SOUTHWEST REGIONAL WATER DISTRICT

Financial Statements

December 31, 2003 and 2002

With

INDEPENDENT AUDITORS' REPORT

Auditor of State
Betty Montgomery

Board of Trustees
Southwest Regional Water District

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, 2003 through December 31, 2003. 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

August 9, 2004

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SOUTHWEST REGIONAL WATER DISTRICT

For the years ended December 31, 2003 and 2002

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Southwest Regional Water District

MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis, along with the accompanying financial reports, of Southwest Regional Water District (SWRWD or "the District") is designed to provide our customers, bondholders, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

- The total assets of SWRWD exceeded liabilities on December 31, 2003 by $25.9 million.

- The District's net assets increased by $2.24 million (10%) in 2003.

- The District's Operating Revenues decreased by $347 thousand (4.9%) and Operating and Maintenance Expenses increased $138 thousand (3.7%) in 2003.

- The District refunded/advanced refunded $14.8 million of long term debt in 2003.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

The **Balance Sheet** includes all of the District's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31st. The District's net assets (equity) are the difference between assets and liabilities.

The **Statement of Earnings** 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. Revenues are reported when earned and expenses are reported when incurred.

The **Statement of Cash Flows** provides information about the District's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing and financing activities.

NET ASSETS

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

TABLE 1

			Change	
	2003	**2002**	Amount	%
Current and Other Assets	$12,999,354	$12,004,588	$994,766	8%
Capital Assets	$39,455,526	$38,187,469	$1,268,057	3%
Total Assets	**$52,454,880**	**$50,192,057**	**$2,262,823**	5%
Long Term Liabilities	$24,756,509	$25,006,172	$(249,663)	-1%
Other Liabilities	$1,842,163	$1,573,131	$269,032	17%
Total Liabilities	**$26,598,672**	**$26,579,303**	**$19,369**	.001%
Net Assets				
Invested in Capital, Net of Debt	$13,405,158	$12,176,994	$1,228,164	10%
Restricted	$2,569,670	$2,428,381	$141,289	6%
Unrestricted	$9,881,380	$9,007,379	$874,001	10%
Total Net Assets	**$25,856,208**	**$23,612,754**	**$2,243,454**	10%

			Change	
	2002	**2001**	Amount	%
Current and Other Assets	$12,004,588	$10,743,224	$1,261,364	12%
Capital Assets	$38,187,469	$37,599,599	$587,870	2%
Total Assets	**$50,192,057**	**$48,342,823**	**$1,849,234**	4%
Long Term Liabilities	$25,006,172	$25,245,155	$(238,983)	-1%
Other Liabilities	$1,573,131	$2,242,852	$(669,721)	-30%
Total Liabilities	**$26,579,303**	**$27,488,007**	**$(908,704)**	-3%
Net Assets				
Invested in Capital, Net of Debt	$12,176,994	$10,751,438	$1,425,556	13%
Restricted	$2,428,381	$2,563,672	$(135,291)	-5%
Unrestricted	$9,007,379	$7,539,706	$1,467,673	19%
Total Net Assets	**$23,612,754**	**$20,854,816**	**$2,757,938**	13%

- The District's Net Assets increased by $2.76 million (13%) in 2002 and $2.24 million (10%) in 2003. These increases are a result of excess revenues over expenses and capital contributions

- Restricted assets decreased, in 2002, $135 thousand (-5%) and increased, in 2003, $141 thousand (6%). Restricted assets are cash deposits in interest bearing escrow accounts, or cash that is limited in use as part of the District's Bond covenants.

- Unrestricted assets increased by $1.4 million (19%) in 2002 and $874 thousand (10%) in 2003. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents increased $910 thousand in 2002 and increased $820 thousand in 2003.

STATEMENT OF EARNINGS (CHANGES IN NET ASSETS)

Table 2 below summarizes the changes in Revenues and Expenses and the resulting change in Net Assets.

Table 2

	2003	**2002**	Difference	%
Operating Revenues	$6,779,668	$7,126,405	$(346,737)	-4.9%
Non-Operating Revenues	$330,826	$328,355	$2,471	0.8%
Total Revenues	**$7,110,494**	**$7,454,760**	**$(344,266)**	-4.6%
Operating Expenses	$3,192,882	$3,025,123	$167,759	5.5%
Maintenance Expenses	$676,295	$705,700	$(29,405)	-4.2%
Depreciation Expenses	$1,353,444	$1,287,024	$66,420	5.2%
Total Expenses	**$5,222,621**	**$5,017,847**	**$204,774**	4.1%
Operating Income	$1,887,873	$2,436,913	$(549,040)	-22.5%
Non-Operating Expenses	$(1,212,562)	$(1,478,783)	$266,221	-18.0%
Capital Contributions	$1,568,143	$1,799,808	$(231,665)	-12.9%
Change in Net Assets	**$2,243,454**	**$2,757,938**	**$(514,484)**	-18.7%

	2002	**2001**	Difference	%
Operating Revenues	$7,126,405	$5,848,871	$1,277,534	21.8%
Non-Operating Revenues	$328,355	$198,248	$130,107	65.6%
Total Revenues	**$7,454,760**	**$6,047,119**	**$1,407,641**	23.3%
Operating Expenses	$3,025,123	$2,989,430	$35,693	1.2%
Maintenance Expenses	$705,700	$707,220	$(1,520)	-0.2%
Depreciation Expenses	$1,287,024	$1,239,419	$47,605	3.8%
Total Expenses	**$5,017,847**	**$4,936,069**	**$81,778**	1.7%
Operating Income	$2,436,913	$1,111,050	$1,325,863	119.3%
Non-Operating Expenses	$(1,478,783)	$(1,333,408)	$(145,375)	10.9%
Capital Contributions	$1,799,808		$1,799,808	
Change in Net Assets	**$2,757,938**	**$(222,358)**	**$2,980,296**	

- Total Revenues increased $1.4 million (23.3%) in 2002 and decreased $347 thousand (-4.6%) in 2003. Increases in 2002 Revenues were a result of general water rate increases, increases in connection fees, and capital contributions. Prior to 2002 capital contributions were not treated as revenue but were recorded as contributions in aid of construction on the Balance Sheet. Decreased Revenues in 2003 were a result of a decline in customer water usage, due to above normal rainfall for the year, and a decrease in total capital contributions. Capital Contributions will fluctuate from year to year depending on construction activity, and improvement projects that may qualify for special assessment and/or grant monies. In 2002 the District

STATEMENT OF EARNINGS (CHANGES IN NET ASSETS) (CONTINUED)

received $1.15 million dollars in State and County grant monies and $600 thousand in monies from special assessments in comparison to State grants of $140 thousand in 2003. The District recorded $1.4 million in developer contributions in 2003 in comparison to $52 thousand in 2002. This large variance is related to the District accelerating the acceptance date of developer contributions to the time of beneficial use (revenue producing), rather than the end of a one year warranty period.

- Operations and Maintenance expenses, excluding depreciation, increased $34 thousand (0.9%) in 2002. Basic wage increases and increases in purchased electricity were offset by lower costs for water treatment chemicals ($73,000) and a reduction in employee health care costs. In 2003 Operation and Maintenance expenses, excluding depreciation, increased $138 thousand (3.7%). Basic wage increases, a $30 thousand increase for water treatment chemicals, a $52 thousand increase in insurance costs (adding terrorism insurance) and increases in employee health care costs accounted for much of the increase.

CAPITAL ASSETS

The District had $52.36 million invested in Capital Assets (before depreciation) at the end of 2003. This amount is an increase of $2.5 million (5%) from the previous year.

TABLE 3

			Change	
	2003	**2002**	Amount	%
Land	$116,879	$116,879	$(0)	0%
Structures	$2,268,764	$2,229,027	$39,737	1.8%
Distribution System	$47,401,330	$45,710,736	$1,690,594	3.7%
Tank Monitoring Equipment	$282,640	$282,640	$0	0.0%
Vehicles	$860,301	$881,266	$(20,965)	-2.4%
Laboratory Equipment	$23,238	$23,238	$0	0.0%
Office Furniture and Equipment	$295,973	$274,773	$21,200	7.7%
Misc. Plant & Repair Equipment	$144,723	$135,768	$8,955	6.6%
Construction in Progress	$963,502	$188,414	$775,088	411.4%
Totals before Depreciation	**$52,357,349**	**$49,842,741**	**$2,514,608**	5.0%
Accumulated Depreciation	$(12,901,823)	$(11,655,272)	$(1,246,551)	10.7%
Total Capital Assets	**$39,455,526**	**$38,187,469**	**$1,268,057**	3.3%

			Change	
	2002	**2001**	Amount	%
Land	$116,879	$116,879	$0	0%
Structures	$2,229,027	$2,069,704	$159,323	7.7%
Distribution System	$45,710,736	$42,459,671	$3,251,065	7.7%
Tank Monitoring Equipment	$282,640	$282,640	$0	0.0%
Vehicles	$881,266	$810,581	$70,685	8.7%
Laboratory Equipment	$23,238	$23,238	$0	0.0%
Office Furniture and Equipment	$274,773	$250,407	$24,366	9.7%
Misc. Plant & Repair Equipment	$135,768	$98,768	$37,000	37.5%
Construction in Progress	$188,414	$1,855,959	$(1,667,545)	-89.8%
Totals before Depreciation	**$49,842,741**	**$47,967,847**	**$1,874,894**	3.9%
Accumulated Depreciation	$(11,655,272)	(10,368,248)	$(1,287,024)	12.4%
Total Capital Assets	**$38,187,469**	**$37,599,599**	**$587,870**	1.6%

CAPITAL ASSETS (CONTINUED)

- The majority of the increase in capital assets for 2003 was in the District's Distribution System. Much of the increase is from contributions of developer installed watermains. The increase in Construction in Progress is from water tank and watermain improvement projects not completed by year's end. The decrease in Vehicles is from the sale of trucks and autos no longer needed for service. Total Capital Assets (before depreciation) from 2001 and 2002 increased $1.9 million. The increase in Distribution System and the decrease in Construction in Progress are from water improvement projects in the Village of Somerville, Oxford-Germantown and Hoel Roads which began in 2001 and were completed in 2002.

DEBT

The District issues long term debt to finance much of its construction. Revenue bonds are used to finance most general improvement projects. If special assessments are used to finance a project to extend water service into new areas, special assessment bonds are issued.

Table 4

			Change	
	2003	**2002**	Amount	%
REVENUE BONDS				
1995 Revenue Bonds	$915,000	$12,590,000	$(11,675,000)	
2003 Revenue Bonds	$17,024,586		$17,024,586	
Rural Development Bonds	$2,804,976	$6,515,034	$(3,710,058)	
Total Revenue Bonds	**$20,744,562**	**$19,105,034**	**$1,639,528**	9%
Special Assessment Bonds	**$6,574,000**	**$6,843,000**	**$(269,000)**	-4%
Ohio Water & Sewer Rotary Commission	**$62,441**	**$62,441**	**$-**	0%
Long Term Debt	**$27,381,003**	**$26,010,475**	**$1,370,528**	5%
Less				
Reacquisition Costs 1995 Revenue Bonds - Advance Refunding	$(1,330,635)		$(1,330,635)	
Current Maturities	$(1,293,859)	$(1,004,303)	$(289,556)	29%
Net Total Long Term Debt	**$24,756,509**	**$25,006,172**	**$(249,663)**	-1%

			Change	
	2002	**2001**	Amount	%
REVENUE BONDS				
1995 Revenue Bonds	$12,590,000	$12,990,000	$(400,000)	-3%
Rural Development Bonds	$6,515,034	$6,909,720	$(394,686)	-6%
Total Revenue Bonds	**$19,105,034**	**$19,899,720**	**$(794,686)**	-4%
Special Assessment Bonds	**$6,843,000**	**$6,311,000**	**$532,000**	
Ohio Water & Sewer Rotary Commission	**$62,441**	**$62,441**	**$-**	0%
Long Term Debt	**$26,010,475**	**$26,273,161**	**$(262,686)**	-1%
Less				
Reacquisition Costs 1995 Revenue Bonds - Advance Refunding				
Current Maturities	$(1,004,303)	$(928,006)	$(76,297)	8%
Net Long Term Debt	**$25,006,172**	**$25,345,155**	**$(338,983)**	-1%

DEBT (CONTINUED)

- In 2003, the District refunded four Bonds owed to the United States Department of Agriculture, Rural Development, and advance refunded much of its 1995 Revenue Bonds, with the issuance of the 2003 Revenue Bonds. Proceeds from the 2003 issue were used to defease the District's1995 Bonds, except for those maturing in 2003, 2004 and 2005. $12,600,300 was placed into an irrevocable trust account to pay off the bonds at call, plus the call premium and payment of annual interest. The balance of this account on 12/31/03 was $12,300,990. Additional proceeds of $603,367 received by the District are targeted for purchase of an Automated Meter Reading System, which is currently under a pilot study, or other improvement project(s). These funds were deposited into the Projects Account.

- In 2002 the District issued additional Special Assessment Bonds to pay off a $675 thousand Bond Anticipation Note and finance several water line extensions into previously unserved areas.

- The payment of principal and interest of the 1995 and 2003 Revenue Bonds when due is guaranteed by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

DEBT COVERAGE

Table 5

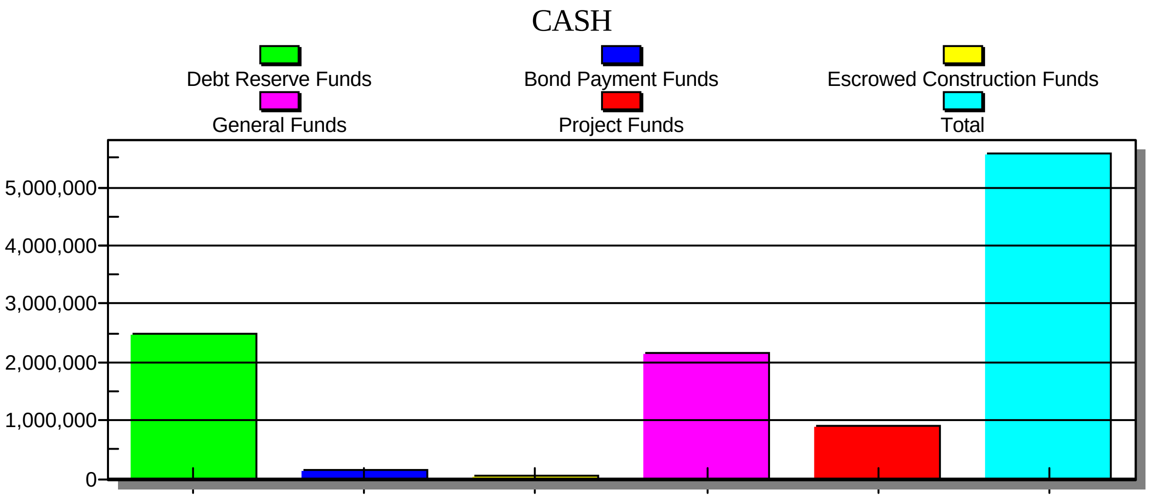
	2003	2002	2001
Operating Revenues	$ 6,779,668	$ 7,126,405	$ 5,848,871
Non-Operating Revenue - Interest	$ 330,826	$ 328,355	$ 198,248
Less Operations & Maintenance Expenses	$ (3,869,127)	$ (3,729,823)	$ (3,696,650)
Total Revenues Available for Debt	**$ 3,241,367**	**$ 3,724,937**	**$ 2,350,469**
Revenue Bond Debt Service - 1995 & 2003	$ 1,174,667	$ 1,155,603	$ 1,160,238
Revenue Bond Debt Service - Rural Development	$ 439,575	$ 675,209	$ 675,209
Special Assessment - Agricultural Deferments	$ 46,395	$ 46,395	$ 40,053
Total Debt Service Requirements	**$ 1,660,637**	**$ 1,877,207**	**$ 1,875,500**
Combined Coverage Ratio - All Debt	**1.95**	**1.98**	**1.25**
Required Coverage Ratio			
Revenue Bonds - 1995 & 2003	1.20	1.20	1.20
Rural Development	1.00	1.00	1.00

- The majority of the District's debt is paid from revenues, excluding capital contributions. The District is required to meet a revenue-to-debt ratio of 1.20 for its 1995 and 2003 Revenue Bonds and a 1.0 ratio for Rural Development Bonds.

- Special Assessment debt is paid with the collection of certified assessments by the local county auditor's office, which is forwarded to the District for debt service. Properties meeting certain agricultural usage requirements may defer payment of the assessments until such time as the usage changes. Agricultural deferments are paid from the District Revenues.

CASH

Cash and cash equivalents on December 31, 2003 were $5.5 million. $2.56 million of these funds are restricted for specific use. These accounts are for Debt Reserves, Bond Payments and Escrowed Construction Funds. The bond payment accounts are funded monthly to be used for semi annual interest payments and maturing bonds. The chart below shows the total cash and cash equivalents balances by funds.



Debt Reserve Funds	Bond Payment Funds	Escrowed Construction Funds	General Funds	Project Funds	Total
$2,435,899	$110,105	$23,666	$2,116,750	$859,566	$5,545986

BUDGET vs. ACTUAL

SWRWD's Board of Trustees adopts an Operating Budget annually in July for the next fiscal year. This budget is reviewed, revised, as necessary, and an appropriation measure prepared and adopted in December.

Table 6 below is the District's Operating Budget for 2003 which compares budget amounts to actual results.

Table 6

	Budget			Variance
	Original	Amended	Actual	Favorable (Unfavorable)
Operating Revenue				
Water Sales	$ 5,890,000	$ 5,890,000	$ 5,411,050	$ (478,950)
New Connections	$ 793,000	$ 995,150	$ 1,137,633	$ 142,483
Penalties	$ 165,000	$ 165,000	$ 164,900	$ (100)
Miscellaneous	$ 500	$ 500	$ 66,085	$ 65,585
Total Operating Revenue	**$ 6,848,500**	**$ 7,050,650**	**$ 6,779,668**	**$ (270,982)**

(Budget vs. Actual continued)

Operating Expenses				
Operations	$ 3,252,500	$ 3,401,650	$ 3,192,882	$ 208,768
Maintenance	$ 689,749	$ 742,749	$ 676,295	$ 66,454
Depreciation	$ 1,359,250	$ 1,359,250	$ 1,353,444	$ 5,806
Total Operating Expenses	**$ 5,301,499**	**$ 5,503,649**	**$ 5,222,621**	**$ 281,028**
Excess of operating revenues over expenses	**$ 1,547,001**	**$ 1,547,001**	**$ 1,557,405**	**$ 10,404**
Non Operating Revenue (expense)				
Interest Income	$ 337,400	$ 337,400	$ 330,826	$ (6,574)
Grant Revenue			$ 140,107	$ 140,107
Owner/developer Contribution in Aid			$ 1,428,036	$1,428,036
Special Assessment Revenue				
Interest Expense	$(1,456,674)	$(1,456,674)	$(1,212,562)	$ 244,112
Total non-operating revenue (expense)	**$(1,119,274)**	**$(1,119,274)**	**$ 686,407**	**$1,805,681**
Net Retained Earnings	**$ 427,727**	**$ 427,727**	**$ 2,243,454**	**$1,816,085**

· The District amended the budget in anticipation of needed additional appropriations for expected increased costs of treatment and pumping expenses. The amended budget also increased the estimate for new connections.

· Total operating revenues were $271 thousand less than the amended budget. Most of the variance is a result of above normal precipitation resulting in lower than estimated water sales. Revenue from new connection fees were greater than expected, primarily from new developments. Operating expenses were $281 thousand less than the amended budget, most of which occurred as a result of the budget amendment. Treatment and pumping expenses did not increase as much as anticipated and distribution expenses were less than originally budgeted. The $1.8 million dollar variance in net retained earnings includes $1.56 million in grants and developer contributions, which the District did not budget. Excluding the grants and contributions the favorable variance in Net Retained earnings is $247 thousand.

ECONOMIC FACTORS and 2004 BUDGET

The District has projected an increase of $1.6 million in net assets for year ending December 31, 2004. Approval has been received form the Ohio Public Works Commission for $345 thousand in Issue II grants for a watermain replacement. Three high density housing developments have recently been accepted by the District Board of Trustees, and plans are currently being reviewed for two similar developments. One thousand additional customers are expected when these subdivisions are completed over the next couple of years. $665,000 in donated watermains has been estimated for this year. The District's Board adopted increases in connection fees effective January 1, 2004. These additional fees will contribute to an estimated $500,000 of excess operating revenues over expenses, after depreciation.

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.

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, 2003 and 2002, 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.

As described in Note (1)(n), the Southwest Regional Water District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of December 31, 2003.

The "management's discussion and analysis" presented on pages i - ix is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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, 2003 and 2002, 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 17, 2004 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 17, 2004

SOUTHWEST REGIONAL WATER DISTRICT

Balance Sheets

December 31, 2003 and 2002

	2003	2002
Current assets		
Cash and cash equivalents	$ 2,976,316	2,155,405
Accounts receivable, net of allowance for doubtful receivables of $30,475 in 2003 and 2002	1,010,474	902,382
Accrued interest receivable	12,810	803
Inventories	355,895	395,006
Prepaid expenses	53,814	35,257
Total current assets	4,409,309	3,488,853
Special assessment receivable noncurrent	5,509,722	5,805,866
Bond Issuance Cost	366,398	-
Total current assets	5,876,120	5,805,866
Restricted assets		
Cash - debt reserve	2,546,004	2,403,381
Cash - construction	23,666	25,000
Total restricted assets	2,569,670	2,428,381
Property, plant and equipment - at cost (Note 1)		
In service:		
Water, production, treatment, and distribution systems	47,401,330	45,710,735
Land, building, and equipment	3,992,517	3,943,591
Total in service	51,393,847	49,654,326
Less accumulated depreciation	(12,901,823)	(11,655,272)
Net in service	38,492,024	37,999,054
Construction work in progress	963,502	188,415
Total property, plant and equipment	39,455,526	38,187,469
Other assets		
Deferred charges	144,255	281,488
Total assets	$ 52,454,880	50,192,057

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

SOUTHWEST REGIONAL WATER DISTRICT

Balance Sheets

December 31, 2003 and 2002

	2003	2002
Current liabilities		
Current maturities of long-term obligations	$ 1,293,859	1,004,303
Accounts payable	113,469	75,550
Accrued liabilities	83,378	78,214
Tenants' deposits	38,895	37,093
Accrued interest	180,118	254,477
Total current liabilities	1,709,719	1,449,637
Deferred credit		
Customer advances for construction	132,444	123,494
Long-term liabilities		
Long-term obligations, less current maturities	24,756,509	25,006,172
Total liabilities	26,598,672	26,579,303
Equity		
Paid in capital	116,394	116,394
Contributions in aid of construction	10,814,555	10,814,555
Retained earnings		
Reserved by loan agreements	489,711	1,093,361
Unreserved	14,435,548	11,588,444
Total retained earnings	14,925,259	12,681,805
Total equity	25,856,208	23,612,754
Total liabilities and equity	$ 52,454,880	50,192,057

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

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Earnings

For the years ended December 31, 2003 and 2002

	2003	2002
Operating revenues		
Metered water sales to customers	$ 5,411,050	5,684,345
Other operating revenue:		
Sales of new taps	1,137,633	1,281,712
Penalties	164,900	146,545
Miscellaneous	66,085	13,803
Total operating revenues	6,779,668	7,126,405
Operating expenses		
Operations	3,192,882	3,025,123
Maintenance	676,295	705,700
Depreciation	1,353,444	1,287,024
Total operating expenses	5,222,621	5,017,847
Excess of operating revenues over expenses	1,557,047	2,108,558
Non-operating revenue(expense)		
Grant revenue	140,107	1,147,785
Owner/developer contribution in aid	1,428,036	51,977
Special assessment revenue	-	600,046
Interest income	330,826	328,355
Interest expense	(1,212,562)	(1,478,783)
Total non-operating revenue(expense)	686,407	649,380
Excess(Deficit) of revenues over expenses	$ 2,243,454	2,757,938

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

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Retained Earnings

For the years ended December 31, 2003 and 2002

	2003	2002
Reserved for debt covenants		
Balance at beginning of year	$ 1,093,361	1,090,519
Transfer (to) from unreserved retained earnings	(603,650)	2,842
Balance at end of year	489,711	1,093,361
Unreserved		
Balance at beginning of year	11,588,444	8,833,348
Transfer (to) from reserved retained earnings	603,650	(2,842)
Excess (deficit) of revenues over expenses	2,243,454	2,757,938
Balance at end of year	14,435,548	11,588,444
Retained earnings at end of year	$14,925,259	12,681,805

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

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operations:		
Cash received from customers	$ 6,682,328	6,930,909
Cash payments to suppliers for goods and services	(1,559,028)	(1,570,941)
Cash payments to employees for services	(2,109,279)	(2,048,442)
Net cash provided by operations	3,014,021	3,311,526
Cash flows from capital and related financing activities:		
Proceeds from capital grant	140,107	1,147,785
Acquisition and construction of capital assets	(1,193,465)	(1,822,917)
Proceeds from issuance of long-term debt	17,274,160	765,000
Payments on borrowings	(935,022)	(1,602,686)
Advance refunding - 1994 and 1995 series bonds	(16,299,245)	-
Bond issuance costs	(371,558)	-
Collections on special assessments	296,144	132,411
Interest paid	(1,281,761)	(1,485,689)
Net cash provided (used) by capital and related financing activities	(2,370,640)	(2,866,096)
Cash flows from investing activities:		
Interest received	318,819	328,859
Net cash provided (used) by investing activities	318,819	328,859
Increase in cash and cash equivalents	962,200	774,289
Cash and cash equivalents - beginning of year	4,583,786	3,809,497
Cash and cash equivalents - end of year	$ 5,545,986	4,583,786

Restricted cash	$ 2,569,670	2,428,381
Unrestricted cash	2,976,316	2,155,405
	$ 5,545,986	4,583,786

Developers dedicated water and sewer lines with total costs of $1,428,036 and $1,977 in 2003 and 2002, respectively, with such contributions recorded as Owner/developer contribution in aid.

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

SOUTHWEST REGIONAL WATER DISTRICT

Statements of Cash Flows (Continued)

For the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Operating Income	$ 1,557,047	2,108,558
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,353,444	1,287,024
Amortization deferred charge	137,233	148,327
Changes in operating assets and liabilities:		
Accounts receivable	(108,092)	(126,580)
Inventories	39,111	(38,186)
Prepaid expenses	(18,557)	(3,505)
Accounts payable	37,919	(6,676)
Accrued liabilities	5,164	11,480
Tenants' deposits	1,802	1,134
Customer advances	8,950	(70,050)
Net cash provided by operating activities	$ 3,014,021	3,311,526

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

SOUTHWEST REGIONAL WATER DISTRICT

Notes to the Financial Statements

December 31, 2003 and 2002

(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 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 (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.

(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. In accordance with generally accepted governmental accounting standards the statement of cash flows includes restricted cash as a cash equivalent.

The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). 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, 2003 the depository bank had securities pledged to fully collateralize operating bank balances of approximately $3,000,000. Uninsured deposits held by trust departments or agents in the District's note totaled $2,950,000 as of December 31, 2003. These deposits are invested in U.S. money market funds.

(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, 2003.

(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.

(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 accounting principles generally accepted in the United States of America. 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.

(1) Summary of Significant Accounting Policies (Continued)

(n) Financial Reporting - Adoption of GASB No. 34

In 2003, the District implemented GASB Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement No. 34 established new financial reporting requirements for all state and local governments. The principal effect on the District is the requirement of Management's Discussion and Analysis as supplementary information.

As a proprietary entity 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.

(1) Summary of Significant Accounting Policies (Continued)

(r) Estimates

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

(2) Long-Term Obligations

Long-term obligations consist of:

USDA, Rural Development Bonds

	2003	2002
Bonds #91-01 dated November 9, 1994 (interest at 5%), refunded in 2003 payable in annual principal and interest installments of $235,634; due November 24, 2009.	$ -	1,363,465
Bonds #91-02, dated November 9, 1994 (interest at 5%), refunded in 2003 payable in annual principal and interest installments of $24,643; due August 22, 2015	-	231,486
Bonds #91-03, dated November 9, 1994 (interest at 5%), refunded in 2003 payable in annual principal and interest installments of $101,968 due May 3, 2018	-	1,105,107
Bonds #91-04, dated November 9, 1994 (interest at 5%), refunded in 2003 payable in annual principal and interest installments of $89,255 due May 3, 2018	-	967,330
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	2,804,976	2,847,646
Total USDA	2,804,976	6,515,034

(2) Long-Term Obligations (Continued)

	2003	2002
Special Assessment Water Line Extension Bond-Series 1994	105,000	110,000
Revenue Bonds - Series 1995	915,000	12,590,000
Special Assessment Water Line Extension Bond-Series 1996	760,000	800,000
Special Assessment Water Line Extension Bond -Series 1997	79,000	83,000
Special Assessment Water Line Extension Bond -Series 1999	4,340,000	4,515,000
Special Assessment Water System Improvement Bond -Series 2000	550,000	570,000
Special Assessment Water Line Extension Bond -Series 2002	740,000	765,000
Revenue Bonds - Series 2003 (including $309,386 of unamortized issuance premium)	17,024,586	-
Series 2003 - 1995 Bond refunding defeased interest and recall premium	(1,330,635)	-
Advance note payable to State of Ohio	62,441	62,441
Total debt	26,050,368	26,010,475
Less current maturities	(1,293,859)	(1,004,303)
Total long-term obligations	$ 24,756,509	25,006,172

As of December 31, 2003, the maturities of the principal amount of long-term debt for the five years ending December 31, were as follows:

2004	$ 1,293,859
2005	1,346,719
2006	1,394,761
2007	1,438,997
2008	1,467,440
Thereafter	19,108,592
Total	$ 26,050,368

(2) Long-Term Obligations (Continued)

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%

In conjunction with issuing the new Bonds the District incurred a Series 1995 call premium of $112,500 and $1,237,800 for defeased 1995 bond refunding interest. These amounts are classified with long term debt and are being amortized until December 1, 2020, the original maturity of the Series 1995 Bonds. The cost of issuance of $371,558 and bond premium of $314,160 received upon issuance of the new bonds are being amortized over the same period.

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.

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.

(2) Long-Term Obligations (Continued)

Subsequent to the issuance of the 2003 bonds and the defeasance of certain maturities of the 1995 bonds the remaining maturities of the 1995 bonds are, 2004 - $445,000 and 2005 - $470,000.

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 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 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.

(3) Retained Earnings

The District has appropriated $489,711 as of December 31, 2003 from its retained earnings balance to comply with USDA Rural Development requirements to establish a reserve account as outlined in Note 3.

(4) Pension Plan

Ohio Public Employees Retirement System (OPERS) administers three separate benefit pension plans as described below:

The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan.

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 theron.

The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

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

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 member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan.

(4) Pension Plan Continued

The 2003 member contribution rates were 8.5%, for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. Public safety division members contributed at 9%.

The 2003 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. For both the law enforcement and public safety divisions the employer contribution rate for 2003 was 16.7%.The 2003 employer contribution rate for both the law enforcement and public safety divisions was 16.70% of covered payroll.

Total required employer contributions for all plans (TP, MD and CO) are equal to 100% of employer charges and must be extracted from the employer's records.

The District's contribution includes amounts for post employment retirement benefits, as discussed in Note 5. Total cost incurred was $228,823 in 2003, $222,636 in 2002 and $222,277 in 2001. Of the total cost, $144,387 was for the 2003 pension plan, $140,483 for the 2002 pension plan and $140,257 for the 2001 pension plan. The amounts paid were one hundred percent of the required contribution.

(5) Post Employment Retirement Benefits

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 some elements of both a defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorilly guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

(5) Post Employment Retirement Benefits (Continued)

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 2003 employer contribution rate for state employers was 13.31% of covered payroll, of which 5.00% was 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 used to fund health care for the year. For both the public safety and law enforcement divisions, the 2003 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.

Summary of Assumptions

Actuarial Review - The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002.

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 annually.

Investment Return - The investment assumption rate for 2002 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

At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881.

(5) Post Employment Retirement Benefits (Continued)

OPEBS are Advance-Funded on an Actuarially Determined Basis (Continued)

The rates stated above are the actuarially determined contribution requirements for OPERS. As part of this disclosure, it will be necessary for the employer to disclose the employer contributions actually made to fund post employment benefits. The portion of employer contributions that were used to fund post employment benefits can be approximated by multiplying actual employer contributions by 0.3757 for state employers, 0.3690 for local government employers, and 0.2994 for both law enforcement and public safety employers.

OPEBS are Advance-Funded on an Actuarially Determined Basis (Continued)

$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 billion, respectively.

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.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

(7) Reclassification

Certain amounts have been reclassified to conform to the 2003 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, 2003 and 2002 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 17, 2004

SOUTHWEST REGIONAL WATER DISTRICT

Schedule of Deductions From Operating Revenue
Operations

For the year ended December 31, 2003

	Source of Supply	Pumping	Treatment	Transmission and Distribution	Customer Account	Administrative and General	Totals 2003	Totals 2002
Operations								
Labor and wages:								
Administrators	$ -	-	-	-	-	84,027	84,027	78,999
Supervision	-	-	-	63,968	40,963	-	104,931	103,442
Operations	868	90,232	334,999	381,424	-	-	807,523	768,133
Ground care	-	201	-	-	-	-	201	-
Meter reading	-	-	-	-	61,755	-	61,755	52,932
Office and bookkeeping	-	-	-	-	113,693	128,238	241,931	244,869
Payroll tax and benefits	-	34,032	120,045	252,082	82,999	105,644	594,802	579,433
Purchased water	33,128	-	-	-	-	-	33,128	29,892
Purchased power and other utilities	-	122,005	112,052	112,127	-	39,951	386,135	404,048
Chemicals and salt	-	-	213,792	-	-	-	213,792	186,933
Rents	-	-	-	966	-	-	966	565
Outside services:								
Accounting	-	-	-	-	-	11,518	11,518	8,100
Legal and engineering	-	-	-	-	-	70,465	70,465	38,349
Property insurance	-	-	-	-	-	127,705	127,705	75,541
Office supplies	-	-	-	-	-	35,137	35,137	44,191
Miscellaneous - operating	12,682	30,193	106,532	59,022	136,807	35,338	380,574	372,163
Expenses transferred	-	-	-	-	-	(33,048)	(33,048)	(31,248)
Safety operations	-	-	-	-	-	9,463	9,463	8,343
Annual meeting	-	-	-	-	-	13,565	13,565	12,821
Christmas	-	-	-	-	-	1,297	1,297	612
Board fees, miscellaneous	-	-	-	-	-	13,232	13,232	15,291
Convention	-	-	-	-	-	33,783	33,783	31,714
Total operations	$ 46,678	276,663	887,420	869,589	436,217	676,315	3,192,882	3,025,123

SOUTHWEST REGIONAL WATER DISTRICT

Schedule of Deductions From Operating Revenue
Maintenance and Depreciation

For the year ended December 31, 2003

	Source of Supply	Pumping	Water Treatment	Transmission and Distribution	Administrative and General	Totals 2003	Totals 2002
Maintenance							
Labor and wages:							
Repair and maintenance	$ -	-	-	72,633	39,816	112,449	129,207
Supervision	-	-	-	106,824	-	106,824	102,907
Distribution mains	-	-	-	137,233	-	137,233	148,328
Maintenance of equipment	-	3,633	4,948	2,153	-	10,734	10,400
Maintenance of general plant	-	-	-	-	68,326	68,326	59,317
Miscellaneous repairs	-	21,832	24,536	194,361	-	240,729	255,541
Total maintenance expense	$ -	25,465	29,484	513,204	108,142	676,295	705,700
Depreciation							
Depreciation	26,324	-	-	1,327,120	-	1,353,444	1,287,024
Total depreciation	$ 26,324	-	-	1,327,120	-	1,353,444	1,287,024

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, 2003, and have issued our report thereon dated February 14, 2004. 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 the Southwest Regional Water District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of December 31, 2003.

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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Southwest Regional Water District in a separate letter dated February 17, 2004.

This report is intended solely for the information of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Hart & Gersbach, Inc

February 17, 2004

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
AUGUST 19, 2004