SOUTHWEST REGIONAL WATER DISTRICT

Butler County, Ohio

Regular Audit

January 1, 2006 through December 31, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAS, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Mary Taylor, CPA
Auditor of State

Board of Directors
Southwest Regional Water District
3640 Old Oxford Road
Hamilton, Ohio 45013

We have reviewed the *Independent Auditor's Report* of the Southwest Regional Water District, Butler County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2006 through December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 1, 2007

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

SOUTHWEST REGIONAL WATER DISTRICT
Basic Financial Statements
For the Years Ended December 31, 2006 and December 31, 2005

Table of Contents

Page

BALESTRA, HARR & SCHERER, CPAS, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Regional Water District
3640 Old Oxford Road
Hamilton, Ohio 45013

We have audited the accompanying financial statements of the business-type activities of the Southwest Regional Water District (the District), Butler County, as of and for the years ended December 31, 2006 and December 31, 2005. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2006 and December 31, 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 11 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investments Risk Disclosures*, Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits.*

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

February 23, 2007

SOUTHWEST REGIONAL WATER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

Southwest Regional Water District (SWRWD or "the District") is providing this discussion and analysis for our customers, creditors and others of interest, as a general overview of the district and its financial activities.

FINANCIAL HIGHLIGHTS

- The total assets of SWRWD exceeded liabilities on December 31, 2006 by $30 million and by $29 million on December 31, 2005.
- The District's net assets increased $659 thousand in 2006 $1.3 million in 2005.
- The District's Operating Revenues decreased by $292 thousand (-4%) and increased by $303 thousand (4%) with Operating and Maintenance Expenses increasing $165 thousand (4%) in 2006 and $652 thousand (16.1%) in 2005.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

NET ASSETS

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

TABLE 1

	2006	2005	Change Amount	%
Current and Other Assets	$10,310,846	$11,641,658	($1,330,812)	-11%
Capital Assets	42,421,390	41,564,886	856,504	2%
Total Assets	52,732,236	53,206,544	(474,308)	1%
Long Term Liabilities	20,857,064	22,232,598	(1,375,534)	-6%
Other Liabilities	2,007,749	1,765,110	242,639	14%
Total Liabilities	22,864,813	23,997,708	(1,132,895)	-5%
Net Assets				
Invested in Capital, Net of Debt	20,224,790	18,033,883	2,190,907	12%
Restricted	2,560,308	2,457,995	102,313	4%
Unrestricted	7,082,325	8,716,958	(1,634,633)	19%
Total Net Assets	$29,867,423	$29,208,836	658,587	2%

TABLE 1 (Continued)

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

- The District's Total Assets decreased 474 thousand dollars in 2006, primarily from decreases in cash used for improvement projects, such as two new water tank constructions. The decrease in 2005 of $43 thousand was due to the net affect of capital asset additions and related decrease in cash.
- The District's Net Assets increased 658 thousand dollars in 2006 and 1.33 million dollars in 2005. These increases are a result of excess revenues over expenses, plus capital contributions.
- The District incurred no new long term debt in 2006. Long-term liabilities reduced 1.30 million dollars from payments on debt in 2006. In 2005, long term liabilities decreased by $1.36 million.

STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET ASSETS)

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

Table 2

	2006	2005	Change Amount	%
Operating Revenues	$ 7,146,546	$ 7,438,497	($291,951)	-4%
Total Revenues	7,146,546	7,438,497	(291,951)	-4%
Operating Expenses	4,026,672	3,836,146	190,526	5%
Maintenance Expenses	827,223	852,665	(25,442)	-3%
Depreciation Expenses	1,492,131	1,469,926	22,205	2%
Total Expenses	6,346,026	6,158,737	187,289	3%
Operating Income	800,520	1,279,760	(479,240)	-37%
Non-Operating Revenues	697,622	508,957	188,665	37%
Non-Operating Expenses	(1,163,770)	(1,193,127)	29,357	-2%
Capital Contributions	324,215	736,650	(412,435)	-56%
Change in Net Assets	$ 658,587	$ 1,332,240	(673,653)	51%

- Total Operating Revenues decreased 292 thousand dollars (-4%) in 2006. An increase of 127 thousand dollars (2%) in water sales was offset by a 435 thousand dollar decrease (-34%) in the sale of new taps Grant monies for capital improvement projects increased 162 thousand dollars and non-exchange revenues (primarily watermains and appurtenances contributed by developers) decreased 198 thousand dollars, resulting in a decrease of 412 thousand dollars (-56%) in total capital contributions in 2006. Capital Contributions are subject to yearly fluctuations depending on development activity, new projects subject to assessments and improvement projects that may qualify for grant monies.

- Operations and Maintenance Expenses, excluding depreciation, increased 4% (165 thousand dollars) in 2006. Chemical costs, fuel costs and employee health care costs, which contributed to substantial increases in 2005, stabilized somewhat in 2006.

Table 2 (Continued)

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

- Total Operating Revenues increased $303 thousand (4%) in 2005. Non-operating revenues decreased by $169 thousand primarily due to grant monies for capital improvement projects decreasing $191 thousand. Capital contributions (primarily watermains and appurtenances contributed by developers) decreased $198 thousand (21.2%). Capital contributions are vulnerable to yearly fluctuations depending on development activity and new projects subject to assessments.

- Operations and Maintenance Expenses, excluding depreciation, increased $651 thousand (16.1%) in 2005. Contributing to these increases were chemical costs ($108 thousand), and normal maintenance and repairs ($543 thousand).

CAPITAL ASSETS

The District had 59.5 million dollars invested in Capital Assets (before depreciation) at the end of 2006, as shown in Table 3. This amount is an increase of 2.3 million (4%) from the previous year.

TABLE 3

	2006	2005	Change Amount	%
Land	$ 234,806	$ 234,806	$ -	0%
Structures	2,285,461	2,277,567	7,894	.3%
Distribution System	52,075,805	51,552,503	523,302	1%
Tank Monitoring Equipment	282,640	282,640	-	0%
Vehicles	900,818	853,734	47,084	6%
Laboratory Equipment	23,238	23,238	-	0%
Office Furniture and Equipment	519,813	456,427	63,386	14%
Misc. Plant & Repair Equipment	145,623	145,623	-	0%
Construction in Progress	3,059,233	1,352,264	1,706,969	126%
Totals before Depreciation	59,527,437	57,178,802	2,348,635	4%
Accumulated Depreciation	(17,106,047)	(15,613,916)	(1,492,131)	10%
Total Capital Assets	**$ 42,421,390**	**$ 41,564,886**	**$ 856,504**	2%

TABLE 3 (Continued)

	2005	2004	Change Amount	%
Land	$ 234,806	$ 195,878	$ 38,928	20%
Structures	2,277,567	2,268,067	9,500	.4%
Distribution System	51,552,503	49,487,768	2,064,735	4%
Tank Monitoring Equipment	282,640	282,640	-	0%
Vehicles	853,734	860,302	(6,568)	-.8%
Laboratory Equipment	23,238	23,238	-	0%
Office Furniture and Equipment	456,427	382,401	74,026	19%
Misc. Plant & Repair Equipment	145,623	146,696	(1,073)	-.7%
Construction in Progress	1,352,264	1,138,396	213,868	19%
Totals before Depreciation	57,178,802	54,785,386	2,393,416	4%
Accumulated Depreciation	(15,613,916)	(14,250,000)	(1,363,916)	10%
Total Capital Assets	**$ 41,564,886**	**$ 40,535,386**	**$ 1,029,500**	3%

- The majority increase in capital assets for 2006 and 2005 was the District's Distribution System. The increase was the result of capital contributions of new watermains and the installation of new water services in 2006 and the acceptance of the Queen of Peace and Laurel Estates subdivisions water distribution system from the Butler County Commissioners. Office furniture and equipment increased from the purchase of new computers, office furniture and new hand held meter reading equipment both years. Construction in progress includes the construction of two new water storage tanks, installation of an Automated Meter Reading system, and Master Pressure Reducing Station Improvements in 2006 and the development of a GIS system, construction of improvements on the North Treatment Plant and Master Pressure Reducing Station improvements in 2005.

DEBT

Table 4 summarizes the District's long term debt. The District issues long term debt to finance much of its construction. Revenue bonds are used to finance most general improvement projects. If special assessments are used to finance a project to extend water service into new areas, special assessment bonds are issued.

Table 4

	2006	2005	Change Amount	%
REVENUE BONDS				
2003 Revenue Bonds	$ 14,889,683	$ 15,937,984	$ (1,048,301)	**-6%**
Rural Development Bonds	2,662,136	2,712,897	(50,761)	**-2%**
Total Revenue Bonds	**17,551,819**	**18,650,881**	(1,099,062)	**-6%**
Special Assessment Bonds	**5,677,000**	**5,991,000**	(314,000)	**-5%**
Ohio Water & Sewer Rotary Commission	**62,441**	**62,441**	-	**0%**
Long Term Debt	23,291,260	24,704,322	(1,413,062)	**-6%**
Less				
Reacquisition Costs 1995 Revenue Bonds				
Advance Refunding	(1,094,660)	(1,173,319)	78,659	**-7%**
Current Maturities	(1,360,338)	(1,394,761)	34,423	**-2%**
Net Total Long Term Debt	**$ 20,836,262**	**$ 22,136,242**	**$ (1,299,980)**	**-6%**

Table 4 (Continued)

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

- The District issued no new long term debt in 2006 or 2005
- In 2006, the District issued a short term Bond Anticipation Note (BAN) in the amount of $46,290 dollars for re-imbursement of costs incurred with Somerville Road Water Improvements. This note is anticipated to be paid off with permanent financing in 2007.
- In 2003, the District advance refunded its 1995 Revenue Bonds, with the issuance of the 2003 Revenue Bonds. An irrevocable trust account was established for defeasing the 1995 bonds at the 10 year call date, with the exception of all bonds maturing in December 2003, 2004, and 2005. The final December 1, 2005 bonds were paid off by the District's funds and the remaining maturities were paid off from the trust account.
- The payment of principal and interest of the 2003 Revenue Bonds when due is guaranteed by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

DEBT COVERAGE

Table 5 reflects the ability of the District to pay both interest and the current principal installments on its outstanding debt. This table represents only revenues generated by the operations of the District.

Table 5

	2006	2005	2004
Operating Revenues	$ 7,146,546	$ 7,438,497	$ 7,092,121
Non-Operating Interest Revenue	399,168	373,029	350,056
Total Revenues	7,545,714	7,811,526	7,442,177
Less Operations & Maintenance Expenses	(4,853,895)	(4,688,811)	(4,036,829)
Total Revenues Available for Debt	**2,691,819**	**3,112,715**	**3,405,348**
Revenue Bond Debt Service - 1995 & 2003	1,799,662	1,627,118	1,622,835
Revenue Bond Debt Service - Rural Development	223,708	223,708	223,708
Special Assessment - Agricultural Deferments	45,613	46,307	46,395
Total Debt Service Requirements	**$ 2,068,983**	**$ 1,897,133**	**$ 1,892,938**
Combined Coverage Ratio - All Debt	**1.30**	**1.64**	**1.80**
Required Coverage Ratio			
Revenue Bonds - 1995 & 2003	1.20	1.20	1.20
Rural Development	1.00	1.00	1.00

Does not include grants and non-exchange revenues (capital contributions)

- The majority of the District's debt is paid from revenues, excluding capital contributions. The District is required by Bond Trust Agreements to meet a revenue-to-debt ratio of 1.20 for its 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, 2006 were $3.53 million. $2.56 million of these funds are restricted for specific use. Restricted cash is deposited in Debt Reserves, Bond Payments and Escrowed Construction Fund accounts. The bond payment accounts are funded monthly to be used for semi annual interest payments and maturing bonds. On December 31, 2005 cash and cash equivalents were $4.79 million. $2.46 million was restricted for the specific uses noted above.

ECONOMIC FACTORS

The District has projected an increase of $ 1.17 million in net assets for year ending December 31, 2007. Increases in customer user rates and connection fees will contribute to this increase. Approval has been received from the Ohio Public Works Commission for $367 thousand in Issue II grants for water master pressure reducing station improvements to begin in 2007. Customer growth and capital contributions from developers are expected to decline as a result of a slowing housing market.

CONTACT INFORMATION

Questions regarding this report and requests for additional information, should be forwarded to the General Manager, Southwest Regional Water District, 3640 Old Oxford Road, Hamilton, Ohio 45013

SOUTHWEST REGIONAL WATER DISTRICT
STATEMENTS OF NET ASSETS
As of December 31, 2006 and 2005

ASSETS	**2006**	**2005**
CURRENT ASSETS		
Cash and cash equivalents	$ 967,986	$ 2,331,213
Accounts receivable (net allowance for doubtful accounts of $30,475 for 2006 and $30,475 for 2005)	864,429	732,036
Special assessments receivable - current portion	330,000	314,000
Accrued interest receivable	147,540	30,769
Inventory	575,364	559,872
Prepaid expenses	34,115	34,030
TOTAL CURRENT ASSETS	2,919,434	4,001,920
NONCURRENT ASSETS		
Restricted Assets:		
Equity in pooled cash with fiscal agents	42,720	12,781
Equity in pooled cash and cash equivalents	2,517,588	2,445,214
TOTAL RESTRICTED ASSETS	2,560,308	2,457,995
Capital Assets:		
Water, production, treatment and distribtuion systems	52,075,805	51,552,503
Building, office furniture and equipment	4,157,593	4,039,229
Total depreciable capital assets	56,233,398	55,591,732
Less: Accumulated depreciation	(17,106,047)	(15,613,916)
Net depreciable capital assets	39,127,351	39,977,816
Land	234,806	234,806
Construction in progress	3,059,233	1,352,264
NET CAPITAL ASSETS	42,421,390	41,564,886
Other Assets:		
Special assessments receivable - non current	4,543,871	4,873,871
Deferred Charges	287,233	307,872
TOTAL OTHER ASSETS	4,831,104	5,181,743
TOTAL ASSETS	$ 52,732,236	$ 53,206,544

(Continued)

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

SOUTHWEST REGIONAL WATER DISTRICT
STATEMENTS OF NET ASSETS
As of December 31, 2006 and 2005

	2006	2005
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long term obligations	$ 1,360,338	$ 1,394,761
Accounts payable	106,921	112,016
Notes payable	46,290	0
Accrued liabilities	69,429	70,657
Tenant deposits	42,096	41,903
Accrued interest	304,016	145,773
TOTAL CURRENT LIABILITIES	1,929,090	1,765,110
LONG TERM LIABILITIES		
Deferred revenue	99,461	96,356
Long term obligations	20,836,262	22,136,242
TOTAL LONG TERM LIABILITIES	20,935,723	22,232,598
TOTAL LIABILITIES	22,864,813	23,997,708
NET ASSETS		
Invested in capital assets, net of related debt	20,224,790	18,033,883
Restricted for debt service	2,560,308	2,457,995
Unrestricted	7,082,325	8,716,958
TOTAL NET ASSETS	$ 29,867,423	$ 29,208,836

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

SOUTHWEST REGIONAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Metered Water Sales to customers	$ 6,040,056	$ 5,912,738
Sales of New taps	831,105	1,265,868
Penalties	163,001	155,563
Miscellaneous	112,384	104,328
TOTAL OPERATING REVENUES	7,146,546	7,438,497
OPERATING EXPENSES		
Operations	4,026,672	3,836,146
Maintenance	827,223	852,665
Depreciation	1,492,131	1,469,926
TOTAL OPERATING EXPENSES	6,346,026	6,158,737
OPERATING INCOME	800,520	1,279,760
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	297,493	135,928
Interest Income	399,168	373,029
Interest Expense	(1,163,770)	(1,187,839)
Other non-operating revenue (expense)	961	(5,288)
Net Other Income (Expense)	(466,148)	(684,170)
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	334,372	595,590
Capital Contributions-owner/developer	324,215	736,650
Total Capial Contributions	324,215	736,650
CHANGE IN NET ASSETS	658,587	1,332,240
NET ASSETS, BEGINNING OF YEAR	29,208,836	27,876,596
NET ASSETS, END OF YEAR	$ 29,867,423	$ 29,208,836

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

SOUTHWEST REGIONAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities:		
Receipts from Customers	$ 6,904,876	$ 7,515,850
Receipts from others	112,384	0
Payments to Suppliers and Vendors	(2,245,894)	(2,355,539)
Payments to Employees	(2,609,070)	(2,544,700)
Net Cash Provided (Used) by Operating Activities	2,162,296	2,615,611
Cash Flows From Capital and related financing Acqtivities:		
Proceeds from capital grants	297,493	135,928
Acquisition & Construction of capital assets	(2,024,420)	(1,790,264)
Payments on Borrowings	(1,334,403)	(1,285,864)
Proceeds from New Notes	46,290	0
Collections on Special Assessments	314,961	299,000
Interest Paid	(1,005,528)	(1,217,251)
Net Cash Used By Capital Financing Activities	(3,705,607)	(3,858,451)
Cash Flows From Investing Acqtivities:		
Interest Received	282,397	369,905
Net Cash Provided By Capital Financing Activities	282,397	369,905
Net increase/decrease in cash and cash equivalents	(1,260,914)	(872,935)
Cash and cash equivalents, January 1,	4,789,208	5,662,143
Cash and cash equivalents, December 31,	$ 3,528,294	$ 4,789,208
Restricted Cash	$ 2,560,308	$ 2,457,995
Unrestricted Cash	$967,986	2,331,213
Total Cash	$ 3,528,294	$ 4,789,208
Reconciliation of Change in Net Assets to Net Cash Provided (Used) By Operating Activities:		
Operating Income	$ 800,520	$ 1,279,760
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation Expense	1,492,131	1,469,926
(Increase) Decrease in Accounts Receivable	(132,394)	10,616
(Increase) Decrease in Prepaid Items	(85)	1,826
(Increase) Decrease in Materials and Supplies Inventory	(15,492)	(173,220)
Deferred Charges	20,639	64,622
Increase (Decrease) in Accounts Payable	(5,093)	(28,246)
Increase (Decrease) in Accrued Liabilities	(1,228)	(11,788)
Increase (Decrease) in Tenant Deposits	193	2,115
Increase (Decrease) in Deferred Revenue	3,105	0
Total Adjustments	1,361,776	1,335,851
Net Cash Provided by Operating Activities	$ 2,162,296	$ 2,615,611

Developers dedicated water lines with total costs of $324,215, and $736,650 in 2006 and 2005, respectively, with such contributions recorded as owner/developer capital contributions.

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

1. NATURE OF ORGANIZATION

Southwest Regional Water District (hereafter referred to as SWRWD) was created, September 1, 1992, by the Court of Common Pleas of Butler County, Ohio to provide water services to the residents of Butler County in accordance with the provisions of Section 6119.et.seq of the Revised Code. SWRWD is managed by a Board consisting of nine (9) trustees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

1. **Basis of Presentation - Fund Accounting**
   The accounts of SWRWD are organized on the basis of funds, to report on its financial position and the results of its operations, each of which is considered a separate accounting entity. SWRWD has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which SWRWD uses, is described below:

   Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the SWRWD is the Enterprise Fund.

   Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that those costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. **Basis of Accounting**
   The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. In accordance with GASB Statement No.34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," the District applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board of Opinions and Accounting Research Bulletins issued after November 30, 1989, unless they conflict with GASB pronouncements.

3. **Operating Revenues and Expenses**
   Operating revenues are those revenues that are generated directly from charges for metered water sales and other services. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the District.

4. **Accounts Receivable**
   Accounts receivable are shown at their net realizable value. SWRWD has set up an allowance for doubtful accounts for fiscal year 2006. Amounts determined to potentially be uncollectible are set up as an allowance and a corresponding entry to an expense account is recorded during the year that the accounts are determined to be potentially uncollectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. **Restricted Assets**
Certain resources are set aside for the repayment of loans and as such are classified as restricted assets on the balance sheet because their use is limited by applicable security interests. The restricted assets are used for assuring payment of future principal and interest.

6. **Capital Assets**
Capital asset costs are stated at their historical cost and are depreciated over the estimated useful lives of the assets up to 40 years depending upon the type of asset. In addition, beginning in 1978, the District adopted the policy of including payroll cost, overhead expenses and interest costs incurred during the construction of the water system are capitalized and included in capital asset balance. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, and capitalized interest.

7. **Provision for Income Tax**
SWRWD operates as a public water system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

8. **Cash and Cash Equivalents**
For purposes of the statement of cash flows, SWRWD considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposits are reported at cost. In 2006, investments for the SWRWD were limited to Star Ohio.

9. **Compensated Absences**

The District does not have any significant compensated absences.

10. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. CASH AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Directors has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must be evidenced either by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

3. CASH AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations for the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits - The carrying amount of the SWRWD deposits as of December 31, 2006 was $3,265,226 and the bank balance was $3,396,859. Of the bank balance:

1. $542,720 was covered by federal depository insurance; and

2. $561,051 was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions.

3. $2,293,088 was deposited in trust accounts in accordance with the District's Revenue and Special Assessment Bonds Trust Agreements.

Investments – As of December 31, 2006, the District had the following investments. All investments are in an internal investment pool.

	Carrying and Fair Value	Maturing in less than 1 year
Star Ohio	$263,068	$263,068

Interest Rate Risk: Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The District's policy requires that, to the extent possible, the General Manager will attempt to match investments with anticipated cash flow requirements to take best advantage of prevailing economic and market conditions.

3. CASH AND INVESTMENTS (Continued)

Interest Rate Risk (Continued)
The maximum maturity of any eligible instrument is five years from the settlement date, unless the investment is matched to a specific obligation or debt of the District. Any investment made must be purchased with reasonable expectation to be held to maturity.

Credit Risk - Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Star Ohio carries a rating of AAAm by Standard and Poor's. Ohio Law requires that STAROhio maintains the highest rating provided by at least one of the nationally recognized standard rating services. The District does not have an investment policy that addresses credit risk.

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy allows does not address concentration of credit risk. The District has invested 100% of its investments in STAROhio.

4. CAPITAL ASSETS

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

	Balance at 12/31/2005	Additions	Retirements Disposals	Balance at 12/31/2006
Non-Depreciable:				
Land	$234,806	$-	$-	$234,806
Construction in Progress	1,352,264	1,706,969	-	3,059,233
Total Non-Depreciable	1,587,070	1,706,969	-	3,294,039
Depreciable:				
Structures	2,277,567	7,894	-	2,285,461
Distribution System	51,552,503	523,302	-	52,075,805
Tank Monitoring Equipment	282,640	-	-	282,640
Vehicles	853,734	47,084	-	900,818
Laboratory Equipment	23,238	-	-	23,238
Office Furniture & Equipment	456,427	63,386	-	519,813
Misc. Plant & Repair Equipment	145,623	-	-	145,623
Total Depreciable	55,591,732	641,666	-	56,233,398
Totals at Historical Cost	57,178,802	2,348,635	-	59,527,437
Accumulated Depreciation:				
Structures	1,463,447	98,879	-	1,562,326
Distribution System	13,169,162	1,318,867	-	14,488,029
Tank Monitoring Equipment	147,437	-	-	147,437
Vehicles	452,698	29,081	-	481,779
Laboratory Equipment	11,246	-	-	11,246
Office Furniture & Equipment	274,661	37,608	-	312,269
Misc. Plant & Repair Equipment	95,265	7,696	-	102,961
	15,613,916	1,492,131	-	17,106,047
Capital Assets, Net	$41,564,886	$856,504	$-	$42,421,390

5. SHORT TERM OBLIGATIONS

During 2006, the District issued $46,290 in Bond Anticipation Note(s) to temporarily finance construction of public water improvements. The note(s) has an interest rate of 4.25% and will mature on September 19, 2007.

6. LONG TERM OBLIGATIONS

Long-term obligations consist of:

Description	12/31/2005 Balance	Issued in 2006	Payments in 2006	12/31/2006 Balance	Due Within One Year
USDA, Rural Development Bonds	$ 2,712,897	$ -	$ 50,761	$ 2,662,136	$ 53,997
Special Assessment Water Line Extension Bond-Series 1994	90,000	-	10,000	80,000	10,000
Special Assessment Water Line Extension Bond-Series 1996	675,000	-	45,000	630,000	50,000
Special Assessment Water Line Extension Bond-Series 1997	71,000	-	4,000	67,000	5,000
Special Assessment Water Line Extension Bond-Series 1999	3,965,000	-	200,000	3,765,000	210,000
Special Assessment Water Line Extension Bond-Series 2000	510,000	-	25,000	485,000	25,000
Special Assessment Water Line Extension Bond-Series 2002	680,000	-	30,000	650,000	30,000
Revenue Bonds-Series 2003	15,937,984	-	1,048,301	14,889,683	1,055,000
Series 2003 - 1995 Bond Refunding Premium and defeased interest	(1,173,319)	-	(78,659)	(1,094,660)	(78,659)
Advance note payable to State of Ohio	62,441	-	-	62,441	-
Totals	$ 23,531,003	$ -	$ 1,334,403	$ 22,196,600	$ 1,360,338

As of December 31, 2006, the maturities of the principal and interest amount of long-term debt for the five years ending December 31, were as follows:

6. LONG TERM OBLIGATIONS (Continued)

Year	Principal	Interest
2007	$ 1,360,338	$ 742,542
2008	1,388,798	713,141
2009	1,417,461	680,674
2010	1,534,341	644,844
2011	1,396,502	607,911
2012-2016	7,614,983	566,523
2017-2021	6,079,052	520,161
2022-2026	830,182	472,477
2027-2031	574,943	422,546
Total	$ 22,196,600	$ 5,370,819

During 2003 the District advance refunded certain USDA Rural Development Bonds and defeased certain maturities of the Series 1995 Revenue Bonds and issued $16,960,000 of Southwest Regional Water District (Ohio) Waterworks System Revenue Refunding and Improvement Bonds, Series 2003. The difference between the cash flow necessary to fund the previous debt over its life and the new debt is $1,113,757 less for the new debt. The economic gain that arose because of the refunding was $871,652 present value at an interest rate of 3.84%

The security agreements on the loans provide for annual payments to the USDA Rural Development with requirements for monthly amounts to a debt service account maintained by the District which is included in cash and cash equivalents. The agreements also provide for a reserve account by an annual appropriation of retained earnings for the estimated cost of the District's normal operations and maintenance expenses for the ensuing year.

During 1994, $150,000 of Water Line Extension Bonds, Special Assessment, Series 1994, dated September 1, 1994 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. The bonds mature $5,000 per year through 2014 and require interest payments at rates varying between 4.25% for 1995 and 6.35% for 2014.

The Revenue Bonds - Series 1995 were issued in 1995 and mature at varying amounts through December 1, 2020 and require interest payments at rates varying between 4.50% and 6.00%. The bonds require payments to a debt service account which is maintained by a trustee. The amounts in the debt service account is included with cash and cash equivalents. The District is also required to maintain a reserve account and a replacement and improvement account and the use of these funds is restricted.

Subsequent to the issuance of the 2003 bonds and the defeasance of certain maturities of the 1995 bonds the remaining maturities of the 1995 bonds were paid in 2005.

During 1996, $995,000 of Water Line Extension Bonds, Special Assessment Series 1996, dated September 6, 1996 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. The bonds mature at varying amounts through the year 2016 and require interest payments at rates varying between 4.25% for 1996 and 6.25% for 2016.

During 1997, $98,000 of Water Line Extension Bonds, Special Assessment Series 1997, dated September 10, 1997 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2017. The bonds mature at varying amounts and require interest payments at a rate of 5.625%.

6. LONG TERM OBLIGATIONS (continued)

During 1999, $5,000,000 of Water Line Extension Bonds, Special Assessment Series 1999, dated September 1, 1999 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2019. The bonds mature at varying amounts and require interest payments at rates varying between 3.80% for 2000 and 5.50% for 2019.

During 2000, $610,000 of Water System Improvement Bonds, Special Assessment Series 2000, dated September 1, 2000 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2020. The bonds mature at varying amounts and require interest payments at rates varying between 4.50% for 2001 and 5.75% for 2020.

During 2002, $765,000 of Water Line Extension Bonds, Special Assessment Series 2002, dated September 1, 2002 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2022. The bonds mature at varying amounts and require interest payments at rates varying between 1.75% for 2004 and 5.00% for 2022.

The Advance Note Payable to the State of Ohio represents an interest free advance from the Ohio Water and Sewer Rotary Commission. The purpose of the advance was to fund agricultural deferments for the Beissinger/West Elkton Roads Water Improvement Project. Payments are due annually if the property converts from agricultural usage. The unpaid balance is due not later than 2015.

7. ASSESSMENTS RECEIVABLE

Assessment accounts receivable are from completed construction projects and the issuance of final assessments to residents to cover those costs. The receivables are guaranteed through property tax billing. Included in the balances at December 31, 2006, are deferred agricultural property assessments and the related accrued interest receivable. These amounts will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame of collection is undeterminable. The negative county auditor’s collection amounts result primarily in part due to these deferred collections. The assessment accounts receivable balances at December 31, 2006 are as follows:

	Total Assessed	Prepaid Assessments	County Auditor and Deferred Assessments Paid	% Collected
1994 Assessments	$ 227,778	$ -	$ 70,000	30.73%
1996 Assessments	889,478	-	365,000	41.04%
1997 Assessments	94,579	-	31,000	32.78%
1999 Assessments	4,322,014	13,892	1,235,000	28.90%
2000 Assessments	579,383	12,144	125,000	23.67%
2002 Assessments	736,635	8,960	115,000	16.83%
Total Receivable	$ 6,849,867	$ 34,996	$ 1,941,000	28.85%

8. DEFINED BENEFIT RETIREMENT PLAN

A. The Public Employees Retirement Systems of Ohio (PERS) administers three separate pension plans as described below:
   1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
   2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
   3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

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

D. The Public Employees Retirement System issues a stand-alone financial report. Interest parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. The employee contribution rates were 9% for employees for 2006 for all three plans (TP, MD, and CO) and 8.5% for 2005. The 2006 (for all three plans) employer contribution rates for local government employer units were 13.70% of covered payroll for 2006 and 13.55% for 2005.

The District's contributions to OPERS for the years ended December 31, 2006, 2005, and 2004, were $284,100, $248,529, and $261,263, respectively.

9. POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement of Ohio (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

   In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post employment 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. For local government employer units the rate was 13.70% of covered payroll for fiscal year 2006 and 4.5% was the portion used to fund health care for the year 2006, respectively.

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

C. Summary of Assumptions:

   Actuarial Review - The assumptions and calculations below were based on the System's latest Actuarial Reviews performed as of December 31, 2005.

9. POSTEMPLOYMENT BENEFITS (Continued)

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 deprecation on investment assets, not to exceed a 12% corridor.

Investment Return – The investment assumption rate for 2005 (latest year available) was 6.50%.

Active Employee Total Payroll – An annual increase of 4.0%, compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increases, were assumed to range from .50% to 6.30%.

Health Care – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. The rates stated in A are the actuarially determined contribution requirements for OPERS. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional and Combined Plans were 369,214 as of December 31, 2006. The number of active participants for both plans used in December 31, 2005 actuarial valuation was 358,804.

2. The employer contributions that were used to fund postemployment benefits were $104,833 for 2006, $91,707 for 2005 and $96,406 for 2004.

3. $11.1 billion represents the actuarial value of the Retirement System's net assets available for OPEB as of December 31, 2005 (latest year available).

4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $31.3 billion and $20.2 billion, respectively.

E. OPERS Retirement Board implements its Healthcare Preservation Plan:

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

10. RISK MANAGEMENT

The SWRWD is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For 2006 the SWRWD contracted for the following insurance coverage:

General Liability
Public Officials
Inland Marine
Automobile
Faithful Performance and Employee Bond
Health

10. RISK MANAGEMENT (Continued)

Vehicle policies include liability coverage for bodily injury and property damage.

Worker's compensation benefits are provided through the State Bureau of Worker's Compensation.

The SWRWD has not incurred significant reductions to insurance coverage from coverage in the prior years by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

11. CHANGES IN ACCOUNTING PRINCIPLES

For 2006, the District implemented GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation,* and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 40 establishes the requirement of the disclosure of certain risks related to deposits and investments. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Southwest Regional Water District
3640 Old Oxford Road
Hamilton, Ohio 45013

We have audited the financial statements of the business-type activities of the Southwest Regional Water District, Butler County, Ohio (the District), as of and for the years ended December 31, 2006 and December 31, 2005 and have issued our report thereon dated February 23, 2007, wherein we noted the District implemented GASB Statements No. 40, 42, 46, and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as item number 2006-001 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

February 23, 2007

SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OHIO

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2006

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2006-001

Control Deficiency

The District does not have a comprehensive capital assets policies and procedures manual to assist in defining items to be capitalized and depreciated. The lack of a comprehensive capital assets policies and procedures manual can result in errors or irregularities occurring and not being detected in a timely manner.

In order to address the items mentioned above, the District should implement the following procedures:

- Develop a comprehensive capital assets policies and procedures manual which encompasses all types of capital assets, including land, land improvements, buildings, infrastructure, machinery and equipment, and any other capital assets. This manual needs to address capitalization areas such as dollar amounts over which items will be capitalized, potential capitalization or large batch purchases of capital assets under the dollar threshold, estimated useful lives for various types of capital assets, defining which networks of infrastructure will and will not be reported and how much information should be maintained for these items, incorporation of infrastructure capital assets into the capital asset management system, and other pertinent areas.
- Reconcile the detailed capital asset report with the capital asset amounts report in the financial statements and make appropriate corrections and adjustments to the District's capital asset records resulting from the implementation of the new capital asset policy. Maintain a detailed file documenting differences noted, how items were corrected, and explanations regarding all changes made to the District's capital asset system.

Client Response

A capital asset policy will be implemented within the next few months.

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 15, 2007