,465)
Water Tanks & Standpipes	\$ (1,506,191)	\$ (155,496)		\$ (1,661,687)
Distribution System	\$ (8,467,511)	\$ (653,910)	\$ 69,192	\$ (9,052,229)
GIS System	\$ (52,818)	\$ (27,678)		\$ (80,496)
Metered Services	\$ (2,654,912)	\$ (282,954)		\$ (2,937,866)
Flush Hydrants	\$ (68,147)	\$ (4,572)		\$ (72,719)
6" Hydrants	\$ (295,722)	\$ (34,096)		\$ (329,818)
Structures & Improvements	\$ (881,095)	\$ (71,742)		\$ (952,836)
Office Furniture & Equipment	\$ (416,663)	\$ (35,929)		\$ (452,591)
Transportation/Constr. Equip	\$ (725,757)	\$ (55,364)		\$ (781,121)
SCADA System	\$ (241,752)	\$ (13,104)		\$ (254,856)
Misc. Plant & Repair Equipment	\$ (145,726)	\$ (189)		\$ (145,914)
Laboratory Equipment	\$ (23,238)	\$ -		\$ (23,238)
Total Accumulated Depreciation	\$ (20,179,792)	\$ (1,713,689)	\$ 69,192	\$ (21,824,287)

Capital Assets, Net	<u>\$ 42,850,863</u>	<u>\$ 1,970,302</u>	<u>\$ 2,419,482</u>	<u>\$ 42,401,683</u>
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**5. SHORT TERM OBLIGATIONS**

During 2009, the District issued \$2,617,000 in Bond Anticipation Note(s) to temporarily finance construction of public water improvements. The note(s) has an interest rate of 2.50% and will mature on March 10, 2010.

Description	12/31/2008 Balance	Issued 2009	Payments in 2009	12/31/2009 Balance	Due Within One Year
Bond Anticipation Note	\$ 1,867,000	\$ 2,617,000	\$ 1,867,000	\$ 2,617,000	\$ 2,617,000



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

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

**6. LONG TERM OBLIGATIONS**

Long-term obligations consist of:

Description	12/31/2008 Balance	Issued in 2009	Payments 2009	12/31/2009 Balance	Due Within One Year
USDA, Rural Development Bonds	\$2,550,699		\$61,101	\$2,489,598	\$64,997
Special Assessment Water Line Extension Bonds - Series 1994	\$60,000		\$10,000	\$50,000	\$10,000
Special Assessment Water Line Extension Bonds - Series 1996	\$530,000		\$55,000	\$475,000	\$55,000
Special Assessment Water Line Extension Bonds - Series 1997	\$57,000		\$5,000	\$52,000	\$5,000
Special Assessment Water Line Extension Bonds - Series 1999	\$3,335,000		\$230,000	\$3,105,000	\$245,000
Special Assessment Water Line Extension Bonds - Series 2000	\$435,000		\$25,000	\$410,000	\$30,000
Special Assessment Water Line Extension Bonds - Series 2002	\$590,000		\$30,000	\$560,000	\$35,000
Special Assessment Water Line Extension Bonds - Series 2007	\$124,000		\$4,000	\$120,000	\$4,000
Revenue Bonds Series 2003	\$12,728,082		\$1,098,300	\$11,629,782	\$895,000
Advance note payable to State of Ohio	\$62,441			\$62,441	
Total before Premium and defeased interest	\$20,472,222		\$1,518,401	\$18,953,821	\$1,343,997
Series 2003 - 1995 Bond Refunding Premium and defeased interest	(\$937,344)		(\$78,658)	(\$858,686)	(\$78,658)
Totals	\$19,534,878		\$1,439,744	\$18,095,135	\$1,265,339

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

**6. LONG TERM OBLIGATIONS (continued)**

As of December 31, 2009, the maturities of the principal amount of long-term debt for the five years ending

Year	Principal	Interest
2010	\$ 1,343,997	\$ 913,489
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>\$ 18,754,039</u>	<u>\$ 6,758,939</u>
1995 Bond Refunding Defeased interest	\$ (858,686)	
2003 Bond Issue Premium	<u>\$ 199,782</u>	
<b>Total</b>	<u><u>\$ 18,095,135</u></u>	<u><u>\$ 6,758,939</u></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, 2009

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**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 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, 2009

**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, 2009, 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, 2009 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		\$ 100,000	44%
1996 Assessments	\$ 889,478		\$ 520,000	58%
1997 Assessments	\$ 94,579		\$ 46,000	49%
1999 Assessments	\$ 4,322,014	\$ 13,892	\$ 1,895,000	44%
2000 Assessments	\$ 579,383	\$ 12,144	\$ 200,000	35%
2002 Assessments	\$ 736,635	\$ 8,960	\$ 205,000	28%
2007 Assessments	\$ 116,045		\$ 6,000	5%
 Total Receivable (\$3,958,916)	 <u>\$ 6,965,912</u>	 <u>\$ 34,996</u>	 <u>\$ 2,972,000</u>	 43%

**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 (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, 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, 2009

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**8. DEFINED BENEFIT RETIREMENT PLAN (continued)**

D. OPERS issues a stand-alone financial report. Interest parties may obtain a copy by making a written request 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 2009, 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 2009 member contribution rates were 10.0% for members in state and local classifications.

The 2009 employer contribution rate for state employers and local employers was 14.00% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2009, 2008, and 2007, were \$287,333 \$306,567, and \$298,109 respectively.

**9. POST EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System (OPERS) 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.

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.

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 2009, state and local employers contributed at a rate of 14% of covered payroll, and public safety and law enforcement employers contributed a 17.63%. 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.

**C. Information from employer's records**

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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**9. POSTEMPLOYMENT BENEFITS (continued)**

The rates stated in Section B, above, are the contractually required contribution rates for OPERS. The employer contributions that were used to fund post-employment benefits were \$120,742 for 2009, \$153,284 for 2008, and \$113,117 for 2007.

**D. OPERS Retirement Board Implements its Health Care Preservation Plan**

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on

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 2009 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.



# Mary Taylor, CPA

Auditor of State

## 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 basic financial statements of Southwest Regional Water District, Butler County, Ohio (the District), as of and for the year ended December 31, 2009, and have issued our report thereon dated July 6, 2010. 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 deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements 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 would not necessarily identify all deficiencies in internal control 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2009-001 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated July 6, 2010.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

July 6, 2010



**SOUTHWEST REGIONAL WATER DISTRICT  
BUTLER COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-001**

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should ensure that accounting records are properly designed and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The following weaknesses were noted:

The District completed monthly bank reconciliations. However, the District reported an unreconciled difference each month throughout 2009. The monthly unreconciled difference varied from (\$26,249) at July 31, 2009 to \$28,177 at December 31, 2009.

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. District officials rely on accurate reconciliations to make sound financial decisions. We recommend that the District document correct reconciling items on the monthly bank reconciliations. Unreconciled differences should be investigated and adjusted, if necessary.

The District carried the same unreconciled difference (\$13,415) on the January, February, and March 2010 bank reconciliations. The District posted an adjustment of \$13,415 to the accounting system in April 2010 to eliminate this difference.

We recommend the Board approve the adjustment to eliminate the difference.

**Officials' Response:**

The District has adjusted and reconciled the difference in its monthly bank reconciliation, as noted in the finding. After the adjustment to the March 2010 bank reconciliation, there have been no unreconciled differences for the months of April and May 2010. Any future unreconciled differences will be investigated promptly and adjusted as necessary.





**Mary Taylor, CPA**  
Auditor of State

**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  
JULY 27, 2010**