

SOUTHWEST REGIONAL WATER DISTRICT

Financial Statements

December 31, 2002 and 2001

With

INDEPENDENT AUDITORS' REPORT



**Auditor of State
Betty Montgomery**

Board of Trustees
Southwest Regional Water District
Hamilton, Ohio

We have reviewed the Independent Auditor's Report of the Southwest Regional Water District, Butler County, prepared by Hart & Gersbach, Inc., for the audit period January 1, 2002 through December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 15, 2003

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SOUTHWEST REGIONAL WATER DISTRICT

For the years ended December 31, 2002 and 2001

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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, 2002 and 2001, 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, 2002 and 2001, 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 14, 2003 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, Inc

February 14, 2003

SOUTHWEST REGIONAL WATER DISTRICT

Balance Sheets
December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Current assets</u>		
Cash and cash equivalents (Note 1)	\$ 2,376,940	1,245,825
Accounts receivable, net of allowance for doubtful receivables of \$30,475 in 2002 and \$30,475 in 2001 (Note 1)	902,382	775,802
Accrued interest receivable	803	1,307
Inventories (Note 1)	395,006	356,820
Prepaid expenses (Note 1)	<u>35,257</u>	<u>31,752</u>
 Total current assets	 <u>3,710,388</u>	 <u>2,411,506</u>
 Special assessment receivable Noncurrent	 <u>5,805,866</u>	 <u>5,338,231</u>
<u>Restricted assets</u>		
Cash - debt reserve	2,181,846	2,511,828
Cash - construction	<u>25,000</u>	<u>51,844</u>
 Total restricted assets	 <u>2,206,846</u>	 <u>2,563,672</u>
<u>Property, plant and equipment - at cost (Note 1)</u>		
In service:		
Water, production, treatment, and distribution systems	45,710,735	42,456,191
Land, building, and equipment	<u>3,943,591</u>	<u>3,655,697</u>
 Total in service	 49,654,326	 46,111,888
 Less accumulated depreciation	 <u>(11,655,272)</u>	 <u>(10,368,248)</u>
 Net in service	 37,999,054	 35,743,640
Construction work in progress	<u>188,415</u>	<u>1,855,959</u>
 Total property, plant and equipment	 <u>38,187,469</u>	 <u>37,599,599</u>
<u>Other assets</u>		
Deferred charges (Note 1)	<u>281,488</u>	<u>429,815</u>
 Total assets	 <u>\$ 50,192,057</u>	 <u>48,342,823</u>

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

SOUTHWEST REGIONAL WATER DISTRICT

Balance Sheets

December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Current liabilities</u>		
Current maturities of long-term obligations (Note 3)	\$ 1,004,303	928,006
Short term bond anticipation (Note 2)	-	675,000
Accounts payable	75,550	82,226
Accrued liabilities	78,214	66,734
Tenants' deposits	37,093	35,959
Accrued interest	<u>254,477</u>	<u>261,383</u>
 Total current liabilities	 <u>1,449,637</u>	 <u>2,049,308</u>
<u>Deferred credit</u>		
Customer advances for construction	<u>123,494</u>	<u>193,544</u>
<u>Long-term liabilities</u>		
Long-term obligations, less current maturities (Note 3)	<u>25,006,172</u>	<u>25,245,155</u>
 Total liabilities	 <u>26,579,303</u>	 <u>27,488,007</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>10,814,555</u>
Retained earnings (Notes 1 & 4)		
Restricted	1,093,361	1,090,519
Unrestricted	<u>11,588,444</u>	<u>8,833,348</u>
Total retained earnings	<u>12,681,805</u>	<u>9,923,867</u>
 Total equity	 <u>23,612,754</u>	 <u>20,854,816</u>
 Total liabilities and equity	 <u>\$ 50,192,057</u>	 <u>48,342,823</u>

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Revenues and Expenses

For the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Operating revenues</u>		
Metered water sales to customers (Note 1)	\$ 5,684,345	5,014,038
Other operating revenue:		
Sales of new taps	1,281,712	674,743
Penalties	146,545	122,064
Miscellaneous	13,803	38,026
	<hr/>	<hr/>
Total operating revenues	7,126,405	5,848,871
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<u>Operating expenses</u>		
Operations	3,025,123	2,989,430
Maintenance	705,700	707,220
Depreciation	1,287,024	1,239,419
	<hr/>	<hr/>
Total operating expenses	5,017,847	4,936,069
	<hr/>	<hr/>
Excess of operating revenues over expenses	2,108,558	912,802
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<u>Non-operating revenue(expense)</u>		
Grant revenue	1,147,785	-
Owner/developer contribution in aid	51,977	-
Special assessment revenue	600,046	-
Interest income	328,355	198,248
Interest expense, net of capitalized interest of \$0 in 2002 and \$ 88,317 in 2001.	(1,478,783)	(1,333,408)
	<hr/>	<hr/>
Total non-operating revenue(expense)	649,380	(1,135,160)
	<hr/>	<hr/>
Excess(Deficit) of revenues over expenses	\$ 2,757,938	(222,358)
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SOUTHWEST REGIONAL WATER DISTRICT

Statements of Retained Earnings

For the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Restricted (Note 4)</u>		
Balance at beginning of year	\$ 1,090,519	1,064,018
Transfer from unrestricted earnings	<u>2,842</u>	<u>26,501</u>
	<u>1,093,361</u>	<u>1,090,519</u>
 <u>Unrestricted</u>		
Balance at beginning of year	<u>8,833,348</u>	<u>9,082,207</u>
Appropriation to restricted retained earnings	(2,842)	(26,501)
Excess(deficit) of revenues over expenses	<u>2,757,938</u>	<u>222,358</u>
Balance at end of year	<u>11,588,444</u>	<u>8,833,348</u>
Retained earnings at end of year	<u>\$ 12,681,805</u>	<u>9,923,867</u>

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Cash Flows

For the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Operating Income	\$ 2,108,558	912,802
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,287,024	1,239,419
Amortization	148,327	153,853
Changes in operating assets and liabilities:		
Accounts receivable	(126,580)	2,426
Accrued interest receivable	504	6,955
Inventories	(38,186)	(67,648)
Prepaid expenses	(3,505)	(10,389)
Accounts payable	(6,676)	11,807
Accrued liabilities	11,480	(15,614)
Tenants' deposits	1,134	(210)
Accrued interest payable	(6,906)	(11,056)
Customer advances	(70,050)	28,500
Net cash provided by operating activities	<u>3,305,124</u>	<u>2,250,845</u>
Cash flows from investing activities:		
Purchase/construction of property, plant, equipment	(3,542,438)	(301,175)
(Increase)decrease in construction in progress	1,667,544	(1,651,539)
(Increase)decrease in special assessment accounts receivable non-current	(467,635)	279,314
Grant, special assessments and owner/developer revenues	1,799,808	15,379
Interest income	328,355	198,248
Interest expense	(1,478,783)	(1,333,408)
Net cash (used) by investing activities	<u>(1,693,149)</u>	<u>(2,793,181)</u>
Cash flows from capital and related financing activities:		
Proceeds from borrowings	765,000	675,000
Payments on borrowings	(1,602,686)	(888,789)
Cash - restricted - (increase)decrease	<u>356,826</u>	<u>(115,276)</u>
Net cash provided(used) by capital and related financing activities	<u>(480,860)</u>	<u>(329,065)</u>

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Cash Flows (Continued)

For the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Net increase(decrease) in cash	1,131,115	(871,401)
Cash and cash equivalents - beginning of year	<u>1,245,825</u>	<u>2,117,226</u>
Cash and cash equivalents - end of year	<u>\$ 2,376,940</u>	<u>1,245,825</u>
Supplemental disclosure of cash flows:		
Cash paid during the period for:		
Interest on borrowed money	<u>\$ 1,485,689</u>	<u>1,344,464</u>

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Earnings
Budget and Actual

For the year ended December 31, 2002
(Prior year presented for comparative purposes only)

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Actual 2001</u>
<u>Operating revenues</u>				
Metered water sales to customers (Note 1j)	\$ 5,610,800	5,684,345	73,545	5,014,038
Other operating revenue:				
Sales of new taps	1,100,600	1,281,712	181,112	674,743
Penalties	-	146,545	146,545	122,064
Miscellaneous	500	13,803	13,303	38,026
	<u>6,711,900</u>	<u>7,126,405</u>	<u>414,505</u>	<u>5,848,871</u>
Total operating revenues				
<u>Operating expenses</u>				
Operations	3,061,716	3,025,123	36,593	2,989,430
Maintenance	723,320	705,700	17,620	707,220
Depreciation	1,319,380	1,287,024	32,356	1,239,419
	<u>5,104,416</u>	<u>5,017,847</u>	<u>86,569</u>	<u>4,936,069</u>
Total operating expenses				
Excess of operating revenues over expenses	<u>1,607,484</u>	<u>2,108,558</u>	<u>501,074</u>	<u>912,802</u>
<u>Non-operating revenue(expense)</u>				
Interest income	278,500	328,355	49,855	198,248
Grant revenue	-	1,147,785	1,147,785	-
Owner/developer				
Contribution in aid	-	51,977	51,977	-
Special assessment revenue	-	600,046	600,046	-
Interest expense, net of capitalized interest of \$0 in 2002 and \$88,317 in 2001.	(1,481,140)	(1,478,783)	2,357	(1,333,408)
	<u>(1,202,640)</u>	<u>649,380</u>	<u>1,852,020</u>	<u>(1,135,160)</u>
Total non-operating revenue(expense)				
Excess of revenues over expenses	<u>\$ 404,844</u>	<u>2,757,938</u>	<u>2,353,094</u>	<u>(222,358)</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 1i)	\$ 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	500	38,026	37,526	10,401
	<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	2,989,430	211,650	2,854,170
Maintenance	657,040	707,220	(50,180)	639,233
Depreciation	1,323,380	1,239,419	83,961	1,172,333
	<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
Gain on sale of assets	-	-	-	-
Interest expense, net of capitalized interest of \$88,317 in 2001 and \$91,009 in 2001.	(1,144,665)	(1,333,408)	(188,743)	(1,471,660)
	<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

Notes to the Financial Statements

December 31, 2002 and 2001

(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, 2002 the District adopted Governmental Standards Board (GASB) Statement No. 33 "Accounting and Reporting for Nonexchange Transactions". The Statement requires grant revenue, special assessment revenue and owner/developer contributions to be reported as revenues in the statement of earnings rather than as an increase in contributions in aid of construction in the balance sheet. The amount of these revenues is reported in the Non-Operating Revenue (Expense) section of the Statement of Earnings.

The effect of adopting the change increased the excess of revenues over expenses by \$1,799,808 for the year ended December 31, 2002. The effect for the year ended December 31, 2001 was not significant.

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 (net assets) is segregated into contributed capital (prior to January 1, 2002) 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, 2002 and 2001

(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, 2002 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, 2002.

(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, 2002.

(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, 2002 and 2001

(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. Prior to January 1, 2002 the District followed 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 and grants from various entities. The bonds and related interest are paid by property tax assessments of the owners benefiting from the water services provided.

Prior to January 1, 2002 the amounts receivable under the agreements and the grant receipts were credited to Contribution in Aid of Construction.

As of January 1, 2002 the District adopted GASB No. 33 and all such amounts are recorded as non operating revenues in the statement of earnings.

(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 projects funds.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2002 and 2001

(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 purchased terrorism insurance coverage in February, 2003.

The District is required to compile a vulnerability assessment of its water system by the Ohio E.P.A. by year end 2004.

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

Post employment retirement benefits are disclosed in Note 6.

(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 had an interest rate of 2.50% and matured on October 3, 2002.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2002 and 2001

(3) Long-Term Obligations

Long-term obligations consist of:

USDA, Rural Development Bonds

	<u>2002</u>	<u>2001</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.	\$ 1,363,465	1,522,951
Bonds #91-02, dated November 9, 1994 (interest at 5%), payable in annual principal and interest installments of \$24,643; due August 22, 2015	231,486	243,931
Bonds #91-03, dated November 9, 1994 (interest at 5%), payable in annual principal and interest installments of \$101,968 due May 3, 2018	1,105,107	1,149,433
Bonds #91-04, dated November 9, 1994 (interest at 5%), payable in annual principal and interest installments of \$89,255 due May 3, 2018	967,330	1,006,128
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>2,847,646</u>	<u>2,887,277</u>
Total USDA	<u>6,515,034</u>	<u>6,809,720</u>

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>(3) Long-Term Obligations (Continued)</u>		
Special Assessment Water Line Extension Bond-Series 1994	110,000	115,000
Revenue Bonds - Series 1995	12,590,000	12,990,000
Special Assessment Water Line Extension Bond-Series 1996	800,000	835,000
Special Assessment Water Line Extension Bond -Series 1997	83,000	86,000
Special Assessment Water Line Extension Bond -Series 1999	4,515,000	4,685,000
Special Assessment Water System Improvement Bond -Series 2000	570,000	590,000
Special Assessment Water Line Extension Bond -Series 2002	765,000	-
Advance note payable to State of Ohio	62,441	62,441
Total debt	26,010,475	26,173,161
Less current maturities	(1,004,303)	(928,006)
Total long-term obligations	\$ 25,006,172	25,245,155

As of December 31, 2002, the maturities of long-term debt for the five years ending December 31, were as follows:

2003	\$	1,004,303
2004		1,055,396
2005		1,112,333
2006		1,165,156
2007		1,229,912
Thereafter		20,443,375
Total		\$ 26,010,475

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, 2002 and 2001

(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 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.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2002 and 2001

(3) Long-Term Obligations (Continued)

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 2003 and 5.00% for 2022.

The Advance Note Payable to the State of Ohio represents an interest free advance from the Ohio Water and Sewer Rotary Commission. The purpose of the advance was to fund agricultural deferments for the Beissinger/West Elktion 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 \$1,093,361 as of December 31, 2002 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

Ohio Public Employees Retirement System (OPERS) is a cost-sharing multiple-employer defined benefit pension plan.

OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

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

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2002 and 2001

(5) Pension Plan (Continued)

The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement and public safety. The law enforcement classification consists of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%.

The 2002 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units the rate was 13.55% of covered payroll. The 2002 employer contribution rate for both the law enforcement and public safety divisions was 16.70% of covered payroll.

The District's contribution includes amounts for post employment retirement benefits, as discussed in Note 6. Total cost incurred was \$222,636 and \$222,277 in 2002 and 2001. Of the total cost, \$138,992 was for the 2002 pension plan and \$138,768 for the 2001 pension plan.

(6) Post Employment Retirement Benefits

Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for state employers was 13.31% of covered payroll of which 5.00% was the portion used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll and 5.00% was the portion used to fund health care for the year. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70% and 5.00% was used to fund health care.

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

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2002 and 2001

(6) Post Employment Retirement Benefits (Continued)

Summary of Assumptions

Actuarial Review - The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001.

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

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

Investment Return - The investment assumption rate for 2001 was 8.00%.

Active Employee Total Payroll - An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health Care - Health care costs were assumed to increase 4.00% annually.

OPEBS are Advance-Funded on an Actuarially Determined Basis

The number of active contributing participants was 402,041.

The rates stated above are the actuarially determined contribution requirements for OPERS. The District's expense for OPERS was \$83,644 for 2002 and \$83,509 for 2001.

\$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements (Continued)

December 31, 2002 and 2001

(6) Post Employment Retirement Benefits (Continued)

OPERS Board Adopts New Health Plan

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

(7) Reclassification

Certain amounts have been reclassified to conform to the 2002 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, 2002 and 2001 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, Inc

February 14, 2003

SOUTHWEST REGIONAL WATER DISTRICT

Schedule of Deductions From Operating Revenue
Operations

For the year ended December 31, 2002

	Source of Supply	Pumping	Treatment	Transmission and Distribution	Customer Account	Administrative and General	2002	2001
Operations								
Labor and wages:								
Administrators	-	-	-	-	-	78,999	78,999	75,237
Supervision	-	-	-	64,103	39,339	-	103,442	105,943
Operations	514	84,113	317,632	365,874	-	-	768,133	748,290
Ground care	-	-	-	-	-	-	-	400
Meter reading	-	-	-	-	52,932	-	52,932	44,265
Office and bookkeeping	-	-	-	-	113,774	131,095	244,869	227,505
Payroll tax and benefits	-	-	110,847	242,628	75,830	119,202	579,433	578,424
Purchased water	29,892	-	-	-	-	-	29,892	26,121
Purchased power and other utilities	-	123,386	123,314	120,295	-	37,053	404,048	384,165
Chemicals and salt	-	-	186,933	-	-	-	186,933	252,826
Rents	-	-	-	565	-	-	565	265
Outside services:								
Accounting	-	-	-	-	-	8,100	8,100	7,800
Legal and engineering	-	-	-	-	-	38,349	38,349	30,941
Property insurance	-	-	-	-	-	75,541	75,541	61,483
Office supplies	-	-	-	-	-	44,191	44,191	37,635
Miscellaneous - operating	11,605	39,433	105,625	46,979	114,937	53,584	372,163	393,736
Expenses transferred	-	-	-	-	-	(31,248)	(31,248)	(29,988)
Safety operations	-	-	-	-	-	8,343	8,343	7,647
Annual meeting	-	-	-	-	-	12,821	12,821	12,356
Christmas	-	-	-	-	-	612	612	369
Board fees, miscellaneous	-	-	-	-	-	15,291	15,291	19,237
Convention	-	-	-	-	-	31,714	31,714	4,773
Total operations	\$ 42,011	277,858	844,351	840,444	396,812	623,647	3,025,123	2,989,430

SOUTHWEST REGIONAL WATER DISTRICT

Schedule of Deductions From Operating Revenue
Maintenance and Depreciation

For the year ended December 31, 2002

	<u>Source of Supply</u>	<u>Pumping</u>	<u>Water Treatment</u>	<u>Transmission and Distribution</u>	<u>Administrative and General</u>	<u>Totals</u>
						<u>2002</u>
						<u>2001</u>
<u>Maintenance</u>						
Labor and wages:						
Repair and maintenance	\$ -	-	-	91,308	37,899	124,597
Supervision	-	-	-	102,907	-	87,729
Distribution mains	-	-	-	148,328	-	153,853
Maintenance of equipment	-	2,349	3,601	4,450	-	11,180
Maintenance of general plant	-	-	-	-	59,317	76,203
Miscellaneous repairs	-	28,157	(2,952)	230,336	-	253,658
Total maintenance expense	\$ -	<u>30,506</u>	<u>649</u>	<u>577,329</u>	<u>97,216</u>	<u>707,700</u>
<u>Depreciation</u>						
Depreciation	24,700	-	-	1,262,324	-	1,287,024
Total depreciation	\$ 24,700	<u>-</u>	<u>-</u>	<u>1,262,324</u>	<u>-</u>	<u>1,287,024</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, 2002, and have issued our report thereon dated February 14, 2003. 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, we considered Southwest Regional Water District's internal control over financial reporting in order 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 over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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 misstatements 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass through entities. However, this report is a matter of public record, and its distribution is not limited.

Hart & Gersbach, Inc

February 14, 2003



**Auditor of State
Betty Montgomery**

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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
MAY 8, 2003**