

**SOUTHWEST REGIONAL WATER DISTRICT**

Financial Statements

December 31, 2001 and 2000

With

INDEPENDENT AUDITORS' REPORT





STATE OF OHIO  
OFFICE OF THE AUDITOR

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Board of Trustees  
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 Hart & Gersbach, Inc. CPAs, for the audit period January 1, 2001 through December 31, 2001. 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 black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

June 26, 2002

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SOUTHWEST REGIONAL WATER DISTRICT

For the years ended December 31, 2001 and 2000

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Hart & Gersbach, Inc., CPA's  
3377 Compton Road, Suite 110 - Cincinnati, Ohio 45251

The Board of Trustees  
Southwest Regional Water District

**INDEPENDENT AUDITORS' REPORT**

We have audited the financial statements of the Southwest Regional Water District as of and for the years ended December 31, 2001 and 2000, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2001 and 2000, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated February 23, 2002 on our consideration of the Southwest Regional Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Hart & Gersbach

February 23, 2002

SOUTHWEST REGIONAL WATER DISTRICT  
Balance Sheets  
December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<u>Current assets</u>		
Cash and cash equivalents (Note 1)	\$ 1,245,825	2,117,226
Accounts receivable, net of allowance for doubtful receivables of \$30,475 in 2001 and \$25,318 in 2000 (Note 1)	775,802	778,228
Accrued interest receivable	1,307	8,262
Inventories (Note 1)	356,820	289,172
Prepaid expenses (Note 1)	<u>31,752</u>	<u>21,363</u>
 Total current assets	 <u>2,411,506</u>	 <u>3,214,251</u>
 Special assessment receivable Noncurrent	 <u>5,338,231</u>	 <u>5,617,545</u>
<u>Restricted assets</u>		
Cash - debt reserve	2,511,828	2,422,828
Cash - construction	<u>51,844</u>	<u>25,568</u>
 Total restricted assets	 <u>2,563,672</u>	 <u>2,448,396</u>
<u>Property, plant and equipment - at cost (Note 1)</u>		
In service:		
Water, production, treatment, and distribution systems	42,456,191	43,107,702
Land, building, and equipment	<u>3,655,697</u>	<u>4,022,487</u>
 Total in service	 46,111,888	 47,130,189
 Less accumulated depreciation	 <u>(10,368,248)</u>	 <u>(10,448,305)</u>
 Net in service	 35,743,640	 36,681,884
Construction work in progress	<u>1,855,959</u>	<u>204,420</u>
 Total property, plant and equipment	 <u>37,599,599</u>	 <u>36,886,304</u>
<u>Other assets</u>		
Deferred charges (Note 1)	<u>429,815</u>	<u>583,668</u>
 Total assets	 <u>\$ 48,342,823</u>	 <u>48,750,164</u>

## SOUTHWEST REGIONAL WATER DISTRICT

## Balance Sheets

December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<u>Current liabilities</u>		
Current maturities of long-term obligations (Note 3)	\$ 928,006	888,471
Short term bond anticipation (Note 2)	675,000	-
Accounts payable	82,226	70,419
Accrued liabilities	66,734	82,348
Tenants' deposits	35,959	36,169
Accrued interest	<u>261,383</u>	<u>272,439</u>
 Total current liabilities	 <u>2,049,308</u>	 <u>1,349,846</u>
<u>Deferred credit</u>		
Customer advances for construction	<u>193,544</u>	<u>165,044</u>
<u>Long-term liabilities</u>		
Long-term obligations, less current maturities (Note 3)	<u>25,245,155</u>	<u>26,173,479</u>
 Total liabilities	 <u>27,488,007</u>	 <u>27,688,369</u>
<u>Equity</u>		
Paid in capital	<u>116,394</u>	<u>116,394</u>
Contributions in aid of construction (Note 1)	<u>10,814,555</u>	<u>10,799,176</u>
Retained earnings (Notes 1 & 4)		
Restricted	1,090,519	1,064,018
Unrestricted	<u>8,833,348</u>	<u>9,082,207</u>
Total retained earnings	<u>9,923,867</u>	<u>10,146,225</u>
 Total equity	 <u>20,854,816</u>	 <u>21,061,795</u>
 Total liabilities and equity	 <u>\$48,342,823</u>	 <u>48,750,164</u>



SOUTHWEST REGIONAL WATER DISTRICT

Statements of Revenues and Expenses

For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<u>Operating revenues</u>		
Metered water sales to customers (Note 1)	\$ 5,014,038	4,998,109
Other operating revenue:		
Sales of new taps	674,743	667,778
Penalties	122,064	129,361
Miscellaneous	38,026	10,401
	<u>5,848,871</u>	<u>5,805,649</u>
<u>Operating expenses</u>		
Operations	3,002,106	2,854,170
Maintenance	694,544	639,233
Depreciation	1,239,419	1,172,333
	<u>4,936,069</u>	<u>4,665,736</u>
Excess of operating revenues over expenses	<u>912,802</u>	<u>1,139,913</u>
<u>Non-operating revenue(expense)</u>		
Interest income	198,248	489,734
Interest expense, net of capitalized interest of \$0 in 2001 and \$ 88,317 in 2000.	<u>(1,333,408)</u>	<u>(1,471,660)</u>
Total non-operating revenue(expense)	<u>(1,135,160)</u>	<u>(981,926)</u>
Excess(Deficit) of revenues over expenses	<u>\$ (222,358)</u>	<u>157,987</u>

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Retained Earnings

For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<u>Restricted (Note 4)</u>		
Balance at beginning of year	\$ 1,064,018	1,043,959
Transfer from unrestricted earnings	<u>26,501</u>	<u>20,059</u>
	<u>1,090,519</u>	<u>1,064,018</u>
<u>Unrestricted</u>		
Balance at beginning of year	<u>9,082,207</u>	<u>8,944,279</u>
Appropriation to restricted retained earnings	(26,501)	(20,059)
Excess(deficit) of revenues over expenses	<u>(222,358)</u>	<u>157,987</u>
Balance at end of year	<u>8,833,348</u>	<u>9,082,207</u>
Retained earnings at end of year	<u>\$ 9,923,867</u>	<u>10,146,225</u>

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Cash Flows

For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating Income	\$ 912,802	1,139,913
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,239,419	1,172,333
Amortization	153,853	153,853
Changes in operating assets and liabilities:		
Accounts receivable	2,426	(56,088)
Accrued interest receivable	6,955	716
Inventories	(67,648)	29,453
Prepaid expenses	(10,389)	5,603
Accounts payable	11,807	(40,247)
Accrued liabilities	(15,614)	7,183
Tenants' deposits	(210)	303
Accrued interest payable	(11,056)	(34,866)
Customer advances	28,500	(5,326)
Net cash provided by operating activities	2,250,845	2,372,830
Cash flows from investing activities:		
Purchase/construction of property, plant, equipment	(301,175)	(9,022,032)
(Increase)decrease in construction in progress	(1,651,539)	7,638,667
(Increase)decrease in special assessment accounts receivable non-current	279,314	(387,000)
Increase(decrease) in contributions in aid of construction	15,379	1,231,938
Interest income	198,248	489,734
Interest expense	(1,333,408)	(1,471,660)
Net cash (used) by investing activities	(2,793,181)	(1,520,353)
Cash flows from capital and related financing activities:		
Proceeds from borrowings	675,000	610,000
Payments on borrowings	(888,789)	(1,229,655)
Cash - restricted - (increase)decrease	(115,276)	692,335
Net cash provided(used) by capital and related financing activities	(329,065)	72,680

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Cash Flows (Continued)

For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Net increase(decrease) in cash	(871,401)	925,157
Cash and cash equivalents - beginning of year	<u>2,117,226</u>	<u>1,192,069</u>
Cash and cash equivalents - end of year	<u>\$ 1,245,825</u>	<u>2,117,226</u>
Supplemental disclosure of cash flows:		
Cash paid during the period for:		
Interest on borrowed money	<u>\$ 1,344,464</u>	<u>1,506,526</u>

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Earnings  
Budget and Actual

For the year ended December 31, 2001  
(Prior year presented for comparative purposes only)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual 2000</u>
<u>Operating revenues</u>				
Metered water sales to customers (Note 1j)	\$ 5,250,000	5,014,038	(235,962)	4,998,109
Other operating revenue:				
Sales of new taps	840,300	674,743	(165,557)	667,778
Penalties	-	122,064	122,064	129,361
Miscellaneous	<u>500</u>	<u>38,026</u>	<u>37,526</u>	<u>10,401</u>
Total operating revenues	<u>6,090,800</u>	<u>5,848,871</u>	<u>(241,929)</u>	<u>5,805,649</u>
<u>Operating expenses</u>				
Operations	3,201,080	3,002,106	198,974	2,854,170
Maintenance	657,040	694,544	(37,504)	639,233
Depreciation	<u>1,323,380</u>	<u>1,239,419</u>	<u>83,961</u>	<u>1,172,333</u>
Total operating expenses	<u>5,181,500</u>	<u>4,936,069</u>	<u>245,431</u>	<u>4,665,736</u>
Excess of operating revenues over expenses	<u>909,300</u>	<u>912,802</u>	<u>3,502</u>	<u>1,139,913</u>
<u>Non-operating revenue(expense)</u>				
Interest income	248,100	198,248	(49,852)	489,734
Interest expense, net of capitalized interest of \$0 in 2001 and \$88,317 in 2000.	<u>(1,144,665)</u>	<u>(1,333,408)</u>	<u>(188,743)</u>	<u>(1,471,660)</u>
Total non-operating revenue(expense)	<u>(896,565)</u>	<u>(1,135,160)</u>	<u>(238,595)</u>	<u>(981,926)</u>
Excess of revenues over expenses	<u>\$ 12,735</u>	<u>(222,358)</u>	<u>(235,093)</u>	<u>157,987</u>

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Earnings  
Budget and Actual

For the year ended December 31, 2000  
(Prior year presented for comparative purposes only)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual 1999</u>
<u>Operating revenues</u>				
Metered water sales to customers (Note 1i)	\$ 5,478,000	4,998,109	(479,891)	5,119,275
Other operating revenue:				
Sales of new taps	826,100	667,778	(158,322)	1,185,063
Penalties	-	129,361	129,361	110,627
Miscellaneous	<u>500</u>	<u>10,401</u>	<u>9,901</u>	<u>5,720</u>
Total operating revenues	<u>6,304,600</u>	<u>5,805,649</u>	<u>(498,951)</u>	<u>6,420,685</u>
<u>Operating expenses</u>				
Operations	2,818,710	2,854,170	(35,460)	2,761,427
Maintenance	613,830	639,233	(25,403)	581,874
Depreciation	<u>1,216,220</u>	<u>1,172,333</u>	<u>43,887</u>	<u>1,030,280</u>
Total operating expenses	<u>4,648,760</u>	<u>4,665,736</u>	<u>(16,976)</u>	<u>4,373,581</u>
Excess of operating revenues over expenses	<u>1,655,840</u>	<u>1,139,913</u>	<u>(515,927)</u>	<u>2,047,104</u>
<u>Non-operating revenue(expense)</u>				
Interest income	170,000	489,734	319,734	225,414
Gain on sale of assets	-	-	-	11,679
Interest expense, net of capitalized interest of \$88,317 in 2000 and \$91,009 in 2000.	<u>(1,409,004)</u>	<u>(1,471,660)</u>	<u>(62,656)</u>	<u>(1,129,812)</u>
Total non-operating revenue(expense)	<u>(1,239,004)</u>	<u>(981,926)</u>	<u>257,078</u>	<u>(892,719)</u>
Excess of revenues over expenses	<u>\$ 416,836</u>	<u>157,987</u>	<u>(258,849)</u>	<u>1,154,385</u>

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements

December 31, 2001 and 2000

(1) Summary of Significant Accounting Policies

Effective September 1, 1992, the Southwest Regional Water District was approved by the Court of Common Pleas of Butler County, Ohio, as a regional water district under Chapter 6119 of the Ohio Revised Code and became a unit of state government known as the Southwest Regional Water District.

During the year ended December 31, 2001 the District converted from its manual system of accounting for fixed assets and depreciation to an automated computerized system. During the conversion process, errors were noted in the manual system where asset disposals were not recorded and certain assets had depreciation expense for amounts greater than their cost. These items have been accounted for as a correction of an error. Prior years net fixed assets and retained earnings have been increased \$396,895 to correct the error. There was no significant effect on the income statements for the years ended December 31, 2001 and 2000.

The financial statements of the Southwest Regional Water District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

(a) Purpose

The Southwest Regional Water District was organized for the purpose of acquiring, constructing and maintaining a system of wells, pipelines, plants and facilities for the transportation, storage, delivery and sale of water to its customers.

(b) Fund Accounting

The District is a single entity and accordingly uses a single fund to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts.

The District is considered a proprietary fund which is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e. net assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2001 and 2000

(1) Summary of Significant Accounting Policies (Continued)

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and other time deposits in financial institutions with initial maturities of less than three months. Included in cash and cash equivalents is the debt service account. The debt service account is used to segregate resources accumulated for debt service payments over the next twelve months.

The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (DC). As allowed by law, the depository bank should pledge securities along with DC insurance at least equal to the amount on deposit at all times.

As of December 31, 2001 the depository bank had securities pledged to fully collateralize the bank balance. Uninsured deposits held by trust departments or agents in the District's name totaled \$2,563,672 as of December 31, 2001.

(d) Cash - Restricted

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 debt reserve account is used to create a reserve for assuring payment of future principal and interest.

The cash - construction account represents amounts restricted for specific construction projects.

(e) Accounts Receivable

Accounts receivable are reported net of the estimated portion that is expected to be uncollectible.

(f) Inventories

Inventories are stated at the lower of average cost or market.

(g) Prepaid Expenses

Prepaid expenses are payments made to vendors for services that will benefit periods beyond December 31, 2001.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at original cost. Beginning in 1978, the District adopted the policy of including payroll cost, related overhead expenses, and interest expense related to the construction of such facilities as part of cost. Prior to 1978, such costs were expensed as incurred.



SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2001 and 2000

(1) Summary of Significant Accounting Policies (Continued)

(i) Deferred Charges

Deferred charges represent significant preventive maintenance painting costs incurred for the District's water towers. The costs are being amortized to expense over seven years.

(j) Contribution in Aid of Construction

Many of the water lines serviced by the District were originally constructed by other parties and then turned over to the District. Beginning in 1979, the District adopted the policy of capitalizing the cost of such lines with an offsetting amount being credited to Contribution in Aid of Construction.

The District has constructed several water projects using special assessment bond agreements. The bonds and related interest are paid by property tax assessments of the owners benefiting from the water services provided.

The amounts receivable under the agreement are recorded as special assessment accounts receivable and credited to Contribution in Aid of Construction.

(k) Depreciation

The District provides for depreciation of property, plant and equipment using annual rates which are sufficient to amortize the cost of depreciable assets over their estimated useful lives which range from two to forty years. The District uses the straight-line method of depreciation.

(l) Metered Water Sales

Metered water sales are billed at month-end and are included in revenues based upon meter readings or, in certain circumstances, estimates based on historical usage.

(m) Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted and continue in effect until a new budget is adopted. Project-length financial plans are adopted for all capital expenditure projects.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2001 and 2000

(n) Financial Reporting

As a proprietary fund the District applies all Governmental Accounting Standards Board (GASB) pronouncements (including all National Council on Government Accounting (CA) Statements and Interpretations currently in effect) as well as: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research bulletins (ARB's) of the Committee on Accounting Procedure issued prior to November 30, 1989. The District applies all FASB Statements and Interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements or are not developed for business enterprise.

(o) Compensated Absences

The District does not have any significant compensated absences.

(p) Risk Management Activities

Commercial insurance is the primary vehicle the District uses to reduce its risk to a reasonable level. Coverages include all above ground structures, fleet vehicles and various liability policies. The District has also initiated additional security measures in light of the September 11, 2001 terrorist attack.

The District does not retain any significant amount of risk and does not participate in any public entity risk pools.

(q) Post Employment Retirement Benefits

There are no post employment retirement benefits.

(r) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Short Term Bond Anticipation Note

During 2001, the District borrowed \$675,000 in anticipation of issuing special assessment bonds to permanently finance the construction of public water facilities. The note has an interest rate of 2.50% and will mature on October 3, 2002.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2001 and 2000

(3) Long-Term Obligations

Long-term obligations consist of:

USDA, Rural Development Bonds

	<u>2001</u>	<u>2000</u>
Bonds #91-01 dated November 9, 1994 (interest at 5%), payable in annual principal and interest installments of \$235,634; due November 24, 2009.	\$ 1,522,951	1,674,843
Bonds #91-02, dated November 9, 1994 (interest at 5%), payable in annual principal and interest installments of \$24,643; due August 22, 2015	243,931	255,785
Bonds #91-03, dated November 9, 1994 (interest at 5%), payable in annual principal and interest installments of \$101,968 due May 3, 2018	1,149,433	1,191,965
Bonds #91-04, dated November 9, 1994 (interest at 5%), payable in annual principal and interest installments of \$89,255 due May 3, 2018	1,006,128	1,043,358
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>2,887,277</u>	<u>2,924,558</u>
Total USDA	<u>6,809,720</u>	<u>7,090,509</u>

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
(3) <u>Long-Term Obligations (Continued)</u>		
Special Assessment Water Line Extension Bond-Series 1994	115,000	120,000
Revenue Bonds - Series 1995	12,990,000	13,375,000
Special Assessment Water Line Extension Bond-Series 1996	835,000	870,000
Special Assessment Water Line Extension Bond -Series 1997	86,000	89,000
Special Assessment Water Line Extension Bond -Series 1999	4,685,000	4,845,000
Special Assessment Water System Improvement Bond -Series 2000	590,000	610,000
Advance note payable to State of Ohio	62,441	62,441
Total debt	26,173,161	27,061,950
Less current maturities	(928,006)	(888,471)
Total long-term obligations	\$ 25,245,155	26,173,479

As of December 31, 2001, the maturities of long-term debt for the five years ending December 31, were as follows:

2002	\$	928,006
2003		979,303
2004		1,025,396
2005		1,082,333
2006		1,135,156
Thereafter		21,022,967
Total		\$ 26,173,161

The notes payable, to the USDA Rural Development, are all promissory bonds, secured by pledges of the District's revenues. During 1994, water revenue refunding bonds were issued to the USDA to refund previously issued notes. The terms of the bonds are substantially the same as the notes previously issued.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2001 and 2000

(3) Long-Term Obligations (Continued)

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.

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 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 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 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.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2001 and 2000

(3) Long-Term Obligations (Continued)

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.

(4) Retained Earnings

The District has appropriated \$1,090,519 as of December 31, 2001 from its retained earnings balance to comply with USDA Rural Development requirements to establish a reserve account as outlined in Note 3.

(5) Pension Plan

With the conversion, effective September 1, 1992, to a water district, employees must participate in the Public Employees Retirement System of Ohio (PERS). The District incurred pension expense of \$222,277 and \$208,909 in 2001 and 2000 under the PERS plan, respectively.

Membership in the retirement system is compulsory for all employees and Board members (who receive compensation other than fees or expenses) of the District, regardless of the number of hours worked, unless they are excluded by regulation.

The Ohio statute requires a total contribution of 13.55% of covered payroll to the plan. The statute requires an employee contribution of 8.55%. For the employee portion, the District contributes 5%, 7% or 8% of covered payroll for various classes of employees. The remaining portion is paid by the District.

(6) Compliance with Laws and Regulations

Actual expenditures for operating maintenance expenditures exceeded the budgeted amount by \$37,504. Accordingly the District was in non-compliance with the Ohio Compliance Supplement of legal and regulatory requirements for restrictions on appropriations and expenditures of money.

The non-compliance is not expected to have a negative effect on the operations and financial condition of the District.

(7) Reclassification

Certain amounts have been reclassified to conform to the 2001 presentation.

Hart & Gersbach, Inc., CPA's  
3377 Compton Road, Suite 110 - Cincinnati, Ohio 45251

Board of Trustees  
Southwest Regional Water District

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION**

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole of the Southwest Regional Water District for the years ended December 31, 2001 and 2000 which is presented in the preceding section of this report. The supplemental information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hart & Gersbach

February 23, 2002

SOUTHWEST REGIONAL WATER DISTRICT

Schedule of Deductions From Operating Revenue  
Operations

For the year ended December 31, 2001

	Source of Supply	Pumping	Treatment	Transmission and Distribution	Customer Account	Administrative and General	2001	2000
Operations								
Labor and wages:								
Administrators	\$ -	-	-	-	-	75,237	75,237	73,562
Supervision	-	-	-	67,895	38,048	-	105,943	100,627
Operations	2,094	67,009	310,579	368,608	-	-	748,290	685,118
Ground care	-	400	-	-	-	-	400	-
Meter reading	-	-	-	-	44,265	-	44,265	36,769
Office and bookkeeping	-	-	-	-	112,659	114,846	227,505	233,896
Payroll tax and benefits	-	-	-	-	75,022	105,598	578,424	587,631
Purchased water	26,121	-	115,849	254,370	-	-	26,121	26,299
Purchased power and other utilities	-	124,715	110,330	108,781	-	40,339	384,165	372,291
Chemicals and salt	-	-	252,826	-	-	-	252,826	165,033
Rents	-	-	-	265	-	-	265	465
Outside services:								
Accounting	-	-	-	-	-	7,800	7,800	7,500
Legal and engineering	-	-	-	-	-	30,941	30,941	31,512
Property insurance	-	-	-	-	-	61,483	61,483	73,688
Office supplies	-	-	-	-	-	37,635	37,635	39,055
Miscellaneous - operating	27,511	23,193	75,756	111,658	127,005	41,289	406,412	383,341
Expenses transferred	-	-	-	-	-	(29,988)	(29,988)	(28,968)
Safety operations	-	-	-	-	-	7,647	7,647	9,379
Annual meeting	-	-	-	-	-	12,356	12,356	14,547
Christmas	-	-	-	-	-	369	369	1,868
Board fees, miscellaneous	-	-	-	-	-	19,237	19,237	15,216
Convention	-	-	-	-	-	4,773	4,773	25,341
Total operations	\$ 55,726	242,902	865,340	911,577	396,999	529,562	3,002,106	2,854,170



SOUTHWEST REGIONAL WATER DISTRICT

Schedule of Deductions From Operating Revenue  
Maintenance and Depreciation

For the year ended December 31, 2001

	<u>Source of Supply</u>	<u>Pumping</u>	<u>Water Treatment</u>	<u>Transmission and Distribution</u>	<u>Administrative and General</u>	<u>2001</u>	<u>Totals</u> <u>2000</u>
<u>Maintenance</u>							
Labor and wages:							
Repair and maintenance	\$ -	-	-	91,565	33,032	124,597	111,126
Supervision	-	-	-	87,729	-	87,729	80,633
Distribution mains	-	-	-	153,853	-	153,853	153,853
Maintenance of equipment	-	4,872	6,308	-	-	11,180	3,889
Maintenance of general plant	-	-	-	-	76,203	76,203	59,907
Miscellaneous repairs	-	26,395	16,761	197,827	-	240,983	229,825
	<u>\$ -</u>	<u>31,267</u>	<u>23,069</u>	<u>530,974</u>	<u>109,235</u>	<u>694,545</u>	<u>639,233</u>
Total maintenance expense							
<u>Depreciation</u>							
Depreciation	24,375	-	-	1,215,044	-	1,239,419	1,172,333
Total depreciation	<u>\$ 24,375</u>	<u>-</u>	<u>-</u>	<u>1,215,044</u>	<u>-</u>	<u>1,239,419</u>	<u>1,172,333</u>

Hart & Gersbach, Inc., CPA's  
3377 Compton Road, Suite 110 - Cincinnati, Ohio 45251

The Board of Trustees  
Southwest Regional Water District

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

We have audited the financial statements of the Southwest Regional Water District as of and for the year ended December 31, 2001, and have issued our report thereon dated February 23, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether Southwest Regional Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Southwest Regional Water District's for the year ended December 31, 2001, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Internal Control Over Financial Reporting (Continued)

A material weakness is a reportable 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 errors or fraud in amounts that would be material in relation to the 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.

Our considerations of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be the material weaknesses as defined above. However, we noted the following reportable condition that we believe to be material weaknesses:

The detail fixed asset and accumulated depreciation records were not being reconciled to the general ledger accounts in a timely manner. When reconciled, errors discovered resulted in a restatement of prior year financial statements.

Actual expenditures exceeded the budgeted amount for operating maintenance expense. Accordingly the District was not in compliance with the budget provision of the Ohio Compliance Supplement laws and regulations.

However, we noted other matters involving the internal control over financial reporting, which we have reported to management in a separate letter dated February 23, 2002.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hart & Gersbach

February 23, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**SOUTHWEST REGIONAL WATER DISTRICT**

**BUTLER COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 16, 2002**